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II. Trademark Infringement

In this Part, we consider the infringement of trademark rights under certain sections of the Lanham Act:

- § 32, 15 U.S.C. § 1114 (likelihood of confusion with respect to registered marks)
- § 43(a), 15 U.S.C. § 1125(a) (likelihood of confusion with respect to registered or unregistered marks)
- § 43(c), 15 U.S.C. § 1125(c) (likelihood of dilution with respect to registered or unregistered marks)
- § 43(d), 15 U.S.C. § 1125(d) (“cybersquatting” of registered or unregistered marks)

Note that the test for likelihood of confusion under § 32 is now essentially the same as the test for likelihood of confusion under § 43(a), and courts often cite to case law under one section interchangeably with case law under the other. When owners of registered marks plead likelihood of confusion, they typically do so under both § 32 and § 43(a) in the event that some defect is discovered in their registration. Such plaintiffs may also plead under both sections in order to avail themselves of the slightly broader language of § 43(a), though, again, courts typically treat § 32 and § 43(a) as essentially interchangeable.

Courts have set forth the elements of a trademark infringement claim in a variety of ways. For example, with respect to a claim based on a likelihood of confusion under either or both of § 32 and § 43(a), courts have stated:

- “[T]o succeed in a Lanham Act suit for trademark infringement, a plaintiff has two obstacles to overcome: the plaintiff must prove that its mark is entitled to protection and, even more important, that the defendant's use of its own mark will likely cause confusion with plaintiff's mark.” *Gruner + Jahr USA Publ'g v. Meredith Corp.*, 991 F.2d 1072, 1074 (2d Cir.1993).
- “To prevail on a claim of trademark infringement under the Lanham Act, 15 U.S.C. § 1114, a party must prove: (1) that it has a protectible ownership interest in the mark; and (2) that the defendant's use of the mark is likely to cause consumer confusion.” *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 638 F.3d 1137, 1144 (9th Cir. 2011) (citations omitted).
- “To establish trademark infringement under the Lanham Act, a plaintiff must prove: (1) that it owns a valid mark; (2) that the defendant used the mark ‘in commerce’ and without plaintiff's authorization; (3) that the defendant used the mark (or an imitation of it) ‘in connection with the sale,

offering for sale, distribution, or advertising' of goods or services; and (4) that the defendant's use of the mark is likely to confuse consumers." *Rosetta Stone v. Google*, 676 F.3d 144, 152 (4th Cir. 2012) (citations omitted).

- "Both infringement and false designation of origin have five elements. To prevail under either cause of action, the trademark holder must prove: (1) that it possesses a mark; (2) that the [opposing party] used the mark; (3) that the [opposing party's] use of the mark occurred 'in commerce'; (4) that the [opposing party] used the mark 'in connection with the sale, offering for sale, distribution, or advertising' of goods or services; and (5) that the [opposing party] used the mark in a manner likely to confuse consumers." *Lamparello v. Falwell*, 420 F.3d 309, 313 (4th Cir. 2005) (citations omitted).

Though the enumerations vary in their level of detail, these statements of the elements of a likelihood of confusion claim are all essentially the same. The plaintiff must prove that (1) it possesses exclusive rights in a mark and (2) the defendant has infringed those exclusive rights. Our focus in Part II was on the first of these two basic elements—whether there is a property right. Our focus in this Part is on the second of these elements—whether that right has been infringed.

We begin in Part II.A by reviewing the requirement that, in order to be liable for trademark infringement, a defendant must "use in commerce" the plaintiff's mark "in connection with the sale...of any goods or services." We then turn in Part II.B to forms of infringement that are based on the likelihood of consumer confusion as to the source or sponsorship of the defendant's goods. In Part II.C, we consider forms of infringement that are not based on consumer confusion, most notably trademark dilution. In Part II.D, we turn to forms of relief for cybersquatting. Finally, in Part II.E, we review the doctrine of secondary liability in trademark law.

A. The Actionable Use Requirement

In Part I.C above, we addressed the requirement that a trademark owner "use in commerce" the mark in order to establish rights in the mark. Here, we consider the "use in commerce" requirement as applied not to owners, but to unauthorized users. We do so because of the statutory language, shown in *italics*, in Lanham Act § 32 and § 43(a):

Lanham Act § 32, 15 U.S.C. § 1114

- (1) Any person who shall, without the consent of the registrant-- (a) *use in commerce* any reproduction, counterfeit, copy, or colorable imitation

of a registered mark *in connection with the sale, offering for sale, distribution, or advertising of any goods or services* on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive...shall be liable in a civil action by the registrant for the remedies hereinafter provided.

Lanham Act § 43(a), 15 U.S.C. § 1125(a)

(1) Any person who, *on or in connection with any goods or services, or any container for goods, uses in commerce* any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--(A) is likely to cause confusion, or to cause mistake, or to deceive...shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Thus, for a defendant to be found liable, § 32 requires a showing that the defendant made a “use in commerce” of the plaintiff’s mark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services,” and § 43(a) requires that the defendant “use[] in commerce” the plaintiff’s mark “in connection with any goods or services, or any container for goods.” (Lanham Act § 43(c), addressing trademark dilution, similarly requires a showing that the defendant made a “use of a mark or trade name in commerce.” 15 U.S.C. § 1125(c)(1). See Comment 2 at the conclusion of Part II.A.2 for a discussion of this language).

Courts have analyzed the “use in commerce” language differently from how they’ve analyzed the “in connection with” language. We turn first to the question of defendant’s “use in commerce.”

1. Defendant’s “Use in Commerce”

It is clear enough that the various infringement sections of the Lanham Act all require a showing that the defendant has made a “use in commerce,” if only to satisfy the constitutional limitation on Congressional power, but what constitutes such a “use in commerce”? As we discussed in Part I.C, Lanham Act § 45, 15 U.S.C. § 1127, offers a definition of this phrase:

The term “use in commerce” means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a

mark. For purposes of this Act, a mark shall be deemed to be in use in commerce—

(1) on goods when--

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) the goods are sold or transported in commerce, and

(2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.

The obvious problem, however, is that this definition appears to describe the kind of “use in commerce” necessary to establish trademark rights rather than the kind of “use in commerce” necessary to infringe those rights. In the opinion below, *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2d Cir. 2009), the Second Circuit went to great lengths to arrive at this rather straightforward understanding of the § 45 definition of “use in commerce.” It felt the need thoroughly to consider the issue because in a previous opinion, *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400 (2d Cir. 2005), it had somehow failed to recognize that § 45 was designed to address only the conduct of trademark owners rather than that of trademark infringers. *Rescuecom* became one long, extended effort in trying to maintain appearances. In reading through *Rescuecom*, consider the following questions:

- What is the underlying policy concern that is animating this technical, even rather pedantic debate about the meaning of “use in commerce”?
- Has the Second Circuit explicitly overruled its previous decision in *1-800 Contacts*? What is the status of *Rescuecom*’s Appendix? What does it mean that, as the *Rescuecom* opinion explains, “[t]he judges of the *1-800* panel have read this Appendix and have authorized us to state that they agree with it”?
- If a search engine user enters the word “Apple” and receives advertisements for Android phones, has the search engine itself made a “use in commerce” of Apple’s mark? Asked perhaps another way, if a restaurant has given written instructions to its employees to respond to a consumer’s order for Pepsi with the statement “We offer Coke”, has the restaurant made a “use in commerce” of the Pepsi mark that could be the basis for an infringement cause of action?

Rescuecom Corp. v. Google Inc.
562 F.3d 123 (2d Cir. 2009)

LEVAL, Circuit Judge:

[1] Appeal by Plaintiff Rescuecom Corp. from a judgment of the United States District Court for the Northern District of New York (Mordue, *Chief Judge*) dismissing its action against Google, Inc., under Rule 12(b)(6) for failure to state a claim upon which relief may be granted. Rescuecom's Complaint alleges that Google is liable under §§ 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 & 1125, for infringement, false designation of origin, and dilution of Rescuecom's eponymous trademark. The district court believed the dismissal of the action was compelled by our holding in *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400 (2d Cir.2005) ("*1-800*"), because, according to the district court's understanding of that opinion, Rescuecom failed to allege that Google's use of its mark was a "use in commerce" within the meaning of § 45 of the Lanham Act, 15 U.S.C. § 1127. We believe this misunderstood the holding of *1-800*. While we express no view as to whether Rescuecom can prove a Lanham Act violation, an actionable claim is adequately alleged in its pleadings. Accordingly, we vacate the judgment dismissing the action and remand for further proceedings.

BACKGROUND

[2] As this appeal follows the grant of a motion to dismiss, we must take as true the facts alleged in the Complaint and draw all reasonable inferences in favor of Rescuecom. *Lentell v. Merrill Lynch & Co., Inc.*, 396 F.3d 161, 165 (2d Cir.2005). Rescuecom is a national computer service franchising company that offers on-site computer services and sales. Rescuecom conducts a substantial amount of business over the Internet and receives between 17,000 to 30,000 visitors to its website each month. It also advertises over the Internet, using many web-based services, including those offered by Google. Since 1998, "Rescuecom" has been a registered federal trademark, and there is no dispute as to its validity.

[3] Google operates a popular Internet search engine, which users access by visiting www.google.com. Using Google's website, a person searching for the website of a particular entity in trade (or simply for information about it) can enter that entity's name or trademark into Google's search engine and launch a search. Google's proprietary system responds to such a search request in two ways. First, Google provides a list of links to websites, ordered in what Google deems to be of descending relevance to the user's search terms based on its proprietary algorithms.

Google's search engine assists the public not only in obtaining information about a provider, but also in purchasing products and services. If a prospective purchaser, looking for goods or services of a particular provider, enters the provider's trademark as a search term on Google's website and clicks to activate a search, within seconds, the Google search engine will provide on the searcher's computer screen a link to the webpage maintained by that provider (as well as a host of other links to sites that Google's program determines to be relevant to the search term entered). By clicking on the link of the provider, the searcher will be directed to the provider's website, where the searcher can obtain information supplied by the provider about its products and services and can perhaps also make purchases from the provider by placing orders.

[4] The second way Google responds to a search request is by showing context-based advertising. When a searcher uses Google's search engine by submitting a search term, Google may place advertisements on the user's screen. Google will do so if an advertiser, having determined that its ad is likely to be of interest to a searcher who enters the particular term, has purchased from Google the placement of its ad on the screen of the searcher who entered that search term. What Google places on the searcher's screen is more than simply an advertisement. It is also a link to the advertiser's website, so that in response to such an ad, if the searcher clicks on the link, he will open the advertiser's website, which offers not only additional information about the advertiser, but also perhaps the option to purchase the goods and services of the advertiser over the Internet. Google uses at least two programs to offer such context-based links: AdWords and Keyword Suggestion Tool.

[5] AdWords is Google's program through which advertisers purchase terms (or keywords). When entered as a search term, the keyword triggers the appearance of the advertiser's ad and link. An advertiser's purchase of a particular term causes the advertiser's ad and link to be displayed on the user's screen whenever a searcher launches a Google search based on the purchased search term.¹ Advertisers pay Google based on the number of times Internet users "click" on the advertisement, so as to link to the advertiser's website. For example, using Google's AdWords, Company Y, a company engaged in the business of furnace repair, can cause Google to display its advertisement and link whenever a user of Google launches a search based on the search term, "furnace repair." Company Y can also cause its ad and link to appear whenever a user searches for the term "Company X,"

¹ Although we generally refer to a single advertiser, there is no limit on the number of advertisers who can purchase a particular keyword to trigger the appearance of their ads.

a competitor of Company Y in the furnace repair business. Thus, whenever a searcher interested in purchasing furnace repair services from Company X launches a search of the term X (Company X's trademark), an ad and link would appear on the searcher's screen, inviting the searcher to the furnace repair services of X's competitor, Company Y. And if the searcher clicked on Company Y's link, Company Y's website would open on the searcher's screen, and the searcher might be able to order or purchase Company Y's furnace repair services.

[6] In addition to AdWords, Google also employs Keyword Suggestion Tool, a program that recommends keywords to advertisers to be purchased. The program is designed to improve the effectiveness of advertising by helping advertisers identify keywords related to their area of commerce, resulting in the placement of their ads before users who are likely to be responsive to it. Thus, continuing the example given above, if Company Y employed Google's Keyword Suggestion Tool, the Tool might suggest to Company Y that it purchase not only the term "furnace repair" but also the term "X," its competitor's brand name and trademark, so that Y's ad would appear on the screen of a searcher who searched Company X's trademark, seeking Company X's website.

[7] Once an advertiser buys a particular keyword, Google links the keyword to that advertiser's advertisement. The advertisements consist of a combination of content and a link to the advertiser's webpage. Google displays these advertisements on the search result page either in the right margin or in a horizontal band immediately above the column of relevance-based search results. These advertisements are generally associated with a label, which says "sponsored link." Rescuecom alleges, however, that a user might easily be misled to believe that the advertisements which appear on the screen are in fact part of the relevance-based search result and that the appearance of a competitor's ad and link in response to a searcher's search for Rescuecom is likely to cause trademark confusion as to affiliation, origin, sponsorship, or approval of service. This can occur, according to the Complaint, because Google fails to label the ads in a manner which would clearly identify them as purchased ads rather than search results. The Complaint alleges that when the sponsored links appear in a horizontal bar at the top of the search results, they may appear to the searcher to be the first, and therefore the most relevant, entries responding to the search, as opposed to paid advertisements.

[8] Google's objective in its AdWords and Keyword Suggestion Tool programs is to sell keywords to advertisers. Rescuecom alleges that Google makes 97% of its revenue from selling advertisements through its AdWords program. Google

therefore has an economic incentive to increase the number of advertisements and links that appear for every term entered into its search engine.

[9] Many of Rescuecom's competitors advertise on the Internet. Through its Keyword Suggestion Tool, Google has recommended the Rescuecom trademark to Rescuecom's competitors as a search term to be purchased. Rescuecom's competitors, some responding to Google's recommendation, have purchased Rescuecom's trademark as a keyword in Google's AdWords program, so that whenever a user launches a search for the term "Rescuecom," seeking to be connected to Rescuecom's website, the competitors' advertisement and link will appear on the searcher's screen. This practice allegedly allows Rescuecom's competitors to deceive and divert users searching for Rescuecom's website. According to Rescuecom's allegations, when a Google user launches a search for the term "Rescuecom" because the searcher wishes to purchase Rescuecom's services, links to websites of its competitors will appear on the searcher's screen in a manner likely to cause the searcher to believe mistakenly that a competitor's advertisement (and website link) is sponsored by, endorsed by, approved by, or affiliated with Rescuecom.

[10] The District Court granted Google's 12(b)(6) motion and dismissed Rescuecom's claims. The court believed that our *1-800* decision compels the conclusion that Google's allegedly infringing activity does not involve use of Rescuecom's mark in commerce, which is an essential element of an action under the Lanham Act. The district court explained its decision saying that even if Google employed Rescuecom's mark in a manner likely to cause confusion or deceive searchers into believing that competitors are affiliated with Rescuecom and its mark, so that they believe the services of Rescuecom's competitors are those of Rescuecom, Google's actions are not a "use in commerce" under the Lanham Act because the competitor's advertisements triggered by Google's programs did not exhibit Rescuecom's trademark. The court rejected the argument that Google "used" Rescuecom's mark in recommending and selling it as a keyword to trigger competitor's advertisements because the court read *1-800* to compel the conclusion that this was an internal use and therefore cannot be a "use in commerce" under the Lanham Act.

DISCUSSION

[11] "This Court reviews *de novo* a district court's grant of a motion to dismiss pursuant to Federal Rules of Civil Procedure 12(b)(6)." *PaineWebber Inc. v. Bybyk*, 81 F.3d 1193, 1197 (2d Cir.1996). When reviewing a motion to dismiss, a court must "accept as true all of the factual allegations set out in plaintiff's complaint, draw

inferences from those allegations in the light most favorable to plaintiff, and construe the complaint liberally.” *Gregory v. Daly*, 243 F.3d 687, 691 (2d Cir.2001) (citations omitted).

I. Google’s Use of Rescuecom’s Mark Was a “Use in Commerce”

[12] Our court ruled in *1-800* that a complaint fails to state a claim under the Lanham Act unless it alleges that the defendant has made “use in commerce” of the plaintiff’s trademark as the term “use in commerce” is defined in 15 U.S.C. § 1127. The district court believed that this case was on all fours with *1-800*, and that its dismissal was required for the same reasons as given in *1-800*. We believe the cases are materially different. The allegations of Rescuecom’s complaint adequately plead a use in commerce.

[13] In *1-800*, the plaintiff alleged that the defendant infringed the plaintiff’s trademark through its proprietary software, which the defendant freely distributed to computer users who would download and install the program on their computer. The program provided contextually relevant advertising to the user by generating pop-up advertisements to the user depending on the website or search term the user entered in his browser. *Id.* at 404–05. For example, if a user typed “eye care” into his browser, the defendant’s program would randomly display a pop-up advertisement of a company engaged in the field of eye care. Similarly, if the searcher launched a search for a particular company engaged in eye care, the defendant’s program would display the pop-up ad of a company associated with eye care. *See id.* at 412. The pop-up ad appeared in a separate browser window from the website the user accessed, and the defendant’s brand was displayed in the window frame surrounding the ad, so that there was no confusion as to the nature of the pop-up as an advertisement, nor as to the fact that the defendant, not the trademark owner, was responsible for displaying the ad, in response to the particular term searched. *Id.* at 405.

[14] Sections 32 and 43 of the Act, which we also refer to by their codified designations, 15 U.S.C. §§ 1114 & 1125, *inter alia*, impose liability for unpermitted “use in commerce” of another’s mark which is “likely to cause confusion, or to cause mistake, or to deceive,” § 1114, “as to the affiliation ... or as to the origin, sponsorship or approval of his or her goods [or] services ... by another person.” § 1125(a)(1)(A). The *1-800* opinion looked to the definition of the term “use in commerce” provided in § 45 of the Act, 15 U.S.C. § 1127. That definition provides in part that “a mark shall be deemed to be in use in commerce ... (2) on services when it is used or displayed in the sale or advertising of services and the services are

rendered in commerce.” 15 U.S.C. § 1127.² Our court found that the plaintiff failed to show that the defendant made a “use in commerce” of the plaintiff’s mark, within that definition.

[15] At the outset, we note two significant aspects of our holding in *1-800*, which distinguish it from the present case. A key element of our court’s decision in *1-800* was that under the plaintiff’s allegations, the defendant did not use, reproduce, or display the plaintiff’s mark *at all*. The search term that was alleged to trigger the pop-up ad was the plaintiff’s *website address*. *1-800* noted, notwithstanding the similarities between the website address and the mark, that the website address was not used or claimed by the plaintiff as a trademark. Thus, the transactions alleged to be infringing were not transactions involving use of the plaintiff’s trademark. *Id.* at 408–09.³ *1-800* suggested in dictum that is highly relevant to our case that had the defendant used the plaintiff’s *trademark* as the trigger to pop-up an advertisement, such conduct might, depending on other elements, have been actionable. 414 F.3d at 409 & n. 11.

[16] Second, as an alternate basis for its decision, *1-800* explained why the defendant’s program, which might randomly trigger pop-up advertisements upon a searcher’s input of the plaintiff’s website address, did not constitute a “use in commerce,” as defined in § 1127. *Id.* at 408–09. In explaining why the plaintiff’s mark was not “used or displayed in the sale or advertising of services,” *1-800* pointed out that, under the defendant’s program, advertisers could not request or purchase keywords to trigger their ads. *Id.* at 409, 412. Even if an advertiser wanted to display its advertisement to a searcher using the plaintiff’s trademark as a search term, the defendant’s program did not offer this possibility. In fact, the defendant

² The Appendix to this opinion discusses the applicability of § 1127’s definition of “use in commerce” to sections of the Lanham Act proscribing infringement.

³ We did not imply in *1-800* that a website can never be a trademark. In fact, the opposite is true. *See* Trademark Manual of Examining Procedures § 1209.03(m) (5th ed. 2007) (“A mark comprised of an Internet domain name is registrable as a trademark or service mark only if it functions as an identifier of the source of goods or services.”); *see also Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) (Section 43(a) of the Lanham Act protects unregistered trademarks as long as the mark could qualify for registration under the Lanham Act.); *Thompson Med. Co., Inc. v. Pfizer Inc.*, 753 F.2d 208, 215–216 (2d Cir.1985) (same). The question whether the plaintiff’s website address was an unregistered trademark was never properly before the *1-800* court because the plaintiff did not claim that it used its website address as a trademark.

“did not disclose the proprietary contents of [its] directory to its advertising clients....” *Id.* at 409. In addition to not selling trademarks of others to its customers to trigger these ads, the defendant did not “otherwise manipulate which category-related advertisement will pop up in response to any particular terms on the internal directory.” *Id.* at 411. The display of a particular advertisement was controlled by the category associated with the website or keyword, rather than the website or keyword itself. The defendant's program relied upon categorical associations such as “eye care” to select a pop-up ad randomly from a predefined list of ads appropriate to that category. To the extent that an advertisement for a competitor of the plaintiff was displayed when a user opened the plaintiff's website, the trigger to display the ad was not based on the defendant's sale or recommendation of a particular trademark.

[17] The present case contrasts starkly with those important aspects of the *1-800* decision. First, in contrast to *1-800*, where we emphasized that the defendant made no use whatsoever of the plaintiff's trademark, here what Google is recommending and selling to its advertisers is Rescuecom's trademark. Second, in contrast with the facts of *1-800* where the defendant did not “use or display,” much less sell, trademarks as search terms to its advertisers, here Google displays, offers, and sells Rescuecom's mark to Google's advertising customers when selling its advertising services. In addition, Google encourages the purchase of Rescuecom's mark through its Keyword Suggestion Tool. Google's utilization of Rescuecom's mark fits literally within the terms specified by 15 U.S.C. § 1127. According to the Complaint, Google uses and sells Rescuecom's mark “in the sale ... of [Google's advertising] services ... rendered in commerce.” § 1127.

[18] Google, supported by amici, argues that *1-800* suggests that the inclusion of a trademark in an internal computer directory cannot constitute trademark use. Several district court decisions in this Circuit appear to have reached this conclusion. *See e.g., S & L Vitamins, Inc. v. Australian Gold, Inc.*, 521 F.Supp.2d 188, 199–202 (E.D.N.Y.2007) (holding that use of a trademark in metadata did not constitute trademark use within the meaning of the Lanham Act because the use “is strictly internal and not communicated to the public”); *Merck & Co., Inc. v. Medioplan Health Consulting, Inc.*, 425 F.Supp.2d 402, 415 (S.D.N.Y.2006) (holding that the internal use of a keyword to trigger advertisements did not qualify as trademark use). This over-reads the *1-800* decision. First, regardless of whether Google's use of Rescuecom's mark in its internal search algorithm could constitute an actionable trademark use, Google's recommendation and sale of Rescuecom's mark to its advertising customers are not internal uses. Furthermore, *1-800* did not imply that use of a trademark in a software program's internal directory precludes a finding of

trademark use. Rather, influenced by the fact that the defendant was not using the plaintiff's trademark at all, much less using it as the basis of a commercial transaction, the court asserted that the particular use before it did not constitute a use in commerce. *See 1-800*, 414 F.3d at 409–12. We did not imply in *1-800* that an alleged infringer's use of a trademark in an internal software program insulates the alleged infringer from a charge of infringement, no matter how likely the use is to cause confusion in the marketplace. If we were to adopt Google and its amici's argument, the operators of search engines would be free to use trademarks in ways designed to deceive and cause consumer confusion.⁴ This is surely neither within the intention nor the letter of the Lanham Act.

[19] Google and its amici contend further that its use of the Rescuecom trademark is no different from that of a retail vendor who uses “product placement” to allow one vendor to benefit from a competitors' name recognition. An example of product placement occurs when a store-brand generic product is placed next to a trademarked product to induce a customer who specifically sought out the trademarked product to consider the typically less expensive, generic brand as an alternative. *See 1-800*, 414 F.3d at 411. Google's argument misses the point. From the fact that proper, non-deceptive product placement does not result in liability under the Lanham Act, it does not follow that the label “product placement” is a magic shield against liability, so that even a deceptive plan of product placement designed to confuse consumers would similarly escape liability. It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which does not cause a likelihood of consumer confusion. In contrast, if a retail seller were to be paid by an off-brand purveyor to arrange product display and delivery in such a way that customers seeking to purchase a famous brand would receive the off-brand, believing they had gotten the brand they were seeking, we see no reason to believe the practice would escape liability merely because it could claim the mantle of

⁴ For example, instead of having a separate “sponsored links” or paid advertisement section, search engines could allow advertisers to pay to appear at the top of the “relevance” list based on a user entering a competitor's trademark—a functionality that would be highly likely to cause consumer confusion. Alternatively, sellers of products or services could pay to have the operators of search engines automatically divert users to their website when the users enter a competitor's trademark as a search term. Such conduct is surely not beyond judicial review merely because it is engineered through the internal workings of a computer program.

“product placement.” The practices attributed to Google by the Complaint, which at this stage we must accept as true, are significantly different from benign product placement that does not violate the Act.

[20] Unlike the practices discussed in *1-800*, the practices here attributed to Google by Rescuecom's complaint are that Google has made use in commerce of Rescuecom's mark. Needless to say, a defendant must do more than use another's mark in commerce to violate the Lanham Act. The gist of a Lanham Act violation is an unauthorized use, which “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, ... or as to the origin, sponsorship, or approval of ... goods [or] services.” See 15 U.S.C. § 1125(a); *Estee Lauder Inc. v. The Gap, Inc.*, 108 F.3d 1503, 1508–09 (2d Cir.1997). We have no idea whether Rescuecom can prove that Google's use of Rescuecom's trademark in its AdWords program causes likelihood of confusion or mistake. Rescuecom has alleged that it does, in that would-be purchasers (or explorers) of its services who search for its website on Google are misleadingly directed to the ads and websites of its competitors in a manner which leads them to believe mistakenly that these ads or websites are sponsored by, or affiliated with Rescuecom. This is particularly so, Rescuecom alleges, when the advertiser's link appears in a horizontal band at the top of the list of search results in a manner which makes it appear to be the most relevant search result and not an advertisement. What Rescuecom alleges is that by the manner of Google's display of sponsored links of competing brands in response to a search for Rescuecom's brand name (which fails adequately to identify the sponsored link as an advertisement, rather than a relevant search result), Google creates a likelihood of consumer confusion as to trademarks. If the searcher sees a different brand name as the top entry in response to the search for “Rescuecom,” the searcher is likely to believe mistakenly that the different name which appears is affiliated with the brand name sought in the search and will not suspect, because the fact is not adequately signaled by Google's presentation, that this is not the most relevant response to the search. Whether Google's actual practice is in fact benign or confusing is not for us to judge at this time. We consider at the 12(b)(6) stage only what is alleged in the Complaint.

[21] We conclude that the district court was mistaken in believing that our precedent in *1-800* requires dismissal.

CONCLUSION

[22] The judgment of the district court is vacated and the case is remanded for further proceedings.

APPENDIX

*On the Meaning of “Use in Commerce” in Sections 32 and 43 of the Lanham Act*⁵

[23] In *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400 (2d Cir.2005) (“1-800”), our court followed the reasoning of two district court opinions from other circuits, *U-Haul Int’l, Inc. v. WhenU.com, Inc.*, 279 F.Supp.2d 723 (E.D.Va.2003) and *Wells Fargo & Co., v. WhenU.com, Inc.*, 293 F.Supp.2d 734 (E.D.Mich.2003), which dismissed suits on virtually identical claims against the same defendant. Those two district courts ruled that the defendant's conduct was not actionable under §§ 32 & 43(a) of the Lanham Act, 15 U.S.C. § § 1114 & 1125(a), even assuming that conduct caused likelihood of trademark confusion, because the defendant had not made a “use in commerce” of the plaintiff's mark, within the definition of that phrase set forth in § 45 of the Lanham Act, 15 U.S.C. § 1127. In quoting definitional language of § 1127 that is crucial to their holdings, however, *U-Haul* and *Wells Fargo* overlooked and omitted portions of the statutory text which make clear that the definition provided in § 1127 was not intended by Congress to apply in the manner that the decisions assumed.

[24] Our court's ruling in *1-800* that the Plaintiff had failed to plead a viable claim under §§ 1114 & 1125(a) was justified by numerous good reasons and was undoubtedly the correct result. In addition to the questionable ground derived from the district court opinions, which had overlooked key statutory text, our court's opinion cited other highly persuasive reasons for dismissing the action—among them that the plaintiff did not claim a trademark in the term that served as the basis for the claim of infringement; nor did the defendant's actions cause any likelihood of confusion, as is crucial for such a claim.

[25] We proceed to explain how the district courts in *U-Haul* and *Wells Fargo* adopted reasoning which overlooked crucial statutory text that was incompatible with their ultimate conclusion....

[*Deleted here is the court’s lengthy discussion of the history of the phrase “use in commerce” in the Lanham Act and, in particular, of the 1988 amendment to § 1127’s definition of “use in commerce”*].

The Interpretation of § 1127's Definition of “Use in Commerce ” with Respect to Alleged Infringers

⁵ In this discussion, all iterations of the phrase “use in commerce” whether in the form of a noun (a “use in commerce”), a verb (“to use in commerce”), or adjective (“used in commerce”), are intended without distinction as instances of that phrase.

[26] In light of the preceding discussion, how should courts today interpret the definition of “use in commerce” set forth in 15 U.S.C. § 1127, with respect to acts of infringement prescribed by §§ 1114 and 1125(a)? The foregoing review of the evolution of the Act seems to us to make clear that Congress did not intend that this definition apply to the sections of the Lanham Act which define infringing conduct. The definition was rather intended to apply to the sections which used the phrase in prescribing eligibility for registration and for the Act’s protections. However, Congress does not enact intentions. It enacts statutes. And the process of enacting legislation is of such complexity that understandably the words of statutes do not always conform perfectly to the motivating intentions. This can create for courts difficult problems of interpretation. Because pertinent amendments were passed in 1962 and in 1988, and because the 1988 amendment did not change the pre-existing parts of the definition in § 1127, but merely added a sentence, it seems useful to approach the question of the current meaning in two steps. First, what did this definition mean between 1962 and 1988—prior to the 1988 amendment? Then, how was the meaning changed by the 1988 amendment?

[27] Between 1962 and 1988, notwithstanding the likelihood shown by the legislative history that Congress *intended* the definition to apply only to registration and qualification for benefits and not to infringement, a court addressing the issue nonetheless would probably have concluded that the section applied to alleged infringement, as well. Section 1127 states that its definitions apply “unless the contrary is plainly apparent from the context.” One who considered the question at the time might well have wondered why Congress would have provided this restrictive definition for acts of trademark infringement with the consequence that deceptive and confusing uses of another’s mark with respect to goods would escape liability if the conduct did not include the placement of the mark on goods or their containers, displays, or sale documents, and with respect to services if the conduct did not include the use or display of the mark in the sale or advertising of the services. It is easy to imagine perniciously confusing conduct involving another’s mark which does not involve placement of the mark in the manner specified in the definition. Nonetheless, in spite of those doubts, one could not have said it was “plainly apparent from the context” that those restrictions did not apply to sections defining infringement. In all probability, therefore, a court construing the provision between 1962 and 1988 would have concluded that in order to be actionable under §§ 1114 or 1125(a) the allegedly infringing conduct needed to include placement of the mark in the manner specified in the definition of “use in commerce” in § 1127.

[28] The next question is how the meaning of the § 1127 definition was changed by the 1988 amendment, which, as noted, left the preexisting language

about placement of the mark unchanged, but added a prior sentence requiring that a “use in commerce” be “a bona fide use in the ordinary course of trade, and not made merely to reserve a right in a mark.” While it is “plainly apparent from the context” that the new first sentence cannot reasonably apply to statutory sections defining infringing conduct, the question remains whether the addition of this new sentence changed the meaning of the second sentence of the definition without changing its words.

[29] We see at least two possible answers to the question, neither of which is entirely satisfactory. One interpretation would be that, by adding the new first sentence, Congress changed the meaning of the second sentence of the definition to conform to the new first sentence, without altering the words. The language of the definition, which, prior to the addition of the new first sentence, would have been construed to apply both to sections defining infringement, and to sections specifying eligibility for registration, would change its meaning, despite the absence of any change in its words, so that the entire definition now no longer applied to the sections defining infringement. Change of meaning without change of words is obviously problematic.

[30] The alternative solution would be to interpret the two sentences of the statutory definition as of different scope. The second sentence of the definition, which survived the 1988 amendment unchanged, would retain its prior meaning and continue to apply as before the amendment to sections defining infringement, as well as to sections relating to a mark owner’s eligibility for registration and for enjoyment of the protections of the Act. The new first sentence, which plainly was not intended to apply to infringements, would apply only to sections in the latter category—those relating to an owner’s eligibility to register its mark and enjoy the Act’s protection. Under this interpretation, liability for infringement under §§ 1114 and 1125(a) would continue, as before 1988, to require a showing of the infringer’s placement of another’s mark in the manner specified in the second sentence of the § 1127 definition. It would not require a showing that the alleged infringer made “bona fide use of the mark in the ordinary course of trade, and not merely to reserve a right in the mark.” On the other hand, eligibility of mark owners for registration and for the protections of the Act would depend on their showing compliance with the requirements of both sentences of the definition.

[31] We recognize that neither of the two available solutions is altogether satisfactory. Each has advantages and disadvantages. At least for this Circuit, especially given our prior *1-800* precedent, which applied the second sentence of

the definition to infringement, the latter solution, according a different scope of application to the two sentences of the definition, seems to be preferable.⁶

[32] The judges of the *1-800* panel have read this Appendix and have authorized us to state that they agree with it. At the same time we note that the discussion in this Appendix does not affect the result of this case. We assumed in the body of the opinion, in accordance with the holding of *1-800*, that the requirements of the second sentence of the definition of “use in commerce” in § 1127 apply to infringing conduct and found that such use in commerce was adequately pleaded. The discussion in this Appendix is therefore dictum and not a binding opinion of the court. It would be helpful for Congress to study and clear up this ambiguity.

Questions and Comments

1. The tamasha surrounding the question of the meaning of “use in commerce” when applied to the defendant’s conduct, particularly in the search engine context, appears now to have ended. In *Network Automation Inc. v. Advanced Systems Concepts Inc.*, 638 F.3d 1137 (9th Cir. 2011), the plaintiff sought a declaration of non-infringement for its purchase of search engine keywords, among them the defendant’s trademark, that triggered sponsored links advertising the plaintiff’s services. The Ninth Circuit devoted one short paragraph to the issue of “use in commerce” by the declaratory plaintiff. The *Network Automation* court simply held: “We now agree with the Second Circuit that such use is a “use in commerce” under the Lanham Act. *See Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 127 (2d Cir.2009) (holding that Google’s sale of trademarks as search engine keywords is a use in commerce).” *Id.* at 1145.

2. Defendant’s Use “in Connection with the Sale...of any Goods or Services”

We now turn to what has proven to be a far more significant threshold requirement for liability in U.S. trademark law, often called the “commercial use” requirement. This is the requirement that, to be found liable, the defendant must make a use of the plaintiff’s mark “in connection with the sale, distribution, or advertising of any goods or services”, Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a),

⁶ We express no view which of the alternative available solutions would seem preferable if our Circuit had not previously applied the second sentence to sections of the Act defining infringement.

or “in connection with any goods or services,” Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1).

In *Bosley Medical Institute, Inc. v. Kremer*, 403 F.3d 672 (9th Cir. 2005), the defendant operated a “gripe site” at www.BosleyMedical.com attacking the plaintiff and its male pattern baldness treatments. The defendant claimed that he did not make a use of the plaintiff’s mark “in connection with the sale, distribution, or advertising of any goods or services” because the gripe site did not sell or advertise anything. As you read the *Bosley* opinion, consider this basic question:

- Should the mere fact that a defendant is not selling or advertising goods or services be enough to absolve the defendant from infringement liability? Can you imagine situations where such defendants may nevertheless cause confusion as to the source or affiliation of the defendant’s website?

Bosley Medical Institute, Inc. v. Kremer
403 F.3d 672 (9th Cir. 2005)

SILVERMAN, Circuit Judge.

[1] Defendant Michael Kremer was dissatisfied with the hair restoration services provided to him by the Bosley Medical Institute, Inc. In a bald-faced effort to get even, Kremer started a website at www.BosleyMedical.com, which, to put it mildly, was uncomplimentary of the Bosley Medical Institute. The problem is that “Bosley Medical” is the registered trademark of the Bosley Medical Institute, Inc., which brought suit against Kremer for trademark infringement and like claims. Kremer argues that noncommercial use of the mark is not actionable as infringement under the Lanham Act. Bosley responds that Kremer is splitting hairs.

[2] Like the district court, we agree with Kremer. We hold today that the noncommercial use of a trademark as the domain name of a website—the subject of which is consumer commentary about the products and services represented by the mark—does not constitute infringement under the Lanham Act.

...

I. Background

[3] Bosley Medical provides surgical hair transplantation, restoration, and replacement services to the public. Bosley Medical owns the registered trademark “BOSLEY MEDICAL,”¹ has used the mark “BOSLEY MEDICAL” since 1992, and

¹ Bosley also owns the following trademarks: BOSLEY, BOSLEY HEALTHY HAIR, BOSLEY HEALTHY HAIR FORMULA, and BOSLEY HEALTHY HAIR COMPLEX.

registered the mark with the United States Patent and Trademark Office in January 2001. Bosley has spent millions of dollars on advertising and promotion throughout the United States and the rest of the world.

[4] Michael Kremer is a dissatisfied former patient of Bosley. Unhappy with the results of a hair replacement procedure performed by a Bosley physician in Seattle, Washington, he filed a medical malpractice lawsuit against Bosley Medical in 1994. That suit was eventually dismissed.

[5] In January 2000, Kremer purchased the domain name www.BosleyMedical.com, the subject of this appeal, as well as the domain name www.BosleyMedicalViolations.com, which is not challenged by Bosley. Five days after registering the domain name, Kremer went to Bosley Medical's office in Beverly Hills, California and delivered a two-page letter to Dr. Bosley, Founder and President of Bosley Medical. The first page read:

Let me know if you want to discuss this. Once it is spread over the internet it will have a snowball effect and be too late to stop. M. Kremer [phone number]. P.S. I always follow through on my promises.

[6] The second page was entitled "Courses of action against BMG" and listed eleven items. The first item stated: "1. Net web sites disclosing true operating nature of BMG. Letter 3/14/96 from LAC D.A. Negative testimonials from former clients. Links. Provide BMG competitors with this information." The letter contains no mention of domain names or any other reference to the Internet.

[7] Kremer began to use www.BosleyMedical.com in 2001. His site summarizes the Los Angeles County District Attorney's 1996 investigative findings about Bosley, and allows visitors to view the entire document. It also contains other information that is highly critical of Bosley. Kremer earns no revenue from the website and no goods or services are sold on the website. There are no links to any of Bosley's competitors' websites. [BosleyMedical.com](http://www.BosleyMedical.com) does link to Kremer's sister site, [BosleyMedicalViolations.com](http://www.BosleyMedicalViolations.com), which links to a newsgroup entitled alt.baldspot, which in turn contains advertisements for companies that compete with Bosley. [BosleyMedical.com](http://www.BosleyMedical.com) also contained a link to the Public Citizen website. Public Citizen is the organization that represents Kremer in this case.

[8] Bosley brought this suit alleging trademark infringement, dilution, unfair competition, various state law claims, and a libel claim that was eventually settled. Bosley sought to take discovery aimed at the trademark and libel claims. The magistrate judge granted limited discovery on the libel claims. Following discovery, Bosley dismissed the libel claims and amended the complaint.

[9] Kremer moved to dismiss the First Amended Complaint and in addition moved for partial summary judgment on the issues of commercial use and

likelihood of confusion. Bosley filed a cross-motion for partial summary judgment on the infringement and dilution claims. Kremer agreed that the facts were undisputed with regard to the issues of commercial use and likelihood of confusion, and that these issues were ripe for summary judgment.

[10] Ruling that Kremer's use of "Bosley Medical" in the domain name was noncommercial and unlikely to cause confusion, the district court entered summary judgment for Kremer on the federal claims.... Bosley now appeals.

III. Analysis

A. Trademark Infringement and Dilution Claims

[11] The Trademark Act of 1946 ("Lanham Act") prohibits uses of trademarks, trade names, and trade dress that are likely to cause confusion about the source of a product or service. *See* 15 U.S.C. §§ 1114, 1125(a). In 1996, Congress amended § 43 of the Lanham Act to provide a remedy for the dilution of a famous mark. *See* 15 U.S.C. § 1125(c).

[12] Infringement claims are subject to a commercial use requirement. The infringement section of the Lanham Act, 15 U.S.C. § 1114, states that any person who "use[s] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive ..." can be held liable for such use. 15 U.S.C. § 1114(1)(a).

[13] In 1996, Congress expanded the scope of federal trademark law when it enacted the Federal Trademark Dilution Act ("FTDA"). The FTDA allows the "owner of a famous mark" to obtain "an injunction against another person's *commercial use in commerce* of a mark or trade name...." 15 U.S.C. § 1125(c)(1) (emphasis added). While the meaning of the term "commercial use in commerce" is not entirely clear, we have interpreted the language to be roughly analogous to the "in connection with" sale of goods and services requirement of the infringement statute. *See Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 903 (9th Cir.2002) ("Although this statutory language is ungainly, its meaning seems clear: It refers to a use of a famous and distinctive mark to sell goods other than those produced or authorized by the mark's owner."); *see also Huthwaite, Inc. v. Sunrise Assisted Living, Inc.*, 261 F.Supp.2d 502, 517 (E.D.Va.2003) (holding that the commercial use requirement of the FTDA is "virtually synonymous with the 'in connection with the sale, offering for sale, distribution, or advertising of goods and services' requirement" of the Lanham Act).

[14] The inclusion of these requirements in the Lanham Act serves the Act's purpose: "to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992) (internal quotation marks and citations omitted). In other words, the Act is designed to protect consumers who have formed particular associations with a mark from buying a competing product using the same or substantially similar mark and to allow the mark holder to distinguish his product from that of his rivals. *See Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 873 (9th Cir.1999).

[15] The Supreme Court has made it clear that trademark infringement law prevents only unauthorized uses of a trademark in connection with a commercial transaction in which the trademark is being used to confuse potential consumers. *See Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368, 44 S.Ct. 350, 68 L.Ed. 731 (1924) ("A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against *the sale of another's product as his.*" [emphasis added]); *see also Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205, 62 S.Ct. 1022, 86 L.Ed. 1381 (1942) (explaining that the main purpose of the Lanham Act is to prevent the use of identical or similar marks in a way that confuses the public about the actual source of goods and services).

[16] As the Second Circuit held, "[t]he Lanham Act seeks to prevent consumer confusion that enables a seller to pass off his goods as the goods of another.... [T]rademark infringement protects only against mistaken *purchasing decisions* and not against confusion generally." *Lang v. Ret. Living Publ'g Co., Inc.*, 949 F.2d 576, 582–83 (2d Cir.1991) (internal quotation marks and citation omitted) (emphasis added).

[17] As a matter of First Amendment law, commercial speech may be regulated in ways that would be impermissible if the same regulation were applied to noncommercial expressions. *Florida Bar v. Went For It, Inc.*, 515 U.S. 618, 623, 115 S.Ct. 2371, 132 L.Ed.2d 541 (1995). "The First Amendment may offer little protection for a competitor who labels its commercial good with a confusingly similar mark, but trademark rights do not entitle the owner to quash an unauthorized use of the mark by another who is communicating ideas or expressing points of view." *Mattel*, 296 F.3d at 900(internal quotation marks and citations omitted).

[18] The district court ruled that Kremer's use of Bosley's mark was noncommercial. To reach that conclusion, the court focused on the "use in commerce" language rather than the "use in connection with the sale of goods" clause. This approach is erroneous. "Use in commerce" is simply a jurisdictional

predicate to any law passed by Congress under the Commerce Clause. *See Steele v. Bulova Watch Co.*, 344 U.S. 280, 283 (1952); *OBH, Inc. v. Spotlight Magazine, Inc.*, 86 F.Supp.2d 176, 185 (W.D.N.Y.2000). 15 U.S.C. § 1127 states that “unless the contrary is plainly apparent from the context ... [t]he word ‘commerce’ means all commerce which may lawfully be regulated by Congress.” Therefore, the district court should have determined instead whether Kremer's use was “in connection with a sale of goods or services” rather than a “use in commerce.” However, we can affirm the district court's grant of summary judgment on any ground supported by the record. *Lamps Plus, Inc. v. Seattle Lighting Fixture Co.*, 345 F.3d 1140, 1143 (9th Cir.2003). The question before us, then, boils down to whether Kremer's use of Bosley Medical as his domain name was “in connection with a sale of goods or services.” If it was not, then Kremer's use was “noncommercial” and did not violate the Lanham Act.

[19] Bosley argues that it has met the commercial use requirement in three ways. First, it argues that a mark used in an otherwise noncommercial website or as a domain name for an otherwise noncommercial website is nonetheless used in connection with goods and services where a user can click on a link available on that website to reach a commercial site. *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002 (9th Cir.2004). However, Bosley's reliance on *Nissan* is unfounded.

[20] In *Nissan*, Nissan Motor Company sued Nissan Computer Corporation for using the Internet websites www.Nissan.com and www.Nissan.net. *Id.* at 1006. In *Nissan*, however, commercial use was undisputed, as the core function of the defendant's website was to advertise his computer business. *Id.* Additionally, the defendant in *Nissan*, like the defendant in *Taubman Co. v. Webfeats*, 319 F.3d 770 (6th Cir.2003), placed links to other commercial businesses directly on their website. 319 F.3d at 772–73. Kremer's website contains no commercial links, but rather contains links to a discussion group, which in turn contains advertising. This roundabout path to the advertising of others is too attenuated to render Kremer's site commercial. At no time did Kremer's BosleyMedical.com site offer for sale any product or service or contain paid advertisements from any other commercial entity. *See TMI, Inc. v. Maxwell*, 368 F.3d 433, 435, 438 (5th Cir.2004) (holding that the commercial use requirement is not satisfied where defendant's site had no outside links).

[21] Bosley also points out that Kremer's site contained a link to Public Citizen, the public interest group representing Kremer throughout this litigation. We hold that Kremer's identification of his lawyers and his provision of a link to same did not transform his noncommercial site into a commercial one.

[22] Bosley's second argument that Kremer's website satisfies the “in connection with the sale of goods or services” requirement of the Lanham Act is that

Kremer created his website to enable an extortion scheme in an attempt to profit from registering BosleyMedical.com. In *Panavision International, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir.1998), this court held that a defendant's "commercial use was his attempt to sell the trademarks themselves." *Id.* at 1325. Similarly, in *Intermatic Inc. v. Toeppen*, 947 F.Supp. 1227 (N.D.Ill.1996), the court found that "Toeppen's intention to arbitrage the 'intermatic.com' domain name constitute[d] a commercial use." *Id.* at 1239; see also *Boston Prof'l Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1010 (5th Cir.1975) (holding that trademark law protects the trademark itself, despite the fact that only "a reproduction of the trademark itself is being sold, unattached to any other goods or services").

[23] However, in this case, there is no evidence that Kremer was trying to sell the domain name itself. The letter delivered by Kremer to Bosley's headquarters is a threat to expose negative information about Bosley on the Internet, but it makes no reference whatsoever to ransoming Bosley's trademark or to Kremer's use of the mark as a domain name.

[24] Bosley argues that it was denied an opportunity to pursue discovery on commercial use, and had it been allowed to proceed with discovery, it could further establish that Kremer has attempted to sell the domain name. However, in opposing Kremer's motion for summary judgment, Bosley did not make any such objections. Bosley failed to request further discovery under Federal Rule of Civil Procedure 56(f), but instead moved for summary judgment itself. Although Bosley's reply brief supporting its own motion for summary judgment complained about limited discovery in a footnote, Bosley did not move for leave to take discovery. The district court did not abuse its discretion in granting the summary judgment without permitting further discovery.

[25] Bosley's third and final argument that it satisfied the commercial use requirement of the Lanham Act is that Kremer's use of Bosley's trademark was in connection with Bosley's goods and services. In other words, Kremer used the mark "in connection with goods and services" because he prevented users from obtaining the plaintiff's goods and services. See *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir.2001) ("*PETA*"). In *PETA*, defendants created a site that promoted ideas antithetical to those of the PETA group. *Id.* at 362–63. The Fourth Circuit held that the defendant's parody site, though not having a commercial purpose and not selling any goods or services, violated the Lanham Act because it "prevented users from obtaining or using PETA's goods or services." *Id.* at 365.

[26] However, in *PETA*, the defendant's website "provide[d] links to more than 30 commercial operations offering goods and services." *Id.* at 366. To the extent that the *PETA* court held that the Lanham Act's commercial use requirement is satisfied

because the defendant's use of the plaintiff's mark as the domain name may deter customers from reaching the plaintiff's site itself, we respectfully disagree with that rationale. While it is true that www.BosleyMedical.com is not sponsored by Bosley Medical, it is just as true that it is *about* Bosley Medical. The *PETA* approach would place most critical, otherwise protected consumer commentary under the restrictions of the Lanham Act. Other courts have also rejected this theory as over-expansive. See *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 33 (1st Cir.1987); see also *Ford Motor Co. v. 2600 Enters.*, 177 F.Supp.2d 661, 664 (E.D.Mich.2001).

[27] The *PETA* court's reading of the Lanham Act would encompass almost all uses of a registered trademark, even when the mark is merely being used to identify the object of consumer criticism.² This broad view of the Lanham Act is supported by neither the text of the statute nor the history of trademark laws in this country. "[T]rademark laws are intended to protect" consumers from purchasing the products of an infringer "under the mistaken assumption that they are buying a product produced or sponsored by [the trademark holder]." *Beneficial Corp. v. Beneficial Capital Corp.*, 529 F.Supp. 445, 450 (S.D.N.Y.1982). Limiting the Lanham Act to cases where a defendant is trying to profit from a plaintiff's trademark is consistent with the Supreme Court's view that "[a trademark's] function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his." *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97, 39 S.Ct. 48, 63 L.Ed. 141 (1918); see also 1 McCarthy on Trademarks and Unfair Competition § 2:7 (4th ed.2004).

[28] The Second Circuit held in *United We Stand America, Inc. v. United We Stand, America New York, Inc.*, 128 F.3d 86, 90 (2d Cir.1997), that the "use in connection with the sale of goods and services" requirement of the Lanham Act does not require any actual *sale* of goods and services. Thus, the appropriate inquiry is whether Kremer offers *competing* services to the public. Kremer is not Bosley's competitor; he is their critic. His use of the Bosley mark is not in connection with a sale of goods or services—it is in connection with the expression of his opinion *about* Bosley's goods and services.

² In fact, such a holding would suggest that any time a non-holder of a trademark uses the mark as his domain name, he would violate the Lanham Act. However, when Congress amended the Lanham Act to add the Anticybersquatting Consumer Protection Act, it limited violations only to situations where a person registers the site with a bad faith intent to profit. To find a Lanham Act violation without finding commercial use may contradict Congress' intent.

[29] The dangers that the Lanham Act was designed to address are simply not at issue in this case. The Lanham Act, expressly enacted to be applied in commercial contexts, does not prohibit all unauthorized uses of a trademark. Kremer's use of the Bosley Medical mark simply cannot mislead consumers into buying a competing product—no customer will mistakenly purchase a hair replacement service from Kremer under the belief that the service is being offered by Bosley. Neither is Kremer capitalizing on the good will Bosley has created in its mark. Any harm to Bosley arises not from a competitor's sale of a similar product under Bosley's mark, but from Kremer's criticism of their services. Bosley cannot use the Lanham Act either as a shield from Kremer's criticism, or as a sword to shut Kremer up.³

...

Questions and Comments

1. *The Difference in the Language of Lanham Act § 32 and § 43(a).* You will have noticed that the two likelihood of confusion sections formulate the commercial use requirement slightly differently. Compare Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a) (establishing liability for “[a]ny person who shall use in commerce” the plaintiff’s mark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services” in a manner that is confusing) to Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1) (establishing liability for “[a]ny person who, on or in connection with any goods or services, or any container for goods, uses in commerce” the plaintiff’s mark in a manner that is confusing). In practice, courts have read both statements of the commercial use requirement to mean the same thing.

2. *The Commercial Use Requirement and Trademark Dilution.* We will address the issue of trademark dilution below in Part II.C. Note for the moment that the antidilution section of the Lanham Act, § 43(c), 15 U.S.C. § 1125(c), does not include language akin to what we find in Lanham Act §§ 32 and 43(a). Under a previous, now-abrogated version of § 43(c) (which trademark lawyers traditionally refer to as the old “Federal Trademark Dilution Act” or “FTDA”), courts read the phrase “another person's commercial use in commerce” to implement the commercial use requirement. See *Bosley Medical Institute, Inc. v. Kremer*, 403 F.3d 672, 676 (9th Cir. 2005) (“[W]e have interpreted the language [of § 43(c)(1)] to be roughly

³ Because we hold that Kremer's use of Bosley's mark was noncommercial, we do not reach the issue of initial interest confusion which was addressed in *Interstellar Starship Services, Ltd. v. Epix, Inc.*, 304 F.3d 936 (9th Cir.2002).

analogous to the ‘in connection with’ sale of goods and services requirement of the infringement statute.”). The new § 43(c), effective as of October 6, 2006, which trademark lawyers often refer to as the “Trademark Dilution Revision Act” or “TDRA”, instead requires that the defendant makes “use of a mark or trade name in commerce.” 15 U.S.C. § 1125(c)(1). Courts have read this language to require a showing of defendant’s commercial use akin to what is required under § 32 and § 43(a). More precisely, courts have read the new § 43(c) “use of *mark*” language to require the plaintiff to prove that the defendant is using its accused designation as a trademark, as a designation of source, for its own good or services. *See, e.g., National Business Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526, 536 (5th Cir. 2012) (“We agree with the district court that NBFP did not ‘use’ Ford’s marks (as the TDRA contemplates that term) in identifying or distinguishing its own goods or services merely by reproducing them for customers as part of its commercial printing business.”). *See also* MCCARTHY § 24:122. We will return to this issue below in Part II.C.

B. Confusion-Based Infringement

The overriding question in most federal trademark infringement litigation is a simple one: is the defendant’s trademark, because of its similarity to the plaintiff’s trademark, causing or likely to cause consumer confusion as to the source or sponsorship of the defendant’s goods? Each of the circuits requires that, in answering this question, the district court conduct a multifactor analysis of the likelihood of consumer confusion according to the factors set out by that circuit. As the Seventh Circuit has explained, the multifactor test operates “as a heuristic device to assist in determining whether confusion exists.” *Sullivan v. CBS Corp.*, 385 F.3d 772, 778 (7th Cir. 2004). In Part II.B.1, we will briefly review the peculiar history of the multifactor test approach to the likelihood of confusion (or “LOC”) question. In Part II.B.2, we will focus on one recent and particularly rich application of the multifactor test in *Virgin Enterprises Ltd. v. Nawab*, 335 F.3d 141 (2d Cir. 2003). Part II.B.3 will address the use of survey evidence in the LOC context. Parts III.B.4 through III.B.7 will address various modes of consumer confusion such as “sponsorship or affiliation” confusion, “initial interest” confusion, “post-sale” confusion, and “reverse” confusion. Part II.B.8 will return briefly to the Lanham Act § 2(d) bar to registration of a mark that is confusingly-similar to a previously registered mark.

1. The History of the Confusion-Based Cause of Action for Trademark Infringement

a. The Early-Twentieth Century Approach to the Likelihood of Consumer Confusion

In the following opinion, *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, 201 F. 510 (7th Cir. 1912), the appellee Borden Condensed Milk Co. was the well-known manufacturer of, among other things, milk products under the trademark BORDEN. Appellee did not, however, manufacture ice cream; indeed, its corporate charter did not allow it to do so. The appellee Borden Ice Cream Co. commenced use of the BORDEN mark for ice cream – after finding someone named Borden to join its application for a corporate charter in Illinois. Under current trademark law, this would be a clear case of trademark infringement. As you will see, the *Borden Ice Cream* court saw things differently at the time.

***Borden Ice Cream Co. v. Borden's Condensed Milk Co.* 201 F. 510 (7th Cir. 1912)**

[1] This is an appeal from an interlocutory order of injunction entered in the District Court, restraining the appellants 'from the use of the name 'Borden' in the manufacture or sale of ice cream and like articles, and the manufacture or sale of milk products in any of their forms, without plainly and in written or printed form attached to all cartons of such commodities, and upon all wagons or other vehicles used in the delivery of such commodities, and on all letter heads and other stationery going out to customers and to the public, and in all places where the name 'Borden's Ice Cream Company' may hereafter appear in the transaction of any business by the defendants, advising purchasers and the public in an unmistakable manner that the product of the defendants is not that of the complainant, 'Borden's Condensed Milk Company.'"

[2] The word 'Borden' in the corporate name of the appellee was taken from the name of Gail Borden, who founded the business in the year 1857, and since that time it has been and is now a trade-name of great value, identified almost universally with the business of milk and milk products of the appellee and its predecessors. The trade-name 'Borden,' or the word 'Borden,' constitutes one of the principal assets of the appellee, and is widely known and identified with the good will and public favor enjoyed by it throughout the United States.

[3] On May 31, 1899, the appellee was incorporated under the laws of the state of New Jersey, with broad corporate powers, and specifically authorized 'to manufacture, sell and otherwise deal in condensed, preserved and evaporated milk and all other manufactured forms of milk; to produce, purchase and sell fresh milk, and all products of milk; to manufacture, purchase and sell all food products; to raise, purchase and sell all garden, farm and dairy products; to raise, purchase and sell, and otherwise deal in, cattle and all other live stock; to manufacture, lease, purchase and sell all machinery, tools, implements, apparatus and all other articles and appliances used in connection with all or any of the purposes aforesaid, or with selling and transporting the manufactured or other products of the company; and to do any and all things connected with or incidental to the carrying on of such business, or any branch or part thereof.'

[4] It may be stated in this connection that the charter of the company contains no express authority to manufacture or sell what is known commercially as ice cream.

[5] The record shows that the appellee uses in the disposition of its products some thirty-two brands, each one of which either contains the name 'Borden,' or is used in connection with the name 'Borden's Condensed Milk Company.' Of these brands sixteen specifically refer to condensed or evaporated milk, seven to candy, two to malted milk, one to coffee, one to butter, one to buttermilk, one to fluid milk, two to cream, and one to malted milk ice cream; and that trade-marks have been registered on most of the brands.

[6] Appellee has developed in the state of Illinois and the city of Chicago, and elsewhere, a large business in the sale of fresh milk and cream and evaporated milk to confectioners for use by them in making commercial ice cream. It has expended large sums of money in promoting and advertising its business, and particularly in extending the sale of the so-called 'Borden's Peerless Brand Evaporated Milk, Confectioners' Size,' a high quality of evaporated milk inclosed [sic] in cans, especially designed for use in the manufacture of ice cream.

[7] For more than two years prior to the filing of the bill in the District Court, the appellee had been manufacturing a form of ice cream known as 'Borden's Malted Milk Ice Cream,' which product is, as the name implies, an ice cream made with malted milk as its basic element, and is especially adapted for use in hospitals. This malted milk ice cream, which hitherto has been used only in hospitals, the appellee is about to place on the market for general use in competition with commercial ice cream.

[8] On May 25, 1911, the appellants Charles F. Borden, George W. Brown, and Edgar V. Stanley applied to the Secretary of State of the state of Illinois for a license

to incorporate under the name of 'Borden Ice Cream Company.' On July 31, 1911, the appellee notified the individual appellants that the term 'Borden' had become so firmly established in connection with the products of the appellee the use of that word in connection with any company dealing in milk products would lead to the presumption that they were the products of the appellee, and demanded that the word 'Borden' be eliminated from appellants' company name.

[9] On the same day appellee protested to the Secretary of State of the state of Illinois against the issuance of any charter under the name of 'Borden Ice Cream Company,' but on the 16th of August, 1911, a charter was duly issued to the 'Borden Ice Cream Company,' by which it was authorized 'to manufacture and sell ice cream, ices and similar products.'

[10] The appellant Charles F. Borden had never before been engaged in the ice cream business, or in buying or selling milk or milk products, or in any similar business, and is not the principal person connected with the appellant Borden Ice Cream Company. The appellant Lawler is an ice cream manufacturer, and has subscribed to 47 out of a total of 50 shares of stock of the Borden Ice Cream Company. Charles F. Borden has subscribed to one share of stock, and has not paid for that.

[11] The bill charges, upon information and belief, that it is the intention of appellant Borden Ice Cream Company to use the word 'Borden' for the purpose of trading upon the reputation of appellee's goods and products, and for the purpose of deceiving and defrauding the public into the belief that such product is the product of the appellee; that such 'improper, deceitful and fraudulent use of the name 'Borden' will be a great and irreparable injury to the complainant's (appellee's) property right in its trade-name; and that the reputation of the products of complainant (appellee) will be greatly injured thereby; and that the business of complainant (appellee) will be injured;' and that there will be great confusion in the business carried on by the original company because of such improper use; and that it will be impossible for present and prospective customers to know that the product of the Borden Ice Cream Company is not the product of Borden's Condensed Milk Company.

[12] The bill and the affidavits on file do not show any facts tending to sustain the allegation of irreparable injury to the old company or its business, or showing or tending to show that the old company has been or will be injured in any way in the business which it is now engaged in. Moreover, it does not appear that the malted milk ice cream manufactured by the old company will in any way come into competition with the commercial ice cream proposed to be put on the market by the new company.

[13] The bill was filed before the defendant had started to do any business. The answer admits most of the material allegations, but denies all fraudulent purpose.

CARPENTER, District Judge (after stating the facts as above).

[14] A personal name, such as 'Borden,' is not susceptible of exclusive appropriation, and even its registration in the Patent Office cannot make it a valid trade-mark. *Howe Scale Co. v. Wyckoff*, 198 U.S. 134.; *Elgin Natl. Watch Co. v. Illinois Watch Case Co.*, 179 U.S. 665; *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169; *Brown Chemical Co. v. Meyer*, 139 U.S. 540.

[15] There is no charge made in the bill that the appellants are infringing, or propose to infringe, upon any technical trade-mark of the appellee, so we may dismiss any claim for relief upon that score.

[16] The only theory upon which the injunction in this case can be sustained is upon that known as unfair competition. Relief against unfair competition is granted solely upon the ground that one who has built up a good will and reputation for his goods or business is entitled to all of the resultant benefits. Good will or business popularity is property, and, like other property, will be protected against fraudulent invasion.

[17] The question to be determined in every case of unfair competition is whether or not, as a matter of fact, the name used by the defendant had come previously to indicate and designate the complainant's goods. Or, to put it in another way, whether the defendant, as a matter of fact, is, by his conduct, passing off his goods as the complainant's goods, or his business as the complainant's business.

[18] It has been said that the universal test question in cases of this class is whether the public is likely to be deceived as to the maker or seller of the goods. This, in our opinion, is not the fundamental question. The deception of the public naturally tends to injure the proprietor of a business by diverting his customers and depriving him of sales which otherwise he might have made. This, rather than the protection of the public against imposition, is the sound and true basis for the private remedy. That the public is deceived may be evidence of the fact that the original proprietor's rights are being invaded. If, however, the rights of the original proprietor are in no wise interfered with, the deception of the public is no concern of a court of chancery. *American Washboard Co. v. Saginaw Mfg. Co.*, 103 Fed. 281.

[19] Doubtless it is morally wrong for a person to proclaim, or even intimate, that his goods are manufactured by some other and well-known concern; but this does not give rise to a private right of action, unless the property rights of that concern are interfered with. The use by the new company of the name 'Borden' may have been with fraudulent intent; and, even assuming that it was, the trial court had

no right to interfere, unless the property rights of the old company were jeopardized. Nothing else being shown, a court of equity cannot punish an unorthodox or immoral, or even dishonest, trader; it cannot enforce as such the police power of the state.

[20] In the case now under our consideration the old company (the appellee) never has manufactured what is known as commercial ice cream. The new company (the appellant) was incorporated for the sole purpose of manufacturing and putting on the market such an article.

[21] Nonexclusive trade-names are public property in their primary sense, but they may in their secondary sense come to be understood as indicating the goods or business of a particular trader. Such trade-names are acquired by adoption and user, and belong to the one who first used them and gave them value in a specific line of business. It is true that the name of a person may become so associated with his goods or business that another person of the same or a similar name engaging in the same business will not be allowed to use even his own name, without affirmatively distinguishing his goods or business.

[22] The secondary meaning of a name, however, has no legal significance, unless the two persons make or deal in the same kind of goods. Clearly the appellants here could make gloves, or plows, or cutlery, under the name 'Borden' without infringing upon any property right of the old company. If that is true, they can make anything under the name 'Borden' which the appellee has not already made and offered to the public. *George v. Smith* (C.C.) 52 Fed. 830.

[23] The name 'Borden,' until appellants came into the field, never had been associated with commercial ice cream. By making commercial ice cream the appellants do not come into competition with the appellee. In the absence of competition, the old company cannot assert the rights accruing from what has been designated as the secondary meaning of the word 'Borden.' The phrase 'unfair competition' presupposes competition of some sort. In the absence of competition the doctrine cannot be invoked.

[24] There being no competition between the appellants and appellee, we are confronted with the proposition that the appellee, in order to succeed on this appeal, has and can enforce a proprietary right to the name 'Borden' in any kind of business, to the exclusion of all the world.

[25] It is urged that appellee has power, under its charter, to make commercial ice cream, and that it intends some day to do so. If such intention can be protected at this time, it might well be that appellee, having enjoined appellants from making commercial ice cream, would rest content with selling its evaporated milk to ice

cream dealers, and never itself manufacture the finished product. But, as was well stated by Judge Coxe, in *George v. Smith*, *supra*:

‘It is the party who uses it first as a brand for his goods, and builds up a business under it, who is entitled to protection, and not the one who first thought of using it on similar goods, but did not use it. The law deals with acts and not intentions.’

[26] Appellee also urges that it makes and sells large quantities of evaporated or condensed milk to manufacturers of ice cream, and that if the appellants are permitted to use the name ‘Borden’ in the ice cream business dealers probably will believe that its ice cream is made by appellee, and will in consequence buy the finished product rather than the component parts, and that appellee’s sales of evaporated or condensed milk will fall off, to its manifest damage. Such result would be too speculative and remote to form the basis of an order restraining men from using in their business any personal name, especially their own.

[27] Appellee is in this position: If it bases its right to an injunction upon the doctrine of unfair competition, no competition of any kind has been shown by the record. If it relies upon some supposed damage which may result from appellants’ use of the name ‘Borden’ in connection with inferior goods, the action is premature, because the appellants, as yet, have neither sold nor made anything.

[28] The order of the District Court must be reversed; and it is so ordered.

b. The Development of the Modern Multifactor Test

The idiosyncrasies of tradition rather than of reason governed the development of the multifactor tests across the circuits. Each of the circuits’ current multifactor tests originated either directly or indirectly from the 1938 *Restatement (First) of the Law of Torts*. The *Restatement (First)* failed to set forth a single, unified multifactor test for trademark infringement. Instead, it proposed four factors that courts should consider in all cases and nine more factors that courts should additionally consider only when the parties goods were noncompetitive with each other, i.e., not substitutable for each other. Section 729 of the *Restatement (First)* set out the four factors courts should always consider:

In determining whether the actor’s designation is confusingly similar to the other’s trade-mark or trade name, the following factors are important:

- (a) the degree of similarity between the designation and the trade-mark or trade name in
 - (i) appearance;

- (ii) pronunciation of the words used;
- (iii) verbal translation of the pictures or designs involved;
- (iv) suggestion;
- (b) the intent of the actor in adopting the designation;
- (c) the relation in use and manner of marketing between the goods or services marketed by the actor and those marketed by the other;
- (d) the degree of care likely to be exercised by purchasers.

RESTATEMENT FIRST OF TORTS § 729 (1939). Section 731 set out the additional nine factors that courts should additionally consider only in cases involving noncompetitive goods:

In determining whether one's interest in a trade-mark or trade name is protected, under the rules stated in §§ 717 and 730, with reference to the goods, services or business in connection with which the actor uses his designation, the following factors are important:

- (a) the likelihood that the actor's goods, services or business will be mistaken for those of the other;
- (b) the likelihood that the other may expand his business so as to compete with the actor;
- (c) the extent to which the goods or services of the actor and those of the other have common purchasers or users;
- (d) the extent to which the goods or services of the actor and those of the other are marketed through the same channels;
- (e) the relation between the functions of the goods or services of the actor and those of the other;
- (f) the degree of distinctiveness of the trademark or trade name;
- (g) the degree of attention usually given to trade symbols in the purchase of goods or services of the actor and those of the other;
- (h) the length of time during which the actor has used the designation;
- (i) the intent of the actor in adopting and using the designation.

Id. at § 731.

Through the course of the mid-twentieth century, the federal courts lost track of the distinction between the two sets of factors, and the circuits each began to use a single, unified multifactor test regardless of whether the parties' goods were competitive or not. Each circuit developed its own test, and for the most part, the peculiarities of the particular cases in which the circuit's multifactor test first coalesced determined which factors are still considered in that circuit today. A good example of this is found in the following opinion, *Polaroid Corp. v. Polarad*

Electronics Corp., 287 F.2d 402 (2d Cir. 1961), which is the origin of the Second Circuit's "Polaroid Factors." Despite Judge Friendly's clear statement that his test was meant for situations "[w]here the products are different," *id.* at 495, Second Circuit courts routinely apply the *Polaroid* factors in competing goods cases. The opinion is presented here primarily for its historical significance as one of the most influential opinions in U.S. trademark law, but also to show, in the final paragraph of the opinion excerpt, how much trademark infringement doctrine had evolved since *Borden's Ice Cream*.

***Polaroid Corp. v. Polarad Electronics Corp.*
287 F.2d 492 (2d Cir. 1961)**

FRIENDLY, Circuit Judge.

[1] Plaintiff, Polaroid Corporation, a Delaware corporation, owner of the trademark Polaroid and holder of 22 United States registrations thereof granted between 1936 and 1956 and of a New York registration granted in 1950, brought this action in the Eastern District of New York, alleging that defendant's use of the name Polarad as a trademark and as part of defendant's corporate title infringed plaintiff's Federal and state trademarks and constituted unfair competition. It sought a broad injunction and an accounting. Defendant's answer, in addition to denying the allegations of the complaint, sought a declaratory judgment establishing defendant's right to use Polarad in the business in which defendant was engaged, an injunction against plaintiff's use of Polaroid in the television and electronics fields, and other relief. Judge Rayfiel, in an opinion reported in D.C.1960, 182 F.Supp. 350, dismissed both the claim and the counterclaims, concluding that neither plaintiff nor defendant had made an adequate showing with respect to confusion and that both had been guilty of laches. Both parties appealed but defendant has withdrawn its cross-appeal. We find it unnecessary to pass upon Judge Rayfiel's conclusion that defendant's use of Polarad does not violate any of plaintiff's rights. For we agree that plaintiff's delay in proceeding against defendant bars plaintiff from relief so long as defendant's use of Polarad remains as far removed from plaintiff's primary fields of activity as it has been and still is.

[2] The name Polaroid was first adopted by plaintiff's predecessor in 1935. It has been held to be a valid trademark as a coined or invented symbol and not to have lost its right to protection by becoming generic or descriptive, *Marks v. Polaroid Corp.*, D.C.D.Mass.1955, 129 F.Supp. 243. Polaroid had become a well known name as applied to sheet polarizing material and products made therefrom, as well as to optical desk lamps, stereoscopic viewers, etc., long before defendant

was organized in 1944. During World War II, plaintiff's business greatly expanded, from \$1,032,000 of gross sales in 1941 to \$16,752,000 in 1945, due in large part to government contracts. Included in this government business were three sorts on which plaintiff particularly relies, the sale of Schmidt corrector plates, an optical lens used in television; research and development contracts for guided missiles and a machine gun trainer, both involving the application of electronics; and other research and development contracts for what plaintiff characterizes as 'electro-optical devices employing electronic circuitry in combination with optical apparatus.' In 1947 and 1948 plaintiff's sales declined to little more than their pre-war level; the tremendous expansion of plaintiff's business, reaching sales of \$65,271,000 in 1958, came after the development of the Land camera in 1948.

[3] Defendant was organized in December, 1944. Originally a partnership called Polarad Electronics Co., it was converted in 1948 into a New York corporation bearing the name Polarad Television Corp., which was changed a year later to Polarad Electronics Corp. Its principal business has been the sale of microwave generating, receiving and measuring devices and of television studio equipment. Defendant claimed it had arrived at the name Polarad by taking the first letters of the first and last names of its founder, Paul Odessey, and the first two letters of the first name of his friend and anticipated partner, Larry Jaffe, and adding the suffix 'rad,' intended to signify radio; however, Odessey admitted that at the time he had 'some knowledge' of plaintiff's use of the name Polaroid, although only as applied to glasses and polarizing filters and not as to electronics. As early as November, 1945, plaintiff learned of defendant; it drew a credit report and had one of its attorneys visit defendant's quarters, then two small rooms; plaintiff made no protest. By June, 1946, defendant was advertising television equipment in 'Electronics'—a trade journal. These advertisements and other notices with respect to defendant came to the attention of plaintiff's officers; still plaintiff did nothing. In 1950, a New York Attorney who represented plaintiff in foreign patent matters came upon a trade show display of defendant's television products under the name Polarad and informed plaintiff's house counsel; the latter advised plaintiff's president, Dr. Land, that 'the time had come when he thought we ought to think seriously about the problem.' However, nothing was done save to draw a further credit report on defendant, although defendant's sales had grown from a nominal amount to a rate of several hundred thousand dollars a year, and the report related, as had the previous one, that defendant was engaged 'in developing and manufacturing equipment for radio, television and electronic manufacturers throughout the United States.' In October, 1951, defendant, under its letterhead, forwarded to plaintiff a letter addressed to 'Polarad Electronics Corp.' at defendant's Brooklyn address, inquiring

in regard to 'polaroid material designed for night driving'; there was no protest by plaintiff. In 1953, defendant applied to the United States Patent Office for registration of its trademark Polarad for radio and television units and other electronic devices; in August, 1955, when this application was published in the Official Gazette of the Patent Office, plaintiff for the first time took action by filing a notice of opposition, which was overruled by the Examiner in April, 1957. Still plaintiff delayed bringing suit until late 1956. Through all this period defendant was expending considerable sums for advertising and its business was growing—employees increasing from eight in the calendar year 1945 to 530 in the year ended June 30, 1956, fixed assets from \$2,300 to \$371,800, inventories from \$3,000 to \$1,547,400, and sales from \$12,000 to \$6,048,000.

[4] Conceding that the bulk of its business is in optics and photography, lines not pursued by defendant, plaintiff nevertheless claims to be entitled to protection of its distinctive mark in at least certain portions of the large field of electronics. Plaintiff relies on its sales of Schmidt corrector plates, used in certain types of television systems, first under government contracts beginning in 1943 and to industry commencing in 1945; on its sale, since 1946, of polarizing television filters, which serve the same function as the color filters that defendant supplies as a part of the television apparatus sold by it; and, particularly, on the research and development contracts with the government referred to above. Plaintiff relies also on certain instances of confusion, predominantly communications intended for defendant but directed to plaintiff. Against this, defendant asserts that its business is the sale of complex electronics equipment to a relatively few customers; that this does not compete in any significant way with plaintiff's business, the bulk of which is now in articles destined for the ultimate consumer; that plaintiff's excursions into electronics are insignificant in the light of the size of the field; that the instances of confusion are minimal; that there is no evidence that plaintiff has suffered either through loss of customers or injury to reputation, since defendant has conducted its business with high standards; and that the very nature of defendant's business, sales to experienced industrial users and the government, precludes any substantial possibility of confusion. Defendant also asserts plaintiff's laches to be a bar.

[5] The problem of determining how far a valid trademark shall be protected with respect to goods other than those to which its owner has applied it, has long been vexing and does not become easier of solution with the years. Neither of our recent decisions so heavily relied upon by the parties, *Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc.*, 2 Cir., 1960, 281 F.2d 755, by plaintiff, and *Avon Shoe Co., Inc. v. David Crystal, Inc.*, 2 Cir., 1960, 279 F.2d 607 by defendant, affords much assistance, since in the Ritchie case there was confusion as to the identical product

and the defendant in the Avon case had adopted its mark 'without knowledge of the plaintiffs' prior use,' at page 611. Where the products are different, the prior owner's chance of success is a function of many variables: the strength of his mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers. Even this extensive catalogue does not exhaust the possibilities—the court may have to take still other variables into account. American Law Institute, Restatement of Torts, §§ 729, 730, 731. Here plaintiff's mark is a strong one and the similarity between the two names is great, but the evidence of actual confusion, when analyzed, is not impressive. The filter seems to be the only case where defendant has sold, but not manufactured, a product serving a function similar to any of plaintiff's, and plaintiff's sales of this item have been highly irregular, varying, e.g., from \$2,300 in 1953 to \$303,000 in 1955, and \$48,000 in 1956.

[6] If defendant's sole business were the manufacture and sale of microwave equipment, we should have little difficulty in approving the District Court's conclusion that there was no such likelihood of confusion as to bring into play either the Lanham Act, 15 U.S.C.A. § 1114(1), or New York General Business Law, § 368-b, or to make out a case of unfair competition under New York decisional law, see *Avon Shoe Co. v. David Crystal, Inc.*, supra, at page 614, footnote 11. What gives us some pause is defendant's heavy involvement in a phase of electronics that lies closer to plaintiff's business, namely, television. Defendant makes much of the testimony of plaintiff's executive vice president that plaintiff's normal business is 'the interaction of light and matter.' Yet, although television lies predominantly in the area of electronics, it begins and ends with light waves. The record tells us that certain television uses were among the factors that first stimulated Dr. Land's interest in polarization, see *Marks v. Polaroid Corporation*, supra, 129 F.Supp. at page 246, plaintiff has manufactured and sold at least two products for use in television systems, and defendant's second counterclaim itself asserts likelihood of confusion in the television field. We are thus by no means sure that, under the views with respect to trademark protection announced by this Court in such cases as *Yale Electric Corp. v. Robertson*, 2 Cir., 1928, 26 F.2d 972 (locks vs. flashlights [finding confusion]); *L. E. Waterman Co. v. Gordon*, 2 Cir., 1934, 72 F.2d 272 (mechanical pens and pencils vs. razor blades [finding confusion]); *Triangle Publications, Inc. v. Rohrlisch*, 2 Cir., 1948, 167 F.2d 969, 972 (magazines vs. girdles [finding confusion]); and *Admiral Corp. v. Penco, Inc.*, 2 Cir., 1953, 203 F.2d 517 (radios, electric ranges and refrigerators vs. sewing machines and vacuum cleaners [finding confusion]),

plaintiff would not have been entitled to at least some injunctive relief if it had moved with reasonable promptness. However, we are not required to decide this since we uphold the District Court's conclusion with respect to laches.

[*The court goes on to reject the plaintiff's attempts to overcome the defendant's defense of laches.*]

Questions and Comments

1. “*His Mark is His Authentic Seal.*” In *Yale Elec. Corp. v. Robertson*, 26 F.2d 972 (2d Cir. 1928), which Judge Friendly cites in the final paragraph of *Polaroid*, Judge Hand set forth his oft-quoted description of the plaintiff's interest in preventing the use of its mark on noncompeting goods:

However, it has of recent years been recognized that a merchant may have a sufficient economic interest in the use of his mark outside the field of his own exploitation to justify interposition by a court. His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask. And so it has come to be recognized that, unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful.

Id. at 974. If the defendant's conduct “does not tarnish [the plaintiff's reputation], or divert any sales by its use,” then what exactly is the harm to the plaintiff?

2. Contemporary Applications of the Multifactor Test for the Likelihood of Confusion

Each circuit has developed its own formulation of the multifactor test for the likelihood of consumer confusion. Nevertheless, as the chart entitled “Factors Considered by Circuit” suggests, the circuits' various tests are roughly similar. Notably absent from the Fourth, Fifth, and Eleventh Circuit's tests, however, is any explicit call to consider the sophistication of the relevant consumers.

In *Virgin Enterprises Ltd. v. Nawab*, 335 F.3d 141 (2d Cir. 2003), the Second Circuit applied its *Polaroid* test to determine if consumers would likely mistake the goods and services of the defendant, operating under the mark VIRGIN WIRELESS, for

the those of the plaintiff, the owner of the VIRGIN mark for a wide variety of goods and services. The opinion is exceptional for its thorough analysis of the factors. In reading through *Virgin Enterprises*, consider the following questions:

- Which of the *Polaroid* factors are likely the most important to courts' adjudication of the likelihood of confusion question?
- In practice, is intent likely as unimportant to courts' determinations as the *Virgin Enterprises* opinion suggests?
- Why should strong marks receive a wider scope of protection than weak marks?
- Why should inherent strength be more important to the multifactor inquiry than acquired strength? Relatedly, why should fanciful marks receive a wider scope of protection than arbitrary or suggestive marks?
- Does the court make any mistakes in its discussion of the *Abercrombie* spectrum?

FACTORS CONSIDERED BY CIRCUIT

Factor	Circuit (Number in parentheses indicates the number of the factor in that circuit)													Total circuits considering the factor	Restatement (First) Torts Factors	Restatement (Third) Unfair Competition Factors
	1	2	3	4	5	6	7	8	9	10	11	D.C.	Fed.			
1 Similarity of the marks	(1)	(2)	(1)	(2)	(2)	(3)	(1)	(2)	(1)	(1)	(2)	(2)	(1)	13	§ 729(a)	§ 21(a)
2 Proximity of the goods	(2)	(3)	(9)	(3)	(3)	(2)	(2)	(3)	(3)	(4)**	(3)	(3)	(2)	13	§ 731(a),(e)	--
3 Evidence of actual confusion	(6)	(5)	(6)	(7)	(7)	(4)	(6)	(5)	(7)	(3)	(7)	(5)	(7)	13	--	§ 23(1)
4 Strength of plaintiff's mark	(8)	(1)	(2)	(1)	(1)	(1)	(5)	(1)	(2)	(6)	(1)	(1)	(5)	13	§ 731(f)	§ 21(d)
5 Defendant's intent	(7)	(6)	(5)	(6)	(6)	(7)	(7)	(4)	(6)	(2)	(6)	(6)	--	12	§§ 729(b), 731(i)	§ 22
6 Sophistication of the consumers	(5)	(8)	(3)	--	--	(6)	(4)	(6)	(5)	(5)	--	(8)	(4)	10	§§ 729(d), 731(g)	§ 21(c)
7 Similarity of advertising methods, marketing methods	(4)	--	(7)	(5)	(5)	(5)	(3)*	--	(4)	(4)**	(5)	--	--	9	§§ 729(c), 731(d)	§ 21(b)
8 Similarity of sales facilities	(3)	--	--	(4)	(4)	--	(3)*	--	--	--	(4)	--	(3)	6	--	--
9 Likelihood of bridging the gap	--	(4)	(10)	--	--	(8)	--	--	(8)	--	--	(4)	--	5	§ 731(b)	§ 21(e)
10 Comparative quality of the goods	--	(7)	--	--	--	--	--	--	--	--	--	(7)	--	2	--	--
11 Length of time of concurrent use without evidence of actual confusion	--	--	(4)	--	--	--	--	--	--	--	--	--	(8)	2	§ 731(h)	§ 23(2)
12 Extent to which targets of parties' sales efforts are the same	--	--	(8)	--	--	--	--	--	--	--	--	--	--	1	§ 731(c)	--
13 Third-party uses of plaintiff's mark	--	--	--	--	--	--	--	--	--	--	--	--	(6)	1	--	--
14 Variety of goods on which mark is used	--	--	--	--	--	--	--	--	--	--	--	--	(9)	1	--	--
15 Market interface between applicant and owner of prior mark	--	--	--	--	--	--	--	--	--	--	--	--	(10)	1	--	--
16 Extent of applicant's right to exclude	--	--	--	--	--	--	--	--	--	--	--	--	(11)	1	--	--
17 Extent of potential confusion, i.e., whether de minimis or substantial	--	--	--	--	--	--	--	--	--	--	--	--	(12)	1	--	--
18 Any other established fact probative of effect of use	--	--	--	--	--	--	--	--	--	--	--	--	(13)	1	--	--
19 Strength of plaintiff's mark in defendant's geographically-distinct market	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	21(f)
Total factors considered:														10	10	9

* The Seventh Circuit tends to consider both the similarity of advertising methods and the similarity of sales facilities under factor three. **The Tenth Circuit considers in factor four the "similarity of products and manner of marketing."

* The Seventh Circuit tends to consider both the similarity of advertising methods and the similarity of sales facilities under factor three. **The Tenth Circuit considers in factor four the "similarity of products and manner of marketing."

Virgin Enterprises Ltd. v. Nawab
335 F.3d 141 (2d Cir. 2003)

LEVAL, Circuit Judge.

[1] Plaintiff Virgin Enterprises Limited (“VEL” or “plaintiff”) appeals from the denial of its motion for a preliminary injunction. This suit, brought under § 32 of the Lanham Act, 15 U.S.C. § 1114(1), alleges that defendants infringed plaintiff’s rights in the registered mark VIRGIN by operating retail stores selling wireless telephones and related accessories and services under the trade name VIRGIN WIRELESS. The United States District Court for the Eastern District of New York (Sifton, *J.*) denied plaintiff’s motion for a preliminary injunction, based upon its finding that plaintiff’s registration did not cover the retail sale of wireless telephones and related products, and that plaintiff failed to show a likelihood of consumer confusion.

BACKGROUND

[2] Plaintiff VEL, a corporation with its principal place of business in London, owns U.S. Registration No. 1,851,817 (“the 817 Registration”), filed on May 5, 1991, and registered on August 30, 1994, for the VIRGIN mark as applied to “*retail store services* in the fields of ... computers and *electronic apparatus*” (emphasis added)... Plaintiff also owns U.S. Registration No. 1,852,776 (“the 776 Registration”), filed on May 9, 1991, and registered on September 6, 1994, for a stylized version of the VIRGIN mark for use in connection with “retail store services in the fields of ... computers and electronic apparatus,” and U.S. Registration No. 1,863,353 (“the 353 Registration”), filed on May 19, 1992, and registered on November 15, 1994, for the VIRGIN MEGASTORE mark. It is undisputed that these three registrations have become incontestable pursuant to 15 U.S.C. § 1065.

[3] VEL, either directly or through corporate affiliates, operates various businesses worldwide under the trade name VIRGIN, including an airline, large-scale record stores called Virgin Megastores, and an internet information service. Plaintiff or its affiliates also market a variety of goods branded with the VIRGIN name, including music recordings, computer games, books, and luggage. Three of plaintiff’s megastores are located in the New York area. According to an affidavit submitted to the district court in support of plaintiff’s application for preliminary injunction, Virgin Megastores sell a variety of electronic apparatus, including video game systems, portable CD players, disposable cameras, and DVD players. These stores advertise in a variety of media, including radio.

[4] Defendants Simon Blitz and Daniel Gazal are the sole shareholders of defendants Cel-Net Communications, Inc. ("Cel-Net"); The Cellular Network Communications, Inc., doing business as CNCG ("CNCG"); and SD Telecommunications, Inc. ("SD Telecom"). Blitz and Gazal formed Cel-Net in 1993 to sell retail wireless telephones and services in the New York area. Later, they formed CNCG to sell wireless phones and services on the wholesale level. CNCG now sells wireless phones and services to more than 400 independent wireless retailers. In 1998, Cel-Net received permission from New York State regulators to resell telephone services within the state.

[5] Around 1999, Andrew Kastein, a vice-president of CNCG, began to develop a Cel-Net brand of wireless telecommunications products. In early 1999, Cel-Net entered into negotiations with the Sprint PCS network to provide telecommunications services for resale by Cel-Net. In August 1999, Cel-Net retained the law firm Pennie & Edmonds to determine the availability of possible service marks for Cel-Net. Pennie & Edmonds associate Elizabeth Langston researched for Kastein a list of possible service marks; among the marks Cel-Net asked to have researched was VIRGIN. Defendants claim that Langston told Cel-Net officer Simon Corney that VIRGIN was available for use in the telecommunications field. Plaintiff disputed this, offering an affidavit from Langston that she informed defendants that she would not search the VIRGIN mark because her firm represented plaintiff.

[6] According to defendants, in December 1999, Cel-Net retained Corporate Solutions, LLC and its principals Nathan Erlich and Tahir Nawab as joint venture partners to help raise capital to launch Cel-Net's wireless telephone service. On December 2, 1999, Erlich and Nawab filed four intent-to-use applications with the U.S. Patent and Trademark Office ("PTO") to register the marks VIRGIN WIRELESS, VIRGIN MOBILE, VIRGIN COMMUNICATIONS, and VIRGIN NET in the field of telecommunications services, class 38. On December 24, 1999, Corporate Solutions incorporated defendant Virgin Wireless, Inc. ("VWI") and licensed to VWI the right to use the marks VIRGIN WIRELESS and VIRGIN MOBILE. Meanwhile, one of plaintiff's affiliates had begun to offer wireless telecommunication services bearing the VIRGIN mark in the United Kingdom. A press release dated November 19, 1999, found on plaintiff's website, stated that its Virgin Mobile wireless services were operable in the United States.

[7] On June 23, 2000, defendant Blitz signed a lease under the name Virgin Wireless for a kiosk location in South Shore Mall in Long Island from which to re-sell AT & T wireless services, telephones, and accessories under the retail name Virgin Wireless. Defendants Cel-Net and VWI later expanded their telecommunications re-sale operations to include two retail stores and four additional retail kiosks in malls

in the New York area and in Pennsylvania. All of these stores have been run by VWI under the trade name VIRGIN WIRELESS. VWI also has leases and bank accounts in its name, and has shown evidence of actual retail transactions and newspaper advertisements.

[8] In August 2000, plaintiff licensed Virgin Mobile USA, LLC, to use the VIRGIN mark for wireless telecommunications services in the United States. On August 10, 2000, plaintiff filed an intent-to-use application with the PTO for use of the VIRGIN mark in the United States on telecommunications services and mobile telephones. On October 11, 2001, the PTO suspended this mark's registration in international class 9, which covers wireless telephones, and class 38, which covers telecommunications services, because the VIRGIN mark was already reserved by a prior filing, presumably defendants'. On August 16, 2001, plaintiff filed another intent-to-use application for the mark VIRGIN MOBILE to brand telecommunications services. The PTO issued a non-final action letter for both of plaintiff's pending new registrations on October 31, 2001, which stated that defendant Corporation Solutions' pending applications for similar marks in the same class could give rise to "a likelihood of confusion." The PTO suspended action on plaintiff's application pending the processing of Corporation Solutions' applications.

[9] In October 2001, plaintiff issued a press release announcing that it was offering wireless telecommunications services and mobile telephones in the United States.

[10] Plaintiff became aware of Corporation Solutions' application for registration of the VIRGIN WIRELESS and VIRGIN MOBILE marks by May 2000. In October 2001 and December 2001, defendant VWI filed suits against plaintiff in the federal district courts in Arizona and Delaware, alleging that plaintiff was using VWI's mark. Plaintiff maintains (and the district court found) that it learned in January 2002 that VWI and Cel-Net were operating kiosks under the VIRGIN WIRELESS name and two days later filed the present suit seeking to enjoin defendants from selling mobile phones in VIRGIN-branded retail stores.

[11] On May 2, 2002, the district court considered plaintiff's application for a preliminary injunction. It found that no essential facts were in dispute, and therefore no evidentiary hearing was required. It was uncontested (and the district court accordingly found) that plaintiff sold "electronic apparatus" in its stores, including "various video game systems, portable cassette tape, compact disc, mp3, and mini disc players, portable radios, and disposable cameras," but not including telephones or telephone service, and that the only products the defendants sold in their stores were wireless telephones, telephone accessories, and wireless telephone services....

[12] Arguing against plaintiff's likelihood of success, the court noted that plaintiff's registrations did not claim use of the VIRGIN mark "in telecommunications services or in the associated retail sale of wireless telephones and accessories." While plaintiff's 817 and 776 Registrations covered the retail sale of "computers and electronic apparatus," they did not extend to telecommunications services and wireless phones.

[13] The court noted that the defendants were the first to use the VIRGIN mark in telecommunications, and the first to attempt to register VIRGIN for telecommunications and retail telephone sales....

DISCUSSION

....

II.

[14] A claim of trademark infringement, whether brought under 15 U.S.C. § 1114(1) (for infringement of a registered mark) or 15 U.S.C. § 1125(a) (for infringement of rights in a mark acquired by use), is analyzed under the familiar two-prong test described in *Gruner + Jahr USA Publ'g v. Meredith Corp.*, 991 F.2d 1072 (2d Cir.1993). See *Time, Inc. v. Petersen Publ'g Co. L.L.C.*, 173 F.3d 113, 117 (2d Cir.1999) (noting that *Gruner* test is applicable to claims brought under § 1114(1) and § 1125(a)). The test looks first to whether the plaintiff's mark is entitled to protection, and second to whether defendant's use of the mark is likely to cause consumers confusion as to the origin or sponsorship of the defendant's goods. *Gruner*, 991 F.2d at 1074. Examining the question as the test dictates, we have no doubt that plaintiff was entitled to a preliminary injunction.

[15] We believe the district court accorded plaintiff too narrow a scope of protection for its famous, arbitrary, and distinctive mark. There could be no dispute that plaintiff prevailed as to the first prong of the test—prior use and ownership. For years, plaintiff had used the VIRGIN mark on huge, famous stores selling, in addition to music recordings, a variety of consumer electronic equipment. At the time the defendants began using VIRGIN, plaintiff owned rights in the mark. The focus of inquiry thus turns to the second prong of the test—whether defendants' use of VIRGIN as a mark for stores selling wireless telephone services and phones was likely to cause confusion. There can be little doubt that such confusion was likely.

[16] The landmark case of *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir.1961) (Friendly, J.), outlined a series of nonexclusive factors likely to be pertinent in addressing the issue of likelihood of confusion, which are routinely followed in such cases...

[17] Six of the *Polaroid* factors relate directly to the likelihood of consumer confusion. These are the strength of the plaintiff's mark; the similarity of defendants' mark to plaintiff's; the proximity of the products sold under defendants' mark to those sold under plaintiff's; where the products are different, the likelihood that plaintiff will bridge the gap by selling the products being sold by defendants; the existence of actual confusion among consumers; and the sophistication of consumers. Of these six, all but the last (which was found by the district court to be neutral) strongly favor the plaintiff. The remaining two *Polaroid* factors, defendants' good or bad faith and the quality of defendants' products, are more pertinent to issues other than likelihood of confusion, such as harm to plaintiff's reputation and choice of remedy. We conclude that the *Polaroid* factors powerfully support plaintiff's position.

[18] *Strength of the mark.* The strength of a trademark encompasses two different concepts, both of which relate significantly to likelihood of consumer confusion. The first and most important is inherent strength, also called "inherent distinctiveness." This inquiry distinguishes between, on the one hand, inherently distinctive marks—marks that are arbitrary or fanciful in relation to the products (or services) on which they are used—and, on the other hand, marks that are generic, descriptive or suggestive as to those goods. The former are the strong marks. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir.1976). The second sense of the concept of strength of a mark is "acquired distinctiveness," i.e., fame, or the extent to which prominent use of the mark in commerce has resulted in a high degree of consumer recognition. *See TCPIP Holding Co. v. Haar Communications Inc.*, 244 F.3d 88, 100 (2d Cir.2001) (describing these two concepts of strength).

[19] Considering first *inherent distinctiveness*, the law accords broad, muscular protection to marks that are arbitrary or fanciful in relation to the products on which they are used, and lesser protection, or no protection at all, to marks consisting of words that identify or describe the goods or their attributes. The reasons for the distinction arise from two aspects of market efficiency. The paramount objective of the trademark law is to avoid confusion in the marketplace. The purpose for which the trademark law accords merchants the exclusive right to the use of a name or symbol in their area or commerce is *identification*, so that the merchants can establish goodwill for their goods based on past satisfactory performance, and the consuming public can rely on a mark as a guarantee that the goods or services so marked come from the merchant who has been found to be satisfactory in the past. *See Estee Lauder Inc. v. The Gap, Inc.*, 108 F.3d 1503, 1510 (2d Cir.1997) (quoting *Restatement (Third) of Unfair Competition* § 21 comment i

(1995)); *Power Test Petroleum Distribs., Inc. v. Calcu Gas, Inc.*, 754 F.2d 91, 97 (2d Cir.1985); *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1131 (2d Cir.1979). At the same time, efficiency and the public interest require that every merchant trading in a class of goods be permitted to refer to the goods by their name, and to make claims about their quality. Thus, a merchant who sells pencils under the trademark *Pencil* or *Clear Mark*, for example, and seeks to exclude other sellers of pencils from using those words in their trade, is seeking an advantage the trademark law does not intend to offer. To grant such exclusivity would deprive the consuming public of the useful market information it receives where every seller of pencils is free to call them pencils. *Abercrombie*, 537 F.2d at 9; *CES Publ'g Corp. v. St. Regis Publ'ns, Inc.*, 531 F.2d 11, 13 (2d Cir.1975). The trademark right does not protect the exclusive right to an advertising message—only the exclusive right to an identifier, to protect against confusion in the marketplace. Thus, as a matter of policy, the trademark law accords broader protection to marks that serve exclusively as identifiers and lesser protection where a grant of exclusiveness would tend to diminish the access of others to the full range of discourse relating to their goods. See *TCPIP*, 244 F.3d at 100; *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215 (2d Cir.1999); *Otokoyama Co. Ltd. v. Wine of Japan Import, Inc.*, 175 F.3d 266, 270 (2d Cir.1999).

[20] The second aspect of efficiency that justifies according broader protection to marks that are inherently distinctive relates directly to the likelihood of confusion. If a mark is arbitrary or fanciful, and makes no reference to the nature of the goods it designates, consumers who see the mark on different objects offered in the marketplace will be likely to assume, because of the arbitrariness of the choice of mark, that they all come from the same source. For example, if consumers become familiar with a toothpaste sold under an unusual, arbitrary brand name, such as *ZzaaqQ*, and later see that same inherently distinctive brand name appearing on a different product, they are likely to assume, notwithstanding the product difference, that the second product comes from the same producer as the first. The more unusual, arbitrary, and fanciful a trade name, the more unlikely it is that two independent entities would have chosen it. In contrast, every seller of foods has an interest in calling its product “delicious.” Consumers who see the word *delicious* used on two or more different food products are less likely to draw the inference that they must all come from the same producer. Cf. *Streetwise Maps*, 159 F.3d at 744 (noting that several map producers use “street” in product names; thus plaintiff’s mark using “street” was not particularly distinctive); *W. Publ'g*, 910 F.2d at 61 (noting numerous registrations of marks using word “golden”). In short, the more distinctive the mark, the greater the likelihood that the public, seeing it used a

second time, will assume that the second use comes from the same source as the first. The goal of avoiding consumer confusion thus dictates that the inherently distinctive, arbitrary, or fanciful marks, i.e., strong marks, receive broader protection than weak marks, those that are descriptive or suggestive of the products on which they are used. See *Abercrombie*, 537 F.2d at 9-11; *TCPIP*, 244 F.3d at 100-01.

[21] The second sense of trademark strength, fame, or “acquired distinctiveness,” also bears on consumer confusion. See *TCPIP*, 244 F.3d at 100-01; *Streetwise Maps*, 159 F.3d at 744. If a mark has been long, prominently and notoriously used in commerce, there is a high likelihood that consumers will recognize it from its prior use. Widespread consumer recognition of a mark previously used in commerce increases the likelihood that consumers will assume it identifies the previously familiar user, and therefore increases the likelihood of consumer confusion if the new user is in fact not related to the first. See *Nabisco*, 191 F.3d at 216-17. A mark's fame also gives unscrupulous traders an incentive to seek to create consumer confusion by associating themselves in consumers' minds with a famous mark. The added likelihood of consumer confusion resulting from a second user's use of a famous mark gives reason for according such a famous mark a broader scope of protection, at least when it is also inherently distinctive. See *McGregor*, 599 F.2d at 1132 (noting that secondary meaning may further enlarge the scope of protection accorded to inherently distinctive marks).

[22] Plaintiff's VIRGIN mark undoubtedly scored high on both concepts of strength. In relation to the sale of consumer electronic equipment, the VIRGIN mark is inherently distinctive, in that it is arbitrary and fanciful; the word “virgin” has no intrinsic relationship whatsoever to selling such equipment. Because there is no intrinsic reason for a merchant to use the word “virgin” in the sale of consumer electronic equipment, a consumer seeing VIRGIN used in two different stores selling such equipment will likely assume that the stores are related.

[23] Plaintiff's VIRGIN mark was also famous. The mark had been employed with world-wide recognition as the mark of an airline and as the mark for megastores selling music recordings and consumer electronic equipment. The fame of the mark increased the likelihood that consumers seeing defendants' shops selling telephones under the mark VIRGIN would assume incorrectly that defendants' shops were a part of plaintiff's organization. See *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 873 (2d Cir.1986).

[24] There can be no doubt that plaintiff's VIRGIN mark, as used on consumer electronic equipment, is a strong mark, as the district court found. It is entitled as such to a broad scope of protection, precisely because the use of the mark by others

in connection with stores selling reasonably closely related merchandise would inevitably have a high likelihood of causing consumer confusion.

[25] *Similarity of marks.* When the secondary user's mark is not identical but merely similar to the plaintiff's mark, it is important to assess the degree of similarity between them in assessing the likelihood that consumers will be confused. *See McGregor*, 599 F.2d at 1133. Plaintiff's and defendants' marks were not merely similar; they were identical to the extent that both consisted of the same word, "virgin."

[26] The district court believed this factor did not favor plaintiff because it found some differences in appearance. Defendants' logo used a different typeface and different colors from plaintiff's. While those are indeed differences, they are quite minor in relation to the fact that the name being used as a trademark was the same in each case.

[27] Advertisement and consumer experience of a mark do not necessarily transmit all of the mark's features. Plaintiff, for example, advertised its Virgin Megastores on the radio. A consumer who heard those advertisements and then saw the defendants' installation using the name VIRGIN would have no way of knowing that the two trademarks looked different. *See Sports Auth., Inc. v. Prime Hospitality Corp.*, 89 F.3d 955, 962 (2d Cir.1996). A consumer who had visited one of plaintiff's Virgin Megastores and remembered the name would not necessarily remember the typeface and color of plaintiff's mark. The reputation of a mark also spreads by word of mouth among consumers. One consumer who hears from others about their experience with Virgin stores and then encounters defendants' Virgin store will have no way knowing of the differences in typeface. *See Hills Bros. Coffee, Inc. v. Hills Supermarkets, Inc.*, 428 F.2d 379, 381 (2d Cir.1970) (per curiam).

[28] In view of the fact that defendants used the same name as plaintiff, we conclude the defendants' mark was sufficiently similar to plaintiff's to increase the likelihood of confusion. This factor favored the plaintiff as a matter of law. We conclude that the district court erred in concluding otherwise on the basis of comparatively trivial and often irrelevant differences.

[29] *Proximity of the products and likelihood of bridging the gap.* The next factor is the proximity of the products being sold by plaintiff and defendant under identical (or similar) marks. *See Arrow Fastener*, 59 F.3d at 396. This factor has an obvious bearing on the likelihood of confusion. When the two users of a mark are operating in completely different areas of commerce, consumers are less likely to assume that their similarly branded products come from the same source. In contrast, the closer the secondary user's goods are to those the consumer has seen marketed under the prior user's brand, the more likely that the consumer will mistakenly assume a

common source. See *Cadbury Beverages, Inc. v. Cott Corp.*, 73 F.3d 474, 480-81 (2d Cir.1996).

[30] While plaintiff had not sold telephones or telephone service prior to defendant's registration evincing intent to sell those items, plaintiff had sold quite similar items of consumer electronic equipment. These included computer video game systems, portable cassette-tape players, compact disc players, MP3 players, mini-disc players, and disposable cameras. Like telephones, many of these are small consumer electronic gadgets making use of computerized audio communication. They are sold in the same channels of commerce. Consumers would have a high expectation of finding telephones, portable CD players, and computerized video game systems in the same stores. We think the proximity in commerce of telephones to CD players substantially advanced the risk that consumer confusion would occur when both were sold by different merchants under the same trade name, VIRGIN.

[31] Our classic *Polaroid* test further protects a trademark owner by examining the likelihood that, even if the plaintiff's products were not so close to the defendants' when the defendant began to market them, there was already a likelihood that plaintiff would in the reasonably near future begin selling those products. See *Cadbury Beverages*, 73 F.3d at 482. VEL's claim of proximity was further strengthened in this regard because, as the district court expressly found, "plans had been formulated [for VEL] to enter [the market for telecommunications products and services] shortly in the future." VEL had already begun marketing telephone service in England which would operate in the United States, and, as the district court found, had made plans to sell telephones and wireless telephone service under the VIRGIN name from its retail stores.

[32] The district court, nonetheless, found in favor of the defendants with respect to the proximity of products and services. We would ordinarily give considerable deference to a factual finding on this issue. Here, however, we cannot do so because it appears the district court applied the wrong test. The court did not assess the *proximity* of defendants' VIRGIN-branded retail stores selling telephone products to plaintiff's VIRGIN-branded retail stores selling other consumer electronic products. It simply concluded that, because defendants were selling exclusively telephone products and services, and plaintiff's electronic products did not include telephones or related services, the defendants must prevail as to the proximity factor.

[33] This represents a considerable misunderstanding of the *Polaroid* test. The famous list of factors of likely pertinence in assessing likelihood of confusion in *Polaroid* was specially designed for a case like this one, in which the secondary user is not in direct competition with the prior user, but is selling a somewhat different

product or service. In *Polaroid*, the plaintiff sold optical and camera equipment, while the defendant sold electronic apparatus. The test the court discussed was expressly addressed to the problem “how far a valid trademark shall be protected with respect to goods *other than those to which its owner has applied it.*” 287 F.2d at 495 (emphasis added); *see also Arrow Fastener*, 59 F.3d at 396 (noting that products need not actually compete with each other). The very fact that the test includes the “proximity” between the defendant’s products and the plaintiff’s and the likelihood that the plaintiff will “bridge the gap” makes clear that the trademark owner does not lose, as the district court concluded, merely because it has not previously sold the precise good or service sold by the secondary user.

[34] In our view, had the district court employed the proper test of proximity, it could not have failed to find a high degree of proximity as between plaintiff VEL’s prior sales of consumer electronic audio equipment and defendants’ subsequent sales of telephones and telephone services, which proximity would certainly contribute to likelihood of consumer confusion. And plaintiff was all the more entitled to a finding in its favor in respect of these matters by virtue of the fact, which the district court *did* find, that at the time defendants began using the VIRGIN mark in the retail sale of telephones and telephone services, plaintiff already had plans to bridge the gap by expanding its sales of consumer electronic equipment to include sales of those very goods and services in the near future. Consumer confusion was more than likely; it was virtually inevitable.

[35] *Actual confusion.* It is self-evident that the existence of actual consumer confusion indicates a likelihood of consumer confusion. *Nabisco*, 191 F.3d at 228. We have therefore deemed evidence of actual confusion “particularly relevant” to the inquiry. *Streetwise Maps*, 159 F.3d at 745.

[36] Plaintiff submitted to the district court an affidavit of a former employee of defendant Cel-Net, who worked at a mall kiosk branded as Virgin Wireless, which stated that individuals used to ask him if the kiosk was affiliated with plaintiff’s VIRGIN stores. The district court correctly concluded that this evidence weighed in plaintiff’s favor.

[37] *Sophistication of consumers.* The degree of sophistication of consumers can have an important bearing on likelihood of confusion. Where the purchasers of a product are highly trained professionals, they know the market and are less likely than untrained consumers to be misled or confused by the similarity of different marks. The district court recognized that “[r]etail customers, such as the ones catered to by both the defendants and [plaintiff], are not expected to exercise the same degree of care as professional buyers, who are expected to have greater powers of discrimination.” On the other hand, it observed that purchasers of cellular

telephones and the service plans were likely to give greater care than self-service customers in a supermarket. Noting that neither side had submitted evidence on the sophistication of consumers, the court made no finding favoring either side. We agree that the sophistication factor is neutral in this case.

[38] *Bad faith and the quality of the defendants' services or products.* Two factors remain of the conventional *Polaroid* test: the existence of bad faith on the part of the secondary user and the quality of the secondary user's products or services. *Polaroid*, 287 F.2d at 495. Neither factor is of high relevance to the issue of likelihood of confusion. A finding that a party acted in bad faith can affect the court's choice of remedy or can tip the balance where questions are close. It does not bear directly on whether consumers are likely to be confused. *See TCPIP*, 244 F.3d at 102. The district court noted some evidence of bad faith on the defendants' part, but because the evidence on the issue was scant and equivocal, the court concluded that such a finding "at this stage [would be] speculative." The court therefore found that this factor favored neither party.

[39] The issue of the quality of the secondary user's product goes more to the harm that confusion can cause the plaintiff's mark and reputation than to the likelihood of confusion. *See Arrow Fastener*, 59 F.3d at 398 (noting that first user's reputation may be harmed if secondary user's goods are of poor quality). In any event, the district court found this factor to be "neutral" with respect to likelihood of confusion.

* * * * *

[40] In summary we conclude that of the six *Polaroid* factors that pertain directly to the likelihood of consumer confusion, all but one favor the plaintiff, and that one—sophistication of consumers—is neutral. The plaintiff is strongly favored by the strength of its mark, both inherent and acquired; the similarity of the marks; the proximity of the products and services; the likelihood that plaintiff would bridge the gap; and the existence of actual confusion. None of the factors favors the defendant. The remaining factors were found to be neutral. Although we do not suggest that likelihood of confusion may be properly determined simply by the number of factors in one party's favor, the overall assessment in this case in our view admits only of a finding in plaintiff's favor that defendants' sale of telephones and telephone-related services under the VIRGIN mark was likely to cause substantial consumer confusion.

[41] One issue remains. Defendants argue that plaintiff should be barred by laches from seeking injunctive relief. They contend that because of plaintiff's delay after learning of the defendants' applications to register the VIRGIN marks, they expended considerable sums and developed goodwill in their use of the VIRGIN

marks before plaintiff brought suit. Because the district court ruled in the defendants' favor it made no express finding on the issue of laches. But the district court explicitly found that plaintiff first learned of defendants' use of the name VIRGIN in commerce only two days before plaintiff instituted this suit. Given that finding, plaintiff could not be chargeable with laches.

[42] We conclude that, as a matter of law, plaintiff demonstrated irreparable harm and likelihood of success on the merits and was entitled to a preliminary injunction.

CONCLUSION

REVERSED and REMANDED.

Questions and Comments

1. *The Abercrombie Spectrum*. In its discussion of inherent distinctiveness, the court divides the *Abercrombie* spectrum into inherently and non-inherently distinctive marks: “This inquiry distinguishes between, on the one hand, inherently distinctive marks—marks that are arbitrary or fanciful in relation to the products (or services) on which they are used—and, on the other hand, marks that are generic, descriptive or suggestive as to those goods.” Do you detect an error in this division?

Later in the opinion, the court refers to the Virgin mark as “arbitrary and fanciful.” Should we treat these two *Abercrombie* categories as indistinguishable for purposes of the inherent distinctiveness analysis? Why might we seek to accord a greater scope of protection to fanciful marks than to arbitrary marks?

2. *Are All Factors Equally Important?* In order to prevail in the overall likelihood of confusion multifactor test, must a plaintiff win all of the factors, a majority of them, some of them? Is the outcome of any particular factor necessary or sufficient to trigger a particular overall test outcome?

Empirical work offers some insight into these questions. See Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581 (2006). The author’s evidence suggests that the plaintiff must win the similarity factor in order to win the overall test. Of the 192 preliminary injunction and bench trial opinions studied, 65 opinions found that the marks were not similar, and each of these 65 opinions found in favor of the defendant in the overall likelihood of confusion test. Notwithstanding the *Virgin* court’s assertion that the intent factor is not “of high relevance” and may only “tip the balance where the questions are close,” the study also suggests that the outcome of the intent factor

correlates very strongly with the outcome of the overall test. Sixty-seven of the 192 preliminary injunction and bench trial opinions found that the intent factor favored the plaintiff. Of these 67 opinions, 65 found in favor of the plaintiff in the overall test (and in the two outlying opinions, the court found that the similarity factor favored the defendant). Overall, across the circuits, five core factors appear to drive the outcome of the likelihood of confusion test. In order of importance, these factors are the similarity of the marks, the defendant's intent, the proximity of the goods, evidence of actual confusion, and the strength of the plaintiff's mark. The remaining factors appear, in practice, to be largely irrelevant to the outcome of the test.

3. *Why Should Strong Marks Receive More Protection?* The conventional rationale for according a greater scope of protection to strong marks is that, due to their notoriety, they are more easily called to mind by similar marks. See Jacob Jacoby, *The Psychological Foundations of Trademark Law: Secondary Meaning, Genericism, Fame, Confusion and Dilution*, 91 TRADEMARK REP. 1013, 1038-42 (2001). But shouldn't strong marks actually require less protection? Consider the example of COKE. Having been exposed to the COKE mark countless times throughout their lives, are American consumers more or less likely to detect slight differences between the COKE mark and other similar marks? Some foreign courts have had the temerity to suggest that exceptionally strong marks are less likely to be confused with other marks. See, e.g., *Baywatch Production Co. Inc. v The Home Video Channel*, High Court of Justice, Chancery Division, 31 July 1996 (Crystal J.) (citing *BASF Plc v CEP (UK) Plc* (Knox J.), 16 October 1995)); *Uprise Product Yugen Kaisha v. Commissioner of Japan Patent Office*, Heisei 22 (gyo-ke) 10274 Intellectual Property High Court of Japan (2010).

4. *Sophistication of the Relevant Consumers.* Courts assess the likelihood of confusion by the "reasonably prudent" consumer of the goods or services at issue. Consumers of more expensive or more technically sophisticated goods are understood to exercise greater care in their purchasing decisions, and thus to be comparatively less likely to be confused. See, e.g., *Heartsprings, Inc. v. Heartspring, Inc.*, 143 F.3d 550, 557 (10th Cir. 1998) (finding that consumers would not likely confuse defendant's mark HEARTSPRING for a residential school for physically disabled children with plaintiff's mark HEARTSPRINGS for printed materials teaching children to resolve conflicts non-violently where tuition for defendant's school ranged from \$90,000 to \$150,000 per year).

A recent Canadian case captured this aspect of consumer sophistication doctrine quite memorably. In *Atomic Energy of Canada Limited v. Areva NP Canada Ltd.*, 2009 FC 980 (2009), the plaintiff used a stylized "A" (shown below on the right) as its trademark for services relating to the design and construction of nuclear reactors

while the defendant also used a stylized “A” (shown below on the left) in connection with the sale of nuclear reactor parts and components. The court noted: “All of [the plaintiff’s] experts acknowledged in cross-examination that the relevant consumers would not be confused into purchasing the wrong nuclear reactor.” *Id.* at ¶19. Citing English case law, the court recognized that “[I]t is not sufficient that the only confusion would be to a very small, unobservant section of society; or as Foster J. put it recently, if the only person who would be misled was a ‘moron in a hurry.’” *Id.* at ¶28. Mr. Justice Zinn added: “In this industry, the fact that Homer Simpson may be confused is insufficient to find confusion.” *Id.*



Are relatively poor individuals less sophisticated consumers and thus more easily confused? One S.D.N.Y. judge seemed to think so. See *Schieffelin & Co. v. The Jack Co.*, 1994 WL 144884 at *55 (S.D.N.Y. 1994) (“Even if some of the prospective purchasers of Dom Perignon are from low income groups, and are therefore less sophisticated shoppers than wealthier purchasers,...”). A later court took exception to the *Schieffelin* Court’s assumption. See *Reebok Intern. Ltd. v. K-Mart Corp.*, 849 F.Supp. 252, 268 (S.D.N.Y. 1994) (“[T]he court expressly disagrees with this statement’s implication that there is a direct relationship between income and consumer intelligence. Careless shopping habits are not a necessary by-product of a low income.”).

5. *What About the Interests of Consumers Who Are Not Confused?* In Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60 (2008), Grynberg argues:

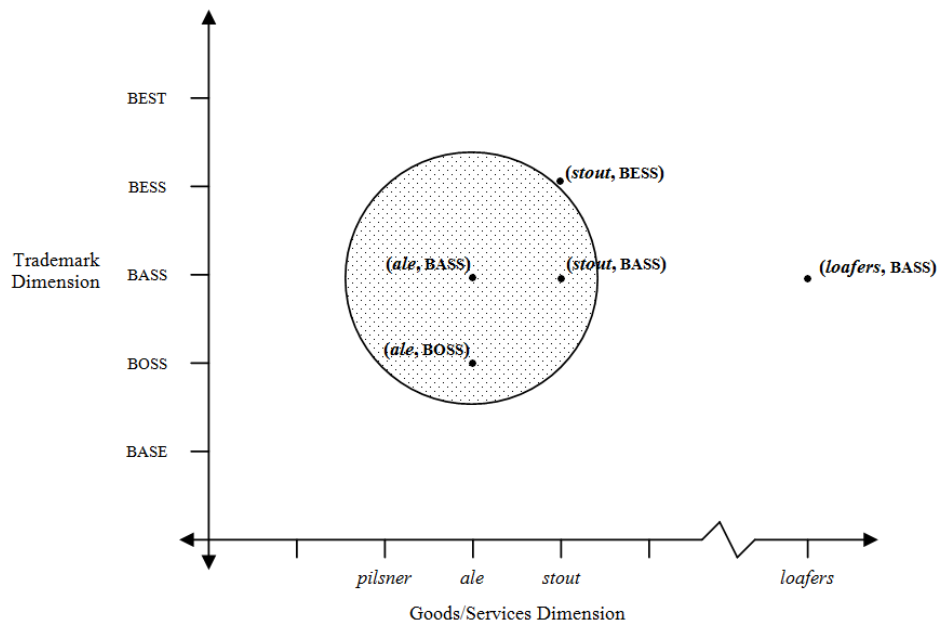
Trademark litigation typically unfolds as a battle between competing sellers who argue over whether the defendant’s conduct is likely to confuse consumers. This is an unfair fight. In the traditional narrative, the plaintiff defends her trademark while simultaneously protecting consumers at risk for confusion. The defendant, relatively speaking, stands alone. The resulting “two-against-one” storyline gives short shrift to the interests of nonconfused consumers who may have a stake in the defendant’s conduct. As a result, courts are too receptive to nontraditional trademark claims where the case for consumer harm is questionable. Better outcomes are available by appreciating trademark

litigation's parallel status as a conflict between consumers. This view treats junior and senior trademark users as proxies for different consumer classes and recognizes that remedying likely confusion among one group of consumers may cause harm to others. Focusing on the interests of benefited and harmed consumers also minimizes the excessive weight given to moral rhetoric in adjudicating trademark cases. Consideration of trademark's consumer-conflict dimension is therefore a useful device for critiquing trademark's expansion and assessing future doctrinal developments.

Id. at 60. Should courts be more solicitous of the interests of sophisticated consumers who are in fact not confused and may benefit from the information provided by the defendant's conduct?

6. *Is It Necessary for Courts Explicitly to Consider Each Factor?* District courts are generally required explicitly to address each of the factors listed in their circuit's multifactor test. If a factor is irrelevant, the court must explain why. Failure to do so can result in remand. See, for example, *Sabinsa Corp. v. Creative Compounds*, 609 F.3d 175 (3d Cir. 2010), which reviewed a district court opinion that addressed only three of the ten *Lapp* factors used by the Third Circuit. The Third Circuit explained: “[W]hile it is true that a district court may find that certain of the *Lapp* factors are inapplicable or unhelpful in a particular case, the court must still explain its choice not to employ those factors. Here, the District Court failed to explain whether it viewed these remaining factors as neutral or irrelevant or how it weighed and balanced the combined factors.” *Id.* at 183. Finding that the facts were “largely undisputed,” *id.*, the Third Circuit declined to remand. Instead, it considered each of the ten *Lapp* factors and reversed.

7. *A Two-Dimensional Model of Trademark Scope.* Trademark lawyers typically speak of trademarks in two dimensions, as in the trademark “FORD for cars” or the trademark “ACE for hardware, but not for bandages.” From this we can derive a simple two-dimensional model of trademark infringement, as in the figure below. See Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621, 654-655 (2004) This model conceives of any given trademark as forming a point in a two-dimensional features space consisting of a trademark dimension and a goods/services dimension. The trademark dimension consists of a collapsed, one-dimensional continuum of all possible marks arranged according to similarities of “sound, sight, and meaning.” The goods/services dimension similarly consists of a one-dimensional continuum of all possible goods and services arranged according to their degree of similarity.



Distance in this features space is a measure of two concepts. First, distance is a measure of difference. The distance between any two points represents the degree of difference between them. Second, and related, distance is a measure of the likelihood of consumer confusion. The closer two points are in features space, the greater the proportion of consumers in the relevant consumer population who will likely confuse them.

As we have seen, in order to prevent consumer confusion as to source, trademark law invests a trademark-product combination with some broader scope of protection extending out from the point the combination forms in this features space. Otherwise, a competitor could come very near to that point, as in (*stout*, BASS) or (*ale*, BOSS) in the above figure and, by confusing some proportion of consumers as to source, unfairly appropriate as to those consumers the goodwill of the BASS ale brand. The closer a junior user's trademark-product combination comes to the trademark-product combination of a senior user, the greater the proportion of consumers who will confuse the junior's with the senior's use. At some proximity to the senior's use, trademark law declares that too high a proportion of consumers are or will be confused, and establishes a border, a property line, inside of which no competitor may come. This border, enveloping any given trademark, describes the scope of that trademark's protection and the extent of the producer's property right.

For exceptionally well-known marks, what might be the shape of the mark's scope in this features space? Would it matter where the mark falls on the *Abercrombie* spectrum? What would be the shape of the scope of protection for

COCA-COLA? Can any other firm reasonably use that mark on any other good or service? What would be the shape of the scope of FORD for automobiles or APPLE for high technology goods and services?

3. Survey Evidence and the Likelihood of Confusion

It is often said that survey evidence is routinely submitted in trademark litigation, particularly on the issue of consumer confusion. In a statement before Congress, the American Bar Association offered a typical expression of this view: “survey evidence is traditionally one of the most classic and most persuasive and most informative forms of trial evidence that trademark lawyers utilize in both prosecuting and defending against trademark claims of various sorts.” *Committee Print to Amend the Federal Trademark Dilution Act: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the Comm. on the Judiciary*, 108th Cong. 14 (2004) (statement of Robert W. Sacoff, Chair, Section of Intellectual Property Law, American Bar Association). In fact, empirical work suggests that survey evidence plays a surprisingly small role in deciding most trademark cases. See Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581, 1641-42 (2006). The author studied all federal court opinions applying a likelihood of confusion multifactor test over a five-year period from 2000 to 2004 and found that only 65 (20%) of the 331 opinions addressed survey evidence, 34 (10%) credited the survey evidence, and 24 (7%) ultimately ruled in favor of the outcome that the credited survey evidence itself favored. Eleven (24%) of the 46 bench trial opinions addressed survey evidence (with eight crediting it), while 24 (16%) of the 146 preliminary injunction opinions addressed survey evidence (with 12 crediting it). *Id.* See also Robert C. Bird & Joel H. Steckel, *The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts*, 14 PENN. J. BUS. L. 1013 (2012) (finding that survey evidence is infrequently used in trademark litigation and suggesting that “the mere submission of a survey by a defendant appears to help its case, while a plaintiff-submitted survey can potentially hurt its case if the court deems it flawed”). But see Dan Sarel & Howard Marmorstein, *The Effect of Consumer Surveys and Actual Confusion Evidence in Trademark Litigation: An Empirical Assessment*, 99 TRADEMARK REP. 1416 (2009) (finding survey evidence presented in one-third of the opinions studied and that survey evidence had a substantial impact in cases involving dissimilar goods). Cf. Shari Seidman Diamond & David Franklyn, *Trademark Surveys: An Undulating Path*, 92 TEXAS L. REV. __ (forthcoming 2014) (concluding based on a

survey of trademark practitioners that surveys can perform a significant role in settlement negotiations).

Nevertheless, in the small subset of trademark cases involving high-stakes litigation or one or more well-funded parties, survey evidence is customary, so much so that courts will sometimes draw an “adverse inference” against a party for failing to present it. *See, e.g., Eagle Snacks, Inc. v. Nabisco Brands, Inc.*, 625 F. Supp. 571, 583 (D.N.J. 1985) (“Failure of a trademark owner to run a survey to support its claims of brand significance and/or likelihood of confusion, where it has the financial means of doing so, may give rise to the inference that the contents of the survey would be unfavorable, and may result in the court denying relief.”); *but see, e.g., Tools USA and Equipment Co. v. Champ Frame Straightening Equipment Inc.*, 87 F.3d 654, 661 (4th Cir. 1996) (“Actual confusion can be demonstrated by survey evidence, but contrary to [defendant’s] suggestion, survey evidence is not necessarily the best evidence of actual confusion and surveys are not required to prove likelihood of confusion.”).

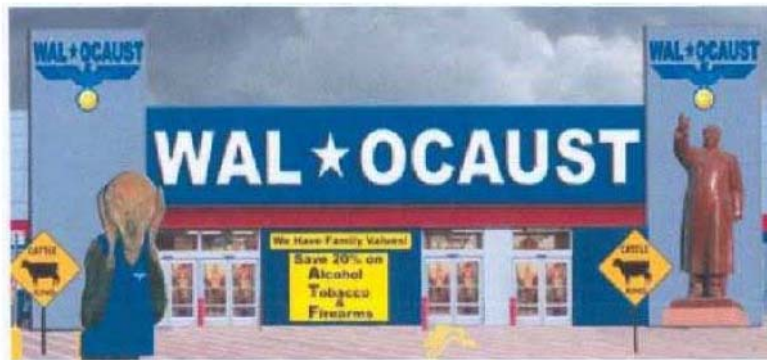
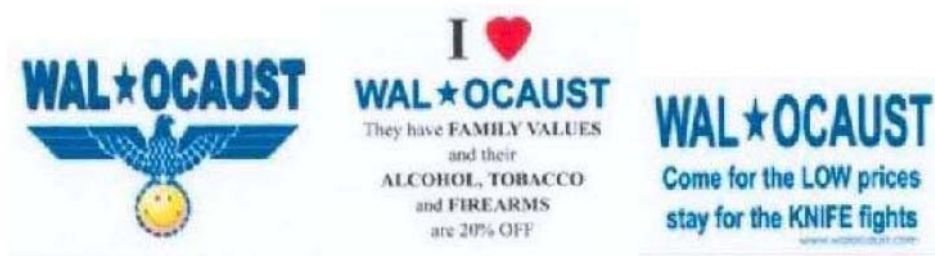
When litigants do present survey evidence, courts’ analysis of this evidence can be painstaking, especially when the litigants present dueling survey experts. In the following opinion, *Smith v. Wal-Mart Stores, Inc.*, 537 F.Supp.2d 1302 (N.D.Ga. 2008), the declaratory plaintiff Charles Smith sought to criticize Wal-Mart’s effect on American communities and workers by likening the retailer to the Nazi regime and, after Wal-Mart sent Smith two cease and desist letters, to Al Qaeda. In particular, Smith created and sold online through CafePress.com t-shirts and other merchandise incorporating the term “Walocaust” and various Nazi insignia (shown below) or the term “Wal-Qaeda” and various slogans and images (shown below). Wal-Mart produced survey evidence to support the proposition that American consumers would believe that Wal-Mart was selling the t-shirts or had otherwise authorized their sale, or that in any case, Smith’s conduct tarnished Wal-Mart’s trademark. Excerpted below is Judge Timothy Batten, Sr.’s extraordinarily fine analysis of the surveys before him, which he conducted under the “actual confusion” factor of the multifactor test for the likelihood of consumer confusion. The analysis is lengthy and very detailed, but it is one with which a serious student of trademark litigation should be familiar.

A few additional preliminary comments. First, the surveys at issue are modified forms of the “*Eveready* format” for likelihood of confusion surveys, based on the case *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d 366 (7th Cir. 1976), in which the Seventh Circuit credited two surveys as strong evidence of the likelihood of confusion. (Notwithstanding the spelling of “Ever-Ready” in the caption of the case, most commentators, including McCarthy, refer to the survey format as the “*Eveready*

format.”) The surveys presented their respondents with the defendant’s products and asked, in essence, “Who do you think puts out [the defendant’s product]?”; “What makes you think so?”; “Please name any other products put out by the same concern which puts out the [defendant’s product] shown here.” *Id.* at 386. Second, the excerpt below addresses, in addition to the likelihood of confusion issue, a cause of action for dilution by tarnishment of Wal-Mart’s mark. We will address dilution more fully in Part II.C.

In reading through the excerpt, consider the following question:

- Do you find the *Eveready* format persuasive? How else might you design a likelihood of confusion survey?
- The “third set of questions” in the surveys, “aimed at testing for confusion as to authorization or sponsorship, asked whether the company that ‘put out’ the shirt needed permission from another company to do so, and if so, which company.” Is this an appropriate survey question to ask consumers?



Appendix B: Challenged Wal-Qaeda Images



Smith v. Wal-Mart Stores, Inc.
537 F.Supp.2d 1302 (N.D.Ga. 2008)

Timothy C. Batten, Sr., District Judge:

...

Part II

II. Analysis

C. Trademark Infringement, Unfair Competition, Cybersquatting and Deceptive Trade Practices Claims

1. Actual Confusion

[1] Proof of actual confusion is considered the best evidence of likelihood of confusion. *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45–46 (5th Cir.1975). A claimant may present anecdotal evidence of marketplace confusion, and surveys, when appropriately and accurately conducted and reported, are also widely and routinely accepted as probative of actual confusion. See, e.g., *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1544 (11th Cir.1986) (considering the proffered survey but giving it little weight); *SunAmerica Corp. v. Sun Life Assurance Co. of Canada*, 890 F.Supp. 1559, 1576 (N.D.Ga.1994) (viewing the proffered survey as confirmation of consistent anecdotal evidence).

[2] Wal-Mart concedes that it has no marketplace evidence of actual consumer confusion. Instead, it presents two consumer research studies conducted by Dr. Jacob Jacoby that purport to prove that consumer confusion and damage to Wal-Mart's reputation are likely.

a. The Jacoby Report

[3] Jacoby developed two surveys for Wal-Mart that both purported to measure consumer confusion and dilution by tarnishment. Specifically, the stated objectives of the research were (1) "To determine whether (and if so, to what extent), when confronted with merchandise bearing Mr. Smith's designs either in person or via the Internet, prospective consumers would be confused into believing that these items either came from Wal-Mart, came from a firm affiliated with Wal-Mart, or had been authorized by Wal-Mart," and (2) "To determine whether (and if so, to what extent) exposure to Mr. Smith's designs would generate dilution via tarnishment."

[4] Deeming it impractical to test all of Smith's designs, Jacoby chose instead to test two products as representative of all of Smith's allegedly infringing products—the white t-shirt with the word "WAL*OCAUST" in blue font over the Nazi eagle clutching a yellow smiley face, and another white t-shirt that depicted the word "WAL-QAEDA" in a blue font as part of the phrase "SUPPORT OUR TROOPS. BOYCOTT WAL-QAEDA."

[5] He also tested consumer reactions to "control" designs, which he compared to consumer responses to the Walocaust and Wal-Qaeda designs. To develop the control for the Walocaust design, Jacoby replaced the star with a hyphen and

removed the smiley face from the yellow circle, and for both the Walocaust and Wal-Qaeda controls, he substituted “Z” for “W.” These substitutions resulted in control concepts entitled “Zal-ocaust” and “Zal-Qaeda.”

[6] Jacoby engaged a market research firm to test each of the t-shirt designs in (1) a “product” study intended to test for post-purchase confusion and tarnishment, and (2) a “website” study intended to test for point-of-sale confusion and tarnishment.¹

[7] The market research company conducted the studies in a mall-intercept format. The company’s researchers would approach people who appeared to be thirteen years old or older and ask a series of screening questions.² To qualify for either survey, the respondent was required to be at least thirteen years old³ and must have in the past year bought, or would in the coming year consider buying, bumper stickers, t-shirts or coffee mugs with words, symbols or designs on them. To qualify for the “website” study, the respondent must also have (1) used the Internet in the past month to search for information about products or services and (2) either (a) in the past year used the Internet to buy or to search for information about bumper stickers, t-shirts or coffee mugs with words, symbols or designs on them, or (b) in the coming year would consider buying over the Internet bumper stickers, t-shirts or coffee mugs with words, symbols or designs on them.⁴ If the

¹ This resulted in eight test cells:

	Test cells		Control cells	
Post-purchase confusion/tarnishment	Wal★ocaust t-shirt	Wal-Qaeda t-shirt	Zal-ocaust t-shirt	Zal-Qaeda t-shirt
Point-of-sale confusion/tarnishment	Wal★ocaust website	Wal-Qaeda website	Zal-ocaust website	Zal-Qaeda website

² The research company conducted the surveys in malls in Trumbull, Connecticut; Philadelphia, Pennsylvania; Youngstown, Ohio; Chicago Ridge, Illinois; Louisville, Kentucky; San Antonio, Texas; Colorado Springs, Colorado; and Northridge, California. The website survey was also conducted in Portland, Oregon.

³ Because CafePress allowed only consumers over the age of thirteen to purchase from its site, Jacoby similarly limited his universe of respondents.

⁴ Respondents who worked at an advertising agency, a market research firm or a business located in the mall (or had an immediate family member who did) were excluded, as were people who normally wore eyeglasses or contact lenses but were not wearing them at the time of the screening.

respondent met the qualifications, he or she was asked to go with the researcher to the mall's enclosed interviewing facility for a five-minute interview.⁵

[8] For the "product" study, the interviewers presented to each respondent one of the four t-shirts described above and asked the respondent to imagine seeing someone wearing the shirt. The interviewer then asked a series of questions.

[9] The first three sets of questions were designed to test for consumer confusion. The interviewers were directed to ask each of the "likelihood of confusion" questions sequentially unless the respondent answered "Sears," "Wal-Mart," "Youngblood's" or "K-Mart," in which case the interviewer was to record the answer, skip the remaining confusion questions, and go directly to the tarnishment questions.

[10] In the consumer confusion series, the first set of questions tested for confusion as to source. The interviewer would ask "which company or store" the respondent thought "put out" the shirt, and if the respondent named a company or store, the interviewer then asked what about the shirt made the respondent think the shirt was "put out" by that company or store. The second set of questions, which dealt with confusion as to connection or relationship, asked the respondent whether the company or store that "put out" the shirt had some "business connection or relationship with another company" and if so, with what company. The respondent was then asked why he or she believed the companies had a business connection or relationship. A third set of questions, aimed at testing for confusion as to authorization or sponsorship, asked whether the company that "put out" the shirt needed permission from another company to do so, and if so, which company.

[11] Finally, if the respondent had not yet answered "Sears," "Wal-Mart," "Youngblood's" or "K-Mart" to any of the first three sets of questions, he or she was then asked what the shirt made him or her "think of" and then "which company or store" the shirt brought to mind.

[12] The fifth set of questions, which tested for dilution by tarnishment, were asked in reference to any company or store the respondent mentioned in his or her answers to the first four sets of questions. The first question asked whether seeing the shirt made the respondent more or less likely to shop at the store he or she had named, and the second question asked whether the perceived association with the store made the respondent more or less likely to buy the shirt.

⁵ The screening questionnaire provided to the Court indicates that the respondents who then participated in the surveys were given a monetary reward. Neither Jacoby's report nor any of the supporting survey documents disclosed the amount of the reward.

[13] The interviews for the website study were much like those for the product study, except that instead of being shown the actual shirts, the respondents were exposed to a simulation of Smith's Walocaust CafePress homepage, his Wal-Qaeda CafePress homepage or the associated control homepage.⁶ In each of the simulations, all of the hyperlinks were removed from the homepages except for the one hyperlink associated with the t-shirt that Jacoby had decided to test.

[14] Jacoby directed the interviewers to begin each website interview by providing a URL to the respondent and asking the respondent to imagine that the URL was a search term the respondent had heard or seen somewhere and wanted to look up on the Internet. The interviewer would then have the respondent sit at a computer and type the URL into the browser. The URL would take the respondent to the simulated home page for testing.

[15] The interviewer would then direct the respondent to look at the screen and scroll down the page "as [he or she] normally would" and click through to the first t-shirt on the screen. The respondent was then directed to click on the "view larger" box and look at the shirt as though he or she "found it interesting and [was] considering whether or not to order it..." The interviewer would then ask the respondent exactly the same series of questions posed in the product study, including the same skip pattern to be applied in the event that the respondent mentioned Sears, Wal-Mart, Youngblood's or K-Mart in response to any of the consumer confusion questions.

[16] In order to be tallied as "confused," the respondent had to meet two tests. First, the respondent had to indicate either that the shirt came from Wal-Mart (first confusion series), came from a company that had some business connection or relationship with Wal-Mart (second confusion series), or came from a source that required or obtained permission from Wal-Mart (third confusion series). Second, the respondent had to indicate that his or her reason for that understanding was either because of the prefix "Wal," the name (or equivalent), the smiley face, or the star after the prefix "Wal." Thus, a respondent who believed that there was a connection between Wal-Mart and the t-shirt that he or she was shown but who did not mention the prefix "Wal," the name (or equivalent), the smiley face, or the star, would not be counted as "confused."

[17] Any respondent who perceived an association between Wal-Mart and the t-shirt that he or she was shown and reported that the perceived association either

⁶ The simulations were reproduced on a compact disc; the respondents did not view Smith's actual web pages on the Internet.

made the respondent less likely to shop at Wal-Mart or more likely to buy that t-shirt was deemed to satisfy the requirement for dilution.

[18] The field interviewers returned 322 completed interviews for the product study and 335 for the website study. Three responses were eliminated from the sample after the research company conducted a review to ensure that each respondent was qualified to participate in the study and that the questionnaires had been completed properly. The research company then sent the name and phone number of each of the interview respondents to an independent telephone interviewing service for validation, which consisted of calling each mall-intercept respondent to ensure that the respondent had actually participated in the study and that his or her answers were accurately recorded.

[19] In the product study, 181 respondents (fifty-six percent of the usable sample) were positively validated, and sixteen respondents (about five percent) reported either different answers to the survey questions or claimed not to have participated in the study. The remainder either could not be reached during the twenty days Jacoby allocated for the validation or refused to respond to the validation survey.

[20] Jacoby reported the results of those respondents who were positively validated plus the results from the respondents who could not be reached or would not respond to the validation survey, and he eliminated the results of the respondents who provided non-affirming answers during the validation process. This resulted in 305 reported responses to the product study: seventy-three for the Wal*ocaust concept, seventy-six for the Wal-Qaeda concept, seventy-nine for the Zal-ocaust concept, and seventy-seven for the Zal-Qaeda concept.

[21] In the website study, 169 respondents (fifty-one percent of the usable sample) were positively validated, and forty-six respondents (about fourteen percent) reported either different answers to the survey questions or claimed not to have participated in the study. The remainder either could not be reached during the twenty days Jacoby allocated for the validation or refused to respond to the validation survey.

[22] As he did in the product study, Jacoby reported the results of those respondents who were positively validated plus the results from the respondents who could not be reached or would not respond to the validation survey, and he eliminated the results of the respondents who provided non-affirming answers during the validation process. This resulted in 287 reported responses to the product study: seventy for the Wal*ocaust concept, seventy-eight for the Wal-Qaeda concept, sixty-nine for the Zal-ocaust concept, and seventy for the Zal-Qaeda concept.

[23] Jacoby reported that the survey reflected high levels of consumer confusion and dilution by tarnishment. He claimed that the post-purchase confusion “product study” indicated a likelihood of confusion in nearly forty-eight percent of the respondents and that the point-of-sale confusion “website” study indicated a likelihood of confusion in almost forty-one percent of the respondents.⁷ Jacoby also claimed that the “dilution” study indicated that almost twelve percent of the respondents were less likely to shop at Wal-Mart after seeing Smith’s designs.

b. Evidentiary Objections

[24] Smith moves to exclude Wal-Mart’s expert report. He claims that Jacoby did not have the requisite Internet expertise to conduct the web-based “point-of-sale” portion of this particular study and that several aspects of Jacoby’s methodology affecting both portions of the study were faulty; thus, he contends, Jacoby’s study is “too deeply flawed to be considered....”

[25] Wal-Mart argues that the Jacoby test was performed by a competent expert according to industry standards and therefore is valid. Wal-Mart further contends that the expert witnesses Smith presents in rebuttal are not experts in the area of consumer-goods “likelihood of confusion” trademark studies, and therefore *their* testimony is irrelevant and should be excluded.

[26] Whether a given survey constitutes acceptable evidence depends on the survey’s ability to satisfy the demands of Federal Rule of Evidence 703, which requires consideration of the “validity of the techniques employed.” 233–34 FED. JUD. CTR., REFERENCE MANUAL ON SCI. EVIDENCE (2d ed.2002) (explaining that in the context of surveys for litigation purposes, “[t]he inquiry under Rule 703[, which] focuses on whether facts or data are ‘of a type reasonably relied upon by experts in the particular field in forming opinions or inferences upon the subject’ ... becomes, ‘Was the ... survey conducted in accordance with generally accepted survey principles, and were the results used in a statistically correct way?’ ”). See also *BFI Waste Sys. of N. Am. v. Dekalb County*, 303 F.Supp.2d 1335,1346 (N.D.Ga.2004) (noting that the opposing party could have challenged an expert witness’s reference to a recent survey by questioning whether the survey methodology satisfied Rule 703).

[27] The Eleventh Circuit has held that alleged technical deficiencies in a survey presented in a Lanham Act action affect the weight to be accorded to the survey and not its admissibility. *Jellibeans, Inc. v. Skating Clubs of Ga., Inc.*, 716 F.2d 833, 844

⁷ Jacoby arrived at these numbers by averaging the net survey results for the Walocaust and Wal-Qaeda t-shirts.

(11th Cir.1983). Other courts have held that a significantly flawed survey may be excludable as evidence under either Rule 403 (the rule barring evidence that is more prejudicial than probative) or Rule 702 (the rule barring unreliable expert testimony). *Citizens Fin. Group, Inc. v. Citizens Nat'l Bank*, 383 F.3d 110, 188–21 (3d Cir.2004) (finding that the district court properly excluded survey evidence under Rules 702 and 403 where the survey contained flaws that were not merely technical, but were so damaging to the reliability of the results as to be “fatal”: the survey relied on an improper universe and its questions were imprecise); *Malletier v. Dooney & Bourke, Inc.*, 525 F.Supp.2d 558, 562–63 (S.D.N.Y.2007). Even when a party presents an admissible survey purporting to show consumer confusion, however, the survey “does not itself create a triable issue of fact.” *Mattel, Inc. v. MCA Records, Inc.*, 28 F.Supp.2d 1120, 1133 (C.D.Cal.1998) (citing *Universal City Studios, Inc. v. Nintendo Co.*, 746 F.2d 112, 118 (2d Cir.1984), which found a survey “so badly flawed that it cannot be used to demonstrate the existence of a question of fact of the likelihood of consumer confusion”). *Accord Leelanau Wine Cellars, Ltd. v. Black & Red, Inc.*, 502 F.3d 504, 518 (6th Cir.2007); *Scott Fetzer Co. v. House of Vacuums, Inc.*, 381 F.3d 477, 488 (5th Cir.2004) (holding that a court may disregard survey evidence if the survey contains such serious flaws that any reliance on its results would be unreasonable).

[28] To ground a survey as trustworthy, its proponent must establish foundation evidence showing that

- (1) the ‘universe’ was properly defined, (2) a representative sample of that universe was selected, (3) the questions to be asked of interviewees were framed in a clear, precise and non-leading manner, (4) sound interview procedures were followed by competent interviewers who had no knowledge of the litigation or the purpose for which the survey was conducted, (5) the data gathered was accurately reported, (6) the data was analyzed in accordance with accepted statistical principles and (7) objectivity of the entire process was assured.

Toys R Us, Inc. v. Canarsie Kiddie Shop, 559 F.Supp. 1189, 1205 (D.C.N.Y.1983) (citing MANUAL FOR COMPLEX LITIG., 116 (5th ed.1981), 4 LOUISELL & MUELLER, FED. EVIDENCE § 472 (1979), and J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 32:53 (1973)); *accord Rush Indus., Inc. v. Garnier LLC*, 496 F.Supp.2d 220, 227 (E.D.N.Y.2007). Failure to satisfy any of the listed criteria may seriously compromise the survey’s impact on a court’s likelihood of confusion evaluation. *Id.*

[29] Smith cites several grounds for excluding the Jacoby survey. He argues that the survey is inadmissible because it (1) failed to identify the relevant consumer universe or used a consumer universe that was substantially overbroad; (2) failed to replicate shopping conditions as consumers would encounter them in the marketplace; (3) was improperly leading; (4) violated the survey structure protocol necessary to comply with double-blind standards; and (5) failed to establish a relevant factual basis for Wal-Mart's dilution by tarnishment claims. Smith further argues that even if the Court admits the survey, its consideration should be limited to only the two tested designs, despite Jacoby's claim that they are representative of all the designs Wal-Mart seeks to enjoin.

[30] As an initial matter, the Court observes that Smith does not take issue with Jacoby's qualifications to design and conduct a consumer confusion survey and to analyze its results. It is undisputed that Jacoby is a nationally renowned trademark survey expert who has testified hundreds of times. Smith contends, however, that Jacoby was unqualified to conduct this particular survey because he "lacks knowledge, experience, [and] sophistication" with regard to products marketed exclusively over the Internet and that as a result Jacoby's survey protocol contained significant flaws.

[31] Based upon its own review of Jacoby's education and experience, the Court concludes that Jacoby is qualified to design and conduct a consumer survey and to testify about its results. To the extent that Jacoby's purported lack of experience with surveys concerning goods sold exclusively online may have led him to test the wrong universe or to fail to replicate the shopping experience, as Smith has alleged, these factors will be examined when the Court evaluates the trustworthiness of the survey.

i. Web-Related Challenges

[32] In undertaking to demonstrate likelihood of confusion in a trademark infringement case by use of survey evidence, the "appropriate universe should include a fair sampling of those purchasers most likely to partake of the alleged infringer's goods or services." *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 264 (5th Cir.1980). Selection of the proper universe is one of the most important factors in assessing the validity of a survey and the weight that it should receive because "the persons interviewed must adequately represent the opinions which are relevant to the litigation." *Id.* "Selection of a proper universe is so critical that 'even if the proper questions are asked in a proper manner, if the wrong persons are asked, the results are likely to be irrelevant.'" *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F.Supp.2d 734, 767 (E.D.Mich.2003) (quoting 5 MCCARTHY, § 32:159). "A

survey must use respondents from the appropriate universe because ‘there may be systemic differences in the responses given ... by persons [with a particular] characteristic or preference and the responses given to those same questions ... by persons who do not have that ... characteristic or preference.’ ” *Id.* (quoting FED. EVIDENCE PRACTICE GUIDE (Matthew Bender 2003) § [4][6][i]).

[33] Similarly, “[a] survey that fails to adequately replicate market conditions is entitled to little weight, if any.” *Leelanau Wine Cellars, Ltd. v. Black & Red, Inc.*, 452 F.Supp.2d 772, 783 (W.D.Mich.2006), *aff’d*, 502 F.3d 504 (6th Cir.2007) (quoting *Wells Fargo & Co.*, 293 F.Supp.2d at 766). Although “[n]o survey model is suitable for every case ... a survey to test likelihood of confusion must attempt to replicate the thought processes of consumers encountering the disputed mark or marks as they would in the marketplace.” *Simon Prop. Group L.P. v. mySimon, Inc.*, 104 F.Supp.2d 1033, 1038 (S.D.Ind.2000) (citing MCCARTHY ON TRADEMARKS § 32:163 (4th ed.1999) for the principle that “the closer the survey methods mirror the situation in which the ordinary person would encounter the trademark, the greater the evidentiary weight of the survey results”).

[34] Smith hired Dr. Alan Jay Rosenblatt as a rebuttal witness to point out Internet-related deficiencies in Jacoby’s survey methodology—particularly deficiencies in universe selection and replication of marketplace conditions—that he claims resulted from Jacoby’s erroneous assumptions about how people reach and interact with websites. Smith uses Rosenblatt’s expertise on Internet user experience and navigation to support his *Daubert* argument that because Jacoby surveyed an improperly broad universe and his survey design did not approximate the actual consumer marketplace experience, the Jacoby studies are legally insufficient to prove consumer confusion or trademark dilution. Thus, Smith argues, the studies should be afforded little, if any, evidentiary value.

[35] Coming from an academic background in political science and survey methodology—subjects he taught at the university level for ten years—Rosenblatt is a professional in the area of Internet advocacy (the use of online tools to promote a cause). His experience includes helping organizations bring people to their websites, induce the visitors to read the portion of the website that contains the call to action, and encourage the visitors to take the suggested action. He also helps the organizations track visitor behavior in order to increase website effectiveness.

[36] It is true that Rosenblatt has no experience evaluating the merits of trademark infringement or dilution claims and that only one of the surveys he has designed involved a consumer product. The Court finds, however, that his extensive experience studying Internet user behavior and designing social science surveys qualifies him to provide testimony about (1) how Internet users interact with

websites and how they search for content online, (2) whether Jacoby's survey methodology comported with those tendencies, and (3) how Jacoby's assumptions about Internet user behavior impacted the accuracy of the surveyed universe and the survey's replication of the online shopping experience. The Court finds Rosenblatt's testimony evaluating Jacoby's survey protocol to be both relevant and, because it is based on Rosenblatt's undisputed area of expertise, reliable.⁸ Therefore, to the extent that Rosenblatt's testimony focuses on those issues, Wal-Mart's motion to exclude it is DENIED.

(a) Survey Universe

[37] ... Wal-Mart maintains that Jacoby's universe selection was proper. Smith counters that it was overly broad.

[38] Although the universe Jacoby selected would include purchasers of Smith's Walocaust or Wal-Qaeda merchandise, the Court finds that it is significantly overbroad. Because Smith's merchandise was available only through his CafePress webstores and the links to his CafePress webstores from his Walocaust and Wal-Qaeda websites, it is likely that only a small percentage of the consumers in the universe selected by Jacoby would be potential purchasers of Smith's products. A survey respondent who purchases bumper stickers, t-shirts or coffee mugs with words, symbols or designs on them may buy such merchandise because the imprint represents his or her school, company, favorite sports team, cartoon character, social group, or any of hundreds of other interests or affiliations; he or she may have no interest at all in purchasing merchandise containing messages about Wal-Mart, pro or con. The respondent may buy from brick-and-mortar stores or well-known retailers with Internet storefronts without being aware of Smith's website or CafePress, or may have little interest in buying such merchandise over the Internet at all. Therefore, a respondent who clearly falls within Jacoby's survey universe may nevertheless have no potential to purchase Smith's imprinted products. *See Leelanau Wine Cellars*, 452 F.Supp.2d at 782.

⁸ Wal-Mart presents no authority supporting its argument that Rosenblatt was required to conduct his own study of Smith's websites, and the Court sees no reason why a specific study of Smith's websites would be necessary to make relevant or reliable Rosenblatt's testimony criticizing Jacoby's assumptions about how consumers generally navigate the Internet. *See Hill's Pet Nutrition, Inc. v. Nutro Prods., Inc.*, 258 F.Supp.2d 1197, 1210 (D.Kan.2003) (rejecting a survey criticized by Jacoby even though Jacoby had not performed his own survey).

[39] Other courts have similarly criticized surveys—including surveys Jacoby conducted in other trademark infringement cases—that failed to properly screen the universe to ensure that it was limited to respondents who were potential purchasers of the alleged infringer’s product.

[40] For example, in *Weight Watchers Int’l, Inc. v. Stouffer Corp.*, 744 F.Supp. 1259 (S.D.N.Y.1990), Weight Watchers sued Stouffer for trademark infringement after Stouffer launched an advertising campaign that suggested that new exchange listings on Stouffer’s Lean Cuisine packages would allow adherents to the Weight Watchers program to use Lean Cuisine entrees in their diets. *Id.* at 1262. Stouffer’s likelihood of confusion survey, also conducted by Jacoby, identified the universe as “women between the ages of 18 and 55 who have purchased frozen food entrees in the past six months and who have tried to lose weight through diet and/or exercise in the past year.” *Id.* at 1272. The court found that the universe was overbroad because the screener had not limited it to dieters, but also had included respondents who may have tried to lose weight by exercise only. The court concluded that as a result the survey likely included respondents who were not potential consumers, and because “[r]espondents who are not potential consumers may well be less likely to be aware of and to make relevant distinctions when reading ads than those who are potential consumers,” that portion of the survey universe may have failed to make “crucial” distinctions in the likelihood of confusion testing. *Id.* at 1273.

[41] Similarly, in *Leelanau Wine Cellars*, 452 F.Supp.2d 772, the court found that the universe in a survey designed to show a likelihood of confusion between a wine producer’s wines and a competitor’s wines was overbroad. The junior mark user’s product, like Smith’s, was distributed through limited channels; the challenged wines were sold only through the junior user’s tasting room and website, while the senior mark holder sold its wines through mass retail channels. The survey expert defined the universe as Michigan consumers over twenty-one years of age who had either purchased a bottle of wine in the five-to-fourteen dollar price range in the last three months or who expected to purchase a bottle of wine in that price range in the next three months. The court held that a purchaser of a wine in that price range would, in general, be a potential consumer of the competitor’s wine only if the purchaser planned to buy from some winery’s tasting room or website and that the survey universe therefore was overbroad and entitled to little weight.

(b) Shopping Experience

[42] To be valid for the purposes of demonstrating actual confusion in a trademark infringement suit, it is necessary for a survey’s protocol to take into account marketplace conditions and typical consumer behavior so that the survey

may as accurately as possible measure the relevant “thought processes of consumers encountering the disputed mark ... as they would in the marketplace.” *Simon Prop. Group*, 104 F.Supp.2d at 1038; accord *WE Media, Inc. v. Gen. Elec. Co.*, 218 F.Supp.2d 463, 474 (S.D.N.Y.2002).

[43] Smith contends that Jacoby’s point-of-purchase study, which purported to measure consumer confusion over merchandise that Smith sold exclusively online, was improperly designed because it failed to take into account typical consumer Internet behavior. Wal-Mart does not contradict the expert testimony Smith proffers regarding consumer Internet behavior but instead maintains that it is irrelevant.

[44] Jacoby’s point-of-purchase survey called for interviewers to provide each respondent with specific “search terms” that would take the respondent to a simulation of one of Smith’s websites. The respondent was asked to pretend that the resulting web page was of interest and to act accordingly (looking at the page and scrolling through it as the respondent would “normally” do), and then was directed to scroll down the page, below the first screen, and click on a specific t-shirt link. The respondent was not asked what message he or she took from the website or whether the website was in fact of interest. The survey protocol also gave the respondent no choice but to scroll down to the next screen and click on the t-shirt link, the only live link in the simulation.

[45] In presenting Smith’s website and directing the survey respondents to click on one specific t-shirt link, Jacoby’s survey design presumed that all consumers who might be interested in a printed t-shirt, mug or bumper sticker would be equally likely to happen across Smith’s designs, regardless of the respondent’s level of interest in the messages on Smith’s webpage.

[46] Although, as Wal-Mart points out, it is possible that some consumers may view web pages randomly and may scroll through and click on links on pages that are not of interest to them, the Court finds that the survey protocol did not sufficiently reflect actual marketplace conditions or typical consumer shopping behavior and therefore was unlikely to have elicited a shopping mindset that would have allowed Jacoby to accurately gauge actual consumer confusion.

[47] Because Smith’s merchandise was available only through his CafePress webstores and the links to his CafePress webstores from his Walocaust and Wal-Qaeda websites, it is unlikely that many consumers randomly happen across Smith’s products. According to Rosenblatt’s uncontroverted testimony, people do not come to websites randomly, and they do not move within websites randomly. A great majority of Internet users arrive at a particular website after searching specific terms via an Internet search engine or by following links from another website. The

user makes a judgment based on contextual cues—what is shown about a prospective website from the text of a search result or what is said about a prospective website in the hyperlinked words and surrounding text of the website currently being viewed—in determining where to surf next. He moves from website to website, he moves within websites, and he performs actions such as signing a petition—or buying a product—by making choices based on what he sees and whether what he sees leads him to believe that going to the next page or following a link to another website will bring him to something he is interested in seeing, doing or buying.

[48] In the marketplace, the visitor would be presented with a screen full of Smith's anti-Wal-Mart messages. Consumers who were interested in the messages on Smith's web pages would be motivated to choose the links that would eventually lead to his products, while those who were uninterested in Smith's messages would simply leave the page. Because the survey protocol directed the respondents to "pretend" to be interested in Smith's anti-Wal-Mart homepages and then directed them to click on a specific link, there is no assurance that the respondent actually read the homepage or would have been interested enough in it to be motivated to click on the t-shirt link. See *Gen. Motors Corp. v. Cadillac Marine & Boat Co.*, 226 F.Supp. 716, 737 (D.C.Mich.1964) (observing that because survey respondents had little interest in the allegedly infringing product, it followed that their inspection of the advertisement shown to them as part of the survey protocol was "casual, cursory and careless" and therefore of little probative value).

[49] Other courts have similarly criticized surveys that failed to adequately replicate the shopping experience. In *Gen. Motors Corp.*, 226 F.Supp. at 737, the court criticized the proffered survey because it did not take into account typical consumer behavior:

Actual purchasers of a boat would not hastily read an advertisement, nor would a potential purchaser read it carelessly. A reasonable man, anticipating the purchase of a boat, would peruse the material at least well enough to note the manufacturer as being "Cadillac Marine & Boat Company, 406 Seventh Street, Cadillac, Michigan." Also, most buyers would want to see the boat itself before making a purchase.

Although the purchase of a t-shirt obviously does not involve the same level of financial consideration a consumer typically makes when buying a boat, a consumer is likely to consider the meaning of an imprinted t-shirt such as Smith's before wearing it in public. A reasonable person who was considering buying a t-shirt that references Al-Qaeda or the Holocaust would likely read the associated webpage at

least well enough to see the harsh criticism of Wal-Mart and the prominent disclaimer dispelling any notion of a possible association with the company.

(c) Impact of Internet-Related Flaws on Survey's Evidentiary Value

[50] For all of these reasons, the survey Jacoby conducted for Wal-Mart is of dubious value as proof of consumer confusion both because its survey universe was overinclusive and because its design failed to approximate real-world marketplace conditions. Jacoby's survey is subject to the same criticisms as his *Weight Watchers* survey and the survey in *Leelanau Wine Cellars*: Jacoby failed to screen the respondents to ensure that they would likely be aware of and make relevant distinctions concerning the specific product. See *Weight Watchers*, 744 F.Supp. at 1273; *Leelanau Wine Cellars*, 452 F.Supp.2d at 783. By failing to approximate actual market conditions, Jacoby further ensured that the survey would not "replicate the thought processes of [likely] consumers [of the junior user's merchandise] encountering the disputed mark ... as they would in the marketplace." See *Simon Prop. Group*, 104 F.Supp.2d at 1038; *accord Gen. Motors Corp.*, 226 F.Supp. at 737. Therefore, the Court must consider these flaws in determining whether the survey is admissible and, if so, what evidentiary weight to afford it.

ii. Structural Flaws

[51] Smith further alleges that the Jacoby study suffers from several structural flaws that diminish the trustworthiness of the results of both the web-based point-of-sale portion and the post-purchase t-shirt portion of the survey. He contends that (1) both the structure of the survey and the wording of several questions suggested the answers Wal-Mart wanted, and (2) the survey results should not be presumed to represent consumer reaction to any of the challenged merchandise that was not actually tested.

[52] Smith hired Dr. Richard Teach as a rebuttal witness to point out deficiencies in Jacoby's website study survey methodology. Teach is an emeritus marketing professor and former dean at the Georgia Tech School of Business who has designed and conducted over one hundred surveys, including about fifty buyer surveys, and has taught survey methodology, statistics and related courses. Teach testifies that he agrees with Rosenblatt's testimony and also offers criticisms of his own. Smith uses Teach's survey expertise to support his *Daubert* argument that because the survey protocol contains multiple technical flaws, the results are unreliable and hence should be afforded very light evidentiary value if not completely excluded from evidence.

[53] Wal-Mart moves to exclude Teach's testimony, supporting its motion with arguments much like those it used in its motion to exclude Rosenblatt's testimony....

[54] The Court finds...that his extensive experience designing and evaluating surveys qualifies him to provide testimony about technical flaws in the design of Jacoby's study and the impact of those flaws on the trustworthiness of Jacoby's reported results.

[55] [T]o the extent that Teach's testimony focuses on general survey methodology, whether Jacoby's survey protocol deviated from standard methodology, and what impact any deviations may have had on the trustworthiness of Jacoby's reported results, Wal-Mart's motion to exclude it is DENIED.

(a) Leading Survey Structure and Questions

[56] Smith argues that both the structure of the survey and the wording of several questions suggested the answers Wal-Mart wanted. Wal-Mart, of course, contends that Jacoby's survey presented no such risk.

(i) Double-Blind Survey Design

[57] To ensure objectivity in the administration of the survey, it is standard practice to conduct survey interviews in such a way as to ensure that "both the interviewer and the respondent are blind to the sponsor of the survey and its purpose." REFERENCE MANUAL at 266. The parties agree that double-blind conditions are essential because if the respondents know what the interviewer wants, they may try to please the interviewer by giving the desired answer, and if the interviewer knows what his employer wants, he may consciously or unconsciously bias the survey through variations in the wording or the tone of his questions. *See id.*

[58] Smith argues that the skip pattern included in Jacoby's survey hinted to the interviewers that Wal-Mart was the survey's sponsor. The survey protocol directed the interviewers to skip to the final tarnishment question, question five, if the respondent gave any one of four specific store names—Sears, Wal-Mart, K-Mart or Youngblood's—to any of the first three questions. Similarly, if the respondent did not give any of those four names in response to the first three questions, the interviewer was directed to ask "what other companies or stores" the stimulus t-shirt brought to mind, and only if the respondent answered with one of the four names was the interviewer to ask question five, the dilution question. The text on both of the tested t-shirts began with the prefix "Wal," and Wal-Mart was the only one of the four listed names that began with that prefix.

[59] Smith argues that this series of questions combined with the t-shirt stimulus subtly informed the interviewers not only that a store name was desired, but also that a particular store name—Wal-Mart—was sought. Thus, Smith contends, because the survey failed to meet the double-blind requirement, it was not conducted in an objective manner and must be excluded for what must therefore be biased results. *See* REFERENCE MANUAL at 248 (noting that poorly formed questions may lead to distorted responses and increased error and therefore may be the basis for rejecting a survey).

[60] Wal-Mart argues that the skip patterns followed proper protocol and that even if the interviewers guessed that Wal-Mart was involved, there could be no risk of bias because (1) interviewers are professionally trained and adhere to extremely high ethical standards, and (2) it was impossible to determine from the design of the study who sponsored the study and for which side of a dispute the survey evidence was to be proffered.

[61] Based on the facts that (1) both of the tested t-shirts include the prefix “Wal” and (2) the only store on the specified list of four that included that same prefix was Wal-Mart, it is safe to surmise that the interviewers at least suspected that Wal-Mart was involved in the survey in some manner. Aside from a common sense assumption that the party with deep pockets and reason to be insulted by the tested concepts was likely to have sponsored the research, however, the interviewers had no way to know who was the proponent of the research and who was the opponent. Thus, although the survey design may have breached generally accepted double-blind protocol to some degree, because the breach offered little risk of bias toward one party or the other the Court finds this issue to be of little import in its trustworthiness determination.

(ii) Leading Questions

[62] Smith also argues that the wording of Jacoby’s confusion questions was improperly leading. Although the challenged t-shirts were created and offered for sale by Charles Smith, an individual, via his CafePress webstore, the survey asked about sponsorship only in the context of companies or stores, such as in the survey’s lead question, which asked, “[W]hich company or store do you think puts out this shirt?” Smith contends that this wording suggested to the respondent that the interviewer was looking for the name of a company or store, which would lead the respondent away from the answer that the shirt was put out by an individual who was criticizing a company. Wal-Mart counters that because Smith’s merchandise was sold through his CafePress webstores, the questions were accurately worded and thus not misleading.

[63] The Court agrees with Smith that the disputed questions improperly led respondents to limit their answers to companies or stores. Though Smith did offer his merchandise through his CafePress webstore, as Wal-Mart argues, the Court finds this characterization disingenuous; the party Wal-Mart sued for offering the Walocaust and Wal-Qaeda merchandise for sale is not a company or a store, but instead Charles Smith, an individual. Furthermore, Wal-Mart has failed to point to any authority supporting the use of the “company or store” language in a consumer “likelihood of confusion” apparel survey or any such surveys previously conducted by Jacoby. Thus, the Court must consider this weakness in determining the admissibility or evidentiary weight to be accorded the survey.

(b) Representativeness

(i) Testing Stimuli

[64] Smith also argues that the Jacoby survey results should not be presumed to represent consumer reaction to any of the challenged merchandise that was not actually tested. Jacoby limited his surveys to testing two specific t-shirts (the Wal*ocaust smiley eagle shirt and the “SUPPORT OUR TROOPS” Wal-Qaeda shirt), and the conclusions stated in his report were narrowly drawn to refer to the tested t-shirts. At his deposition, however, he stated that because the tested shirts were “reasonably representative” of all the shirts that included the prefix “Wal” and the star, as in Wal*ocaust, or the prefix “Wal” and a hyphen, as in Wal-Qaeda, his results could be extrapolated from the tested t-shirts to all of the challenged t-shirts that shared those features.

[65] Jacoby’s own deposition testimony supplies a fitting framework for analyzing this issue. When declining to offer an opinion about whether consumers would also be confused over the sponsorship of Smith’s Walocaust website, Jacoby stated that consumers respond differently to a given stimulus depending on the context in which it is presented, and because his survey tested only Smith’s CafePress webstores, his survey provided him with no data upon which to answer the question about consumer confusion regarding Smith’s website.

[66] Applying the same reasoning, the Court finds that test results from one Walocaust or Wal-Qaeda t-shirt provide no data upon which to estimate consumer confusion regarding another Walocaust or Wal-Qaeda t-shirt. A consumer confused about the sponsorship of a shirt that says “SUPPORT OUR TROOPS [.] BOYCOTT WAL-QAEDA” may easily grasp the commentary in the more straightforwardly derogatory “WAL-QAEDA[.] Freedom Haters ALWAYS” concept. Similarly, a consumer confused over the sponsorship of a “Walocaust” shirt paired with an eagle and a smiley face might have a crystal clear understanding of the word’s meaning

when it is superimposed over a drawing of a Wal-Mart-like building paired with a sign that advertises family values and discounted alcohol, firearms, and tobacco or when it is presented along with the additional text “The World is Our Labor Camp. Walmart Sucks.” As a result, this weakness will also impact the Court’s assessment of the survey’s evidentiary value.

(ii) Sample Size and Selection

[67] Smith also challenges the survey’s small sample size; the Court additionally notes that Jacoby’s study employed mall-intercept methodology, which necessarily results in a non-random survey sample.

[68] It is true that the majority of surveys presented for litigation purposes do, in fact, include small and non-random samples that are not projectible to the general population or susceptible to evaluations of statistical significance. 6 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 32:165 (4th ed.2006). Courts have found that “nonprobability ‘mall intercept’ surveys are sufficiently reliable to be admitted into evidence,” reasoning that because “nonprobability surveys are of a type often relied upon by marketing experts and social scientists in forming opinions on customer attitudes and perceptions,” they may be admitted into evidence under Federal Rule of Evidence 703 as being “of a type reasonably relied upon by experts in the particular field in forming opinions or inferences upon the subject.” *Id.*

[69] However, probability surveys are preferred to non-probability surveys. *Id.* (citing Jacob Jacoby, *Survey & Field Experimental Evidence*, in SAUL KASSIN & LAWRENCE S. WRIGHTSMAN, JR., 185–86 THE PSYCHOLOGY OF EVIDENCE AND TRIAL PROCEDURE (1985)). Jacoby himself has written that “behavioral science treatises on research methodology are in general agreement that, all other things being equal, probability sampling is preferred to non-probability sampling.” Jacob Jacoby & Amy H. Handlin, *Non-Probability Sampling Designs for Litig. Surveys*, 81 TRADEMARK REP. 169, 170 (Mar.-Apr.1991) (citing KUL B. RAI AND JOHN C. BLYDENBURGH, POL. SCI. STATS.. 99 (Holbrook Press Inc.1973) and quoting its comment that “nonprobability samples do not represent the population truly, and the inapplicability of probability models as well as the impossibility of measuring or controlling random sampling error makes them even less attractive for scientific studies.”). Jacoby has similarly noted that although the vast majority of in-person surveys conducted for marketing purposes employ non-probability design, marketers more typically use telephone interviews, a “sizable proportion” of which employ probability designs. Jacoby & Handlin, 81 TRADEMARK REP. at 172 & Table

1 (estimating that sixty-nine percent of commercial marketing and advertising research is conducted by telephone).

[70] Although courts typically admit nonprobability surveys into evidence, many recognize that “the results of a nonprobability survey cannot be statistically extrapolated to the entire universe,” and they consequently discount the evidentiary weight accorded to them. *Id.*; *accord Am. Home Prods. Corp. v. Barr Labs., Inc.*, 656 F.Supp. 1058, 1070 (D.N.J.1987) (criticizing a Jacoby survey and noting, “While non-probability survey results may be admissible, they are weak evidence of behavior patterns in the test universe.”) Similarly, “[c]onducting a survey with a number of respondents too small to justify a reasonable extrapolation to the target group at large will lessen the weight of the survey.” 6 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 32:171.

[71] This Court finds troubling the Jacoby survey’s implicit assumption that a study protocol insufficient for many marketing purposes and heavily criticized for behavioral science purposes is nevertheless sufficient to aid a factfinder in a legal action challenging free speech. Therefore, this factor will also affect the Court’s assessment of the survey’s evidentiary value.

c. Admissibility

[72] Having identified numerous substantial flaws in Jacoby’s survey, the Court must now determine whether the flaws limit the survey’s evidentiary weight or are so substantial as to render the survey irrelevant or unreliable and therefore inadmissible under Federal Rule of Evidence 403, 702, or 703. *See Starter Corp. v. Converse, Inc.*, 170 F.3d 286, 297 (2d Cir.1999) (excluding a survey under Rule 403 because the probative value of the survey was outweighed by potential prejudice and further noting that “a survey may be kept from the jury’s attention entirely by the trial judge if it is irrelevant to the issues”) (citing *C.A. May Marine Supply Co. v. Brunswick Corp.*, 649 F.2d 1049 (5th Cir.1981)); *accord Ramdass v. Angelone*, 530 U.S. 156, 173, 120 S.Ct. 2113, 147 L.Ed.2d 125 (2000) (listing numerous cases in which courts have excluded or minimized survey evidence as unreliable).

[73] Courts in the Eleventh Circuit typically decline to exclude likelihood of confusion surveys and instead consider a survey’s technical flaws when determining the amount of evidentiary weight to accord the survey. *See, e.g., Jellibeans*, 716 F.2d at 845; *Nightlight Sys., Inc. v. Nitelites Franchise Sys., Inc.*, 2007 WL 4563873 at *5 (N.D.Ga. Jul.17, 2007). Consequently, although this is a close case, the Court concludes that the better option is to admit the survey evidence and to consider the survey’s flaws in determining the evidentiary weight to assign the survey in the likelihood of confusion analysis.

[74] The Court finds, however, that because the survey tested only the “SUPPORT OUR TROOPS[.] BOYCOTT WAL-QAEDA” t-shirt and the Walocaust eagle t-shirt, it has no relevance to any of Smith’s other Wal-Mart-related concepts. The Court agrees with Jacoby that context matters—a lot—and therefore will not consider Jacoby’s survey as evidence of likelihood of confusion with regard to the words “Walocaust” and “Wal-Qaeda” in general; the study is admissible only as to the two concepts that Jacoby actually tested. *See* Fed.R.Evid. 702 (limiting expert testimony to that “based upon sufficient facts or data”).

[75] Even with regard to the tested concepts, the Court finds that the survey was so flawed that it does not create a genuine issue of material fact. *See Spraying Sys. Co. v. Delavan, Inc.*, 975 F.2d 387, 394 (7th Cir.1992) (recognizing that if a proffered survey is severely and materially flawed, it may not be sufficient to establish a genuine issue of material fact even if it purports to show evidence of actual confusion). Jacoby surveyed an overbroad universe, failed to adequately replicate the shopping experience, and asked leading questions. He also surveyed a non-random sample that in any case was too small to allow the results to be projected upon the general market. Thus, the Court finds that the Jacoby survey is so flawed that it does not establish a genuine issue of material fact with regard to actual confusion, much less *prove* actual confusion.

[76] Lack of survey evidence showing consumer confusion is not dispositive, however; the Eleventh Circuit has moved away from relying on survey evidence. *Frehling Enters. v. Int’l Select Group, Inc.*, 192 F.3d 1330, 1341 n. 5 (11th Cir.1999). In fact, a court may find a likelihood of confusion in the absence of any evidence of actual confusion, even though actual confusion is the best evidence of likelihood of confusion. *E. Remy Martin & Co. v. Shaw-Ross Int’l Imps., Inc.*, 756 F.2d 1525, 1529 (11th Cir.1985). Accordingly, the Court will now consider the remaining likelihood of confusion factors.

[*The court ultimately found no infringement or dilution*].

Questions and Comments

1. *The Authorization or Permission Question.* You will recall that the third group of questions in the surveys at issue in *Smith v. Wal-Mart* asked respondents if they thought the company that “put out” the defendant’s products needed permission from another company to do so, and if so, which company. Isn’t this the very question that the judge is trying to decide in the case? Why should we ask survey respondents for their view on what is in essence a legal question?

2. *Alternative Survey Formats.* Two other methods of surveying for the likelihood of consumer confusion are of particular interest.

- The “*Squirt* format”. In *Squirt Co. v. Seven-Up Co.*, 628 F.2d 1086 (8th Cir. 1980), survey respondents were played radio advertisements for SQUIRT and QUIRST soft drinks and two other products. The respondents were then asked: (1) “Do you think SQUIRT and QUIRST are put out by the same company or by different companies?”, and (2) “What makes you think that?” This method, consisting of either seriatim or simultaneous exposure to the plaintiff’s and defendant’s marks, is especially beneficial for a plaintiff whose mark may not be well-known to the survey respondents. However, some courts have rejected this survey method on the ground that it makes the respondents “artificially aware” of the plaintiff’s mark and does not approximate market conditions. *See, e.g., Kargo Global, Inc. v. Advance Magazine Publishers, Inc.*, No. 06 Civ. 550, 2007 WL 2258688, at *8 (S.D. N.Y. 2007).
- The “*Exxon* format”. In *Exxon Corp. v. Texas Motor Exchange of Houston, Inc.*, 628 F.2d 500 (5th Cir. 1980), survey respondents were shown a photograph of one of the defendant’s signs bearing its Texon trademark. The respondents were then asked: “What is the first thing that comes to mind when looking at this sign?”, and “What was there about the sign that made you say that?” If the respondents did not name a company in response to the first set of questions, they were then asked: “What is the first *company* that comes to mind when you look at this sign?” (emphasis in original survey script) and “What was there about the sign that made you mention (COMPANY)?” Courts have proven to be less receptive to this “word association” method of surveying for consumer confusion. *See, e.g., Major League Baseball Properties v. Sed Non Olet Denarius, Ltd.*, 817 F. Supp. 1103, 1122 (S.D.N.Y. 1993) (“[T]he issue here is not whether defendants’ name brings to mind any other name.... Rather, the issue here is one of actual confusion. Plaintiff’s survey questions regarding association are irrelevant to the issue of actual confusion.”).

In Itamar Simonson, *The Effect of Survey Method on Likelihood of Confusion Estimates: Conceptual Analyses and Empirical Test*, 83 TRADEMARK REP. 364 (1993), Simonson compared the results of five methods of surveying for the likelihood of confusion, including a simple form of the *Eveready* format, the *Squirt* format, and the *Exxon* format. He found that the *Exxon* format “tends to overestimate the likelihood of confusion, often by a significant amount,” *id.* at 385, and that the *Squirt* format, as

expected, “can have a significant effect on confusion estimates when the awareness level of the senior mark is low.” *Id.* at 386.

3. *What Percentage of Confusion is Enough?* “Figures in the range of 25% to 50% have been viewed as solid support for a finding of a likelihood of confusion.” MCCARTHY § 32:188. Still often cited by plaintiffs with especially weak cases, *Jockey International, Inc. v. Burkard*, No 74 Civ. 123, 1975 WL 21128 (S.D. Cal. 1975), found that survey evidence of 11.4 percent supported a likelihood of confusion. *But see Georgia-Pacific Consumer Product LP v. Myers Supply, Inc.*, No. 08 Civ. 6086, 2009 WL 2192721 (W.D. Ark. 2009) (survey evidence of 11.4 percent confusion does not support a likelihood of confusion).

4. “Sponsorship or Affiliation” Confusion

As the surveys at issue in *Smith v. Wal-Mart Stores* showed, trademark law generally recognizes forms of consumer confusion that may best be characterized as consumer confusion with respect to the plaintiff’s “sponsorship” of the defendant or at least some form of “affiliation” between the plaintiff and the defendant. The language of Lanham Act § 43(a), 15 U.S.C. § 1125(a), lends itself especially to this extremely broad notion of consumer confusion. Recall that § 43(a) applies to both registered and unregistered marks:

(a) Civil action

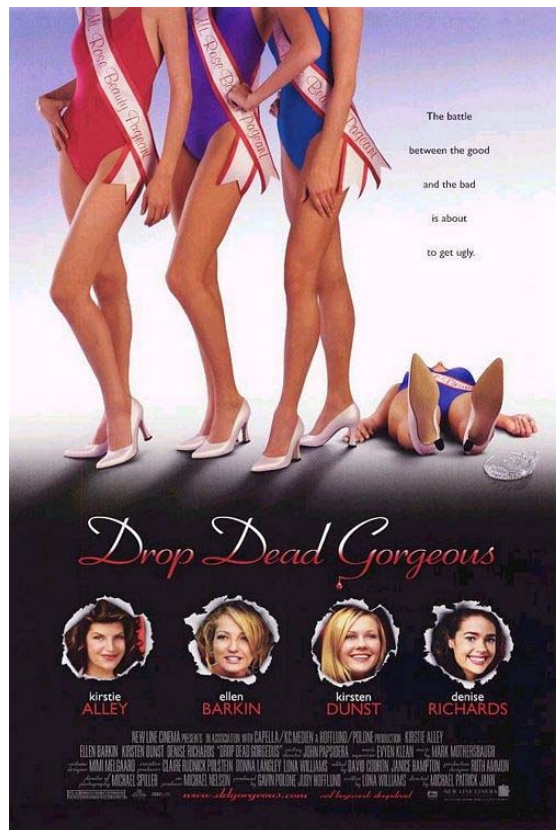
(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Trademark scholars have been highly critical of “sponsorship or affiliation” confusion. Presented below is an excerpt from Mark A. Lemley & Mark McKenna,

Irrelevant Confusion, 62 STAN. L. REV. 413, 417-422 (2010), which collects some of the most egregious examples of plaintiffs' threats to sue and of courts' finding of "sponsorship or affiliation" confusion. Note that many of the unauthorized uses described in the excerpt could quite likely have qualified as "nominative fair uses", a form of trademark fair use that we will address in Part III on defenses to trademark infringement. Thus the student will have to endure a degree of suspense until we get there. But we consider "sponsorship or affiliation" confusion here because from the perspective of defendants (and from many of those who support free speech), defendants should never have to resort to this *defense* of nominative fair use because courts should not find confusion in the first place on the plaintiff's side of the case.



From Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 417-422 (2010)

In 2006, back when it was good, NBC's hit show *Heroes* depicted an indestructible cheerleader sticking her hand down a kitchen garbage disposal and

mangling it (the hand quickly regenerated). It was an Insinkerator brand garbage disposal, though you might have had to watch the show in slow motion to notice; the brand name was visible for only a couple of seconds. Emerson Electric, owner of the Insinkerator brand, sued NBC, alleging the depiction of its product in an unsavory light was both an act of trademark dilution and was likely to cause consumers to believe Emerson had permitted the use. NBC denied any wrongdoing, but it obscured the Insinkerator name when it released the DVD and Web versions of the episode.¹ And not just television shows but also movies have provoked the ire of trademark owners: Caterpillar sued the makers of the movie *Tarzan* on the theory that the use of Caterpillar tractors in the movie to bulldoze the forest would cause consumers to think Caterpillar was actually anti-environment,² and the makers of *Dickie Roberts: Former Child Star* were sued for trademark infringement for suggesting that the star of the absurdist comedy was injured in a Slip 'N Slide accident.³ Even museums aren't immune: Pez recently sued the Museum of Pez Memorabilia for displaying an eight-foot Pez dispenser produced by the museum's owners.⁴ And forget about using kazoos on your duck tours: Ride the Ducks, a tour company in San Francisco that gives out duck-call kazoos to clients on its ducks, sued Bay Quackers, a competing duck tour company that also facilitated quacking by its clients.⁵

Most of these examples involve threats of suit, and they could be dismissed simply as overreaching by a few aggressive trademark owners. But these threats were not isolated incidents, and they shouldn't be quickly ignored. The recipients of

¹ See Paul R. La Monica, *NBC Sued over 'Heroes' Scene by Garbage Disposal Maker*, CNNMoney.com, Oct. 17, 2006, <http://money.cnn.com/2006/10/17/commentary/mediabiz/index.htm>.

² *Caterpillar Inc. v. Walt Disney Co.*, 287 F. Supp. 2d 913, 917 (C.D. Ill. 2003)

³ *Wham-O, Inc. v. Paramount Pictures Corp.*, 286 F. Supp. 2d 1254, 1255-58 (N.D. Cal. 2003).

⁴ *Museum Faces Legal Battle over Giant Pez Dispenser*, KTVU.com, July 1, 2009, <http://www.ktvu.com/print/19911637/detail.html>. The museum was originally called the Pez Museum, but the owners changed the name in response to a previous objection from Pez.

⁵ Jesse McKinley, *A Quacking Kazoo Sets Off a Squabble*, N.Y. TIMES, June 3, 2009, at A16. Ducks are open-air amphibious vehicles that can be driven on streets and operated in the water.

all of these threats, like many others who receive similar objections,⁶ knew well that they had to take the asserted claims seriously because courts have sometimes been persuaded to shut down very similar uses. In 1998, for instance, New Line Productions was set to release a comedy about a beauty pageant that took place at a farm-related fair in Minnesota. New Line called the movie *Dairy Queens* but was forced to change the name to *Drop Dead Gorgeous* after the franchisor of Dairy Queen restaurants obtained a preliminary injunction.⁷ The owners of a restaurant called the “Velvet Elvis” were forced to change its name after the estate of Elvis Presley sued for trademark infringement.⁸ A humor magazine called *Snicker* was forced to pull a parody “ad” for a mythical product called “Michelob Oily,” not because people thought Michelob was actually selling such a beer (only six percent

⁶ The Chilling Effects Clearinghouse collects letters from trademark owners that make aggressive assertions of trademark (and other intellectual property) rights. See Chilling Effects Clearinghouse, [http:// www.chillingeffects.org](http://www.chillingeffects.org) (last visited Sept. 9, 2009). As of February 25, 2009, the Chilling Effects database contained 378 such letters. Among the many specious objections are an objection from the National Pork Board (owner of the trademark “THE OTHER WHITE MEAT”) to the operator of a breastfeeding advocacy site called “The Lactivist” for selling T-shirts with the slogan “The Other White Milk,” *Pork Board Has a Cow over Slogan Parody*, Chilling Effects Clearinghouse, Jan. 30, 2007, <http://www.chillingeffects.org/trademark/notice.cgi?NoticeID=6418>; from Kellogg to the registrant of the domain name “evilpoptarts.com,” *Kelloggs Poops on Evilpoptarts.com*, Chilling Effects Clearinghouse, June 5, 2006, <http://www.chillingeffects.org/acpa/notice.cgi?NoticeID=4377>; from Nextel to the registrants of the domain name “nextpimp.com,” *Nextel Says “Don’t Pimp My Mark”*, Chilling Effects Clearinghouse, June 22, 2005, <http://www.chillingeffects.org/acpa/notice.cgi?NoticeID=2322>; and from the owners of the Marco Beach Ocean Resort to the operators of “urinal.net,” a website that collects pictures of urinals in various public places, for depicting urinals at the Resort and identifying them as such, *Mark Owner Pissed About Urinals*, Chilling Effects Clearinghouse, Jan. 4, 2005, <http://www.chillingeffects.org/trademark/notice.cgi?NoticeID=1576>.

⁷ *Am. Dairy Queen Corp. v. New Line Prods., Inc.*, 35 F. Supp. 2d 727, 728 (D. Minn. 1998).

⁸ *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188 (5th Cir. 1998)

did⁹), but because a majority of consumers surveyed thought that the magazine needed to receive permission from Anheuser-Busch to run the ad.¹⁰ And Snicker might face more trouble than that; another court enjoined a furniture delivery company from painting its truck to look like a famous candy bar.¹¹

The Mutual of Omaha Insurance Company persuaded a court to stop Franklyn Novak from selling T-shirts and other merchandise bearing the phrase “Mutant of Omaha” and depicting a side view of a feather-bonneted, emaciated human head.¹² No one who saw Novak’s shirts reasonably could have believed Mutual of Omaha sold the T-shirts, but the court was impressed by evidence that approximately ten percent of all the persons surveyed thought that Mutual of Omaha “[went] along” with Novak’s products.¹³ The creators of Godzilla successfully prevented the author of a book about Godzilla from titling the book *Godzilla*, despite clear indications on both the front and back covers that the book was not authorized by the creators.¹⁴

The Heisman Trophy Trust prevented a T-shirt company called Smack Apparel from selling T-shirts that used variations of the word HEISMAN, such as “HE.IS.the.MAN,” to promote particular players for the Heisman Trophy.¹⁵ This was not Smack Apparel’s first trademark lesson: a court previously ordered it to stop selling T-shirts that used university colors and made oblique references to those

⁹ Anheuser-Busch, Inc. v. Balducci Publ’ns, 28 F.3d 769, 772-73 (8th Cir. 1994). That any consumers were confused was remarkable, and perhaps a statement about the reliability of consumer confusion surveys rather than the stupidity of 6% of the population.

¹⁰ *Id.*

¹¹ Hershey Co. v. Art Van Furniture, Inc., No. 08-14463, 2008 WL 4724756 (E.D. Mich. Oct. 24, 2008). Hershey has also sued Reese’s Nursery. Complaint at 1, Hershey Chocolate & Confectionery Corp. v. Reese’s Nursery and Landscaping, No. 3:09-CV-00017-JPB (N.D. W. Va. Mar. 19, 2009).

¹² Mutual of Omaha Ins. Co. v. Novak, 836 F.2d 397, 397 (8th Cir. 1987).

¹³ *Id.* at 400.

¹⁴ See Toho Co. v. William Morrow & Co., 33 F. Supp. 2d 1206, 1206, 1212 (C.D. Cal. 1998).

¹⁵ Heisman Trophy Trust v. Smack Apparel Co., No. 08 Civ. 9153(VM), 2009 WL 2170352, at *5 (S.D.N.Y. July 17, 2009). Smack Apparel produced several such T-shirts, including one that substituted the number 15 for “IS” in the word HEISMAN and was printed in the colors of the University of Florida, clearly to promote Florida quarterback Tim Tebow’s candidacy. See Smack Apparel Lawsuit, LSU Tiger Tailer Newsletter (LSU Trademark Licensing, Baton Rouge, La.), Jan. 30, 2009, at 6.

universities' football teams because the court believed the designs created "a link in the consumer's mind between the T-shirts and the Universities" and demonstrated that Smack Apparel "inten[ded] to directly profit [from that link]."¹⁶ Respect Sportswear was denied registration of "RATED R SPORTSWEAR" for men's and women's clothing on the ground that consumers would be confused into thinking the Motion Picture Association of America sponsored the clothes.¹⁷ A street musician who plays guitar in New York while (nearly) naked was permitted to pursue his claim against Mars on the theory consumers would assume he sponsored M&Ms candies, since Mars advertised M&Ms with a (naked) blue M&M playing a guitar.¹⁸ A legitimate reseller of dietary supplements lost its motion for summary judgment in a suit by the supplements' brand owner because the court concluded the reseller might have confused consumers into thinking it was affiliated with the brand owner when it purchased ad space on Google and truthfully advertised the availability of the supplements.¹⁹ Amoco persuaded a court that consumers might believe it sponsored Rainbow Snow's sno-cones, mostly because Rainbow Snow's shops were located in the same area as some of Amoco's Rainbo gas stations.²⁰ The National Football League successfully sued the state of Delaware for running a lottery based on point spreads in NFL games, even though the Lottery never used the NFL name or any of its marks for the purpose of identifying or advertising its

¹⁶ Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 484 (5th Cir. 2008).

¹⁷ Motion Picture Ass'n of Am. Inc. v. Respect Sportswear Inc., 83 U.S.P.Q.2d (BNA) 1555, 1564 (T.T.A.B. 2007).

¹⁸ Burck v. Mars, Inc., 571 F. Supp. 2d 446 (S.D.N.Y. 2008) (denying Mars' motion to dismiss plaintiff's false endorsement claim).

¹⁹ Standard Process, Inc. v. Total Health Discount, Inc., 559 F. Supp. 2d 932, 941 (E.D. Wis. 2008).

²⁰ Amoco Oil Co. v. Rainbow Snow, 748 F.2d 556, 559 (10th Cir. 1984). Rainbow Snow sold its snow cones from fourteen round, ten-by-six-foot booths, which were blue with a 180-degree, red-orange-yellow-green rainbow appearing on the upper half of the face of the booth and prominently displayed the name "Rainbow Snow" in white letters below the rainbow. *Id.* at 557. Signs at Amoco's Rainbo gas stations displayed the word "Rainbo" in white, with the word appearing against a black background and below a red-orange-yellow-blue truncated rainbow logo. *Id.*

games.²¹ The court was persuaded that the betting cards' references to NFL football games by the names of the cities whose teams were playing might cause consumers to believe the NFL sponsored the lottery game.²² And the owners of a Texas golf course that replicated famous golf holes from around the world were forced to change their course because one of the holes was, in the view of the Fifth Circuit, too similar to the corresponding South Carolina golf hole it mimicked.²³

Whatever fraction of the total universe of trademark cases these cases constitute, there are enough of them that recipients of cease and desist letters from mark owners have to take the objections seriously. Indeed many simply cave in and change their practices rather than face the uncertainty of a lawsuit. The producers of the TV show *Felicity* changed the name of the university attended by characters on the show after New York University, the school originally referenced, objected to the depiction of those students as sexually active.²⁴ The producers of a movie originally titled *Stealing Stanford* changed the title of their movie after Stanford

²¹ NFL v. Governor of Del., 435 F. Supp. 1372, 1376, 1380-81 (D. Del. 1977). The lottery game was called "Scoreboard" and the individual games were identified as "Football Bonus," "Touchdown," and "Touchdown II." *Id.* at 1380.

²² The cards on which the customers of the Delaware Lottery marked their betting choices identified the next week's NFL football games by the names of the cities whose NFL teams were scheduled to compete against each other (e.g., Washington v. Baltimore). *Id.* The parties stipulated that, in the context in which they appeared, these geographic names were intended to refer to, and consumers understood them to refer to, particular NFL football teams. *Id.* This was enough for the court to find sponsorship or affiliation confusion because, "[a]pparently, in this day and age when professional sports teams franchise pennants, teeshirts, helmets, drinking glasses and a wide range of other products, a substantial number of people believe, if not told otherwise, that one cannot conduct an enterprise of this kind without NFL approval." *Id.* at 1381. The court therefore entered a limited injunction "requiring the Lottery Director to include on Scoreboard tickets, advertising and any other materials prepared for public distribution a clear and conspicuous statement that Scoreboard [was] not associated with or authorized by the National Football League." *Id.*

²³ Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 526 (5th Cir. 1998).

²⁴ Sara Lipka, *PG-13? Not This College. Or That One. Or ...*, CHRON. HIGHER EDUC., June 26, 2009, at 1; William McGeveran, *Trademarks, Movies, and the Clearance Culture*, Info/Law, July 2, 2009, <http://blogs.law.harvard.edu/infolaw/2009/07/02/tm-movie-clearance/>.

University objected to the movie's storyline, which centered on a student who stole money to pay tuition.²⁵ It's possible that the producers of the show and the movie would have had legitimate defenses had they decided to use the real universities' names despite the objections, but in light of the case law outlined above, neither was willing to defend its right to refer to real places in their fictional storylines.²⁶ And anecdotes like these are becoming depressingly common. Production of the film *Moneyball*, which was based on Michael Lewis's best-selling profile of Oakland Athletics General Manager Billy Beane, was halted just days before shooting was set to begin in part because Major League Baseball disapproved of the script's depiction of baseball and therefore objected to use of its trademarks in the film.²⁷ Apparently Major League Baseball believes it can control the content of any film that refers to real baseball teams.

What unifies all the cases that have given these creators such pause is that courts found actionable confusion notwithstanding the fact that consumers couldn't possibly have been confused about the actual source of the defendants' products....

Questions and Comments

1. *Materiality and Consumer Confusion.* How might courts constrain the enormous expansion of "sponsorship or affiliation" confusion? Lemley & McKenna: [W]e argue that courts can begin to rein in some of these excesses by focusing their attention on confusion that is actually relevant to purchasing decisions. Uses of a trademark that cause confusion about actual source or about responsibility for quality will often impact purchasing decisions, so courts should presume materiality and impose liability when there is evidence such confusion is likely. Uses alleged to cause confusion about more nebulous relationships, on the other hand, are more analogous to false advertising claims, and those uses should

²⁵ McGeeveran, *supra*. Apparently Harvard was less troubled about a student being depicted as having stolen money to pay its tuition: the movie was retitled *Stealing Harvard*.

²⁶ See also Vince Horiuchi, *HBO Disputes Trademark Infringement in 'Big Love,'* SALT LAKE TRIB., July 8, 2009 (discussing a lawsuit filed by the University of Utah over the three-second depiction of a fictional research report bearing the University of Utah logo).

²⁷ Michael Cieply, *Despite Big Names, Prestige Film Falls Through*, N.Y. TIMES, July 2, 2009, at B1.

be actionable only when a plaintiff can prove the alleged confusion is material to consumers' decision making.

Lemley & McKenna, at 416.

5. Initial Interest Confusion

Virgin Enterprises focused on "point of sale" confusion, i.e., consumer confusion as to source at the moment when the consumer purchases the defendant's goods or services. We turn now to other modes of confusion. We consider first "initial interest confusion," which describes consumer confusion as to source only *before* the consumer makes a purchasing decision. We do so in the context of keyword advertising on the internet.

***Network Automation, Inc. v. Advanced Systems Concepts, Inc.* 638 F.3d 1137 (9th Cir. 2011)**

WARDLAW, Circuit Judge:

"We must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach."

--*Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1054 (9th Cir.1999).

[1] Network Automation ("Network") and Advanced Systems Concepts ("Systems") are both in the business of selling job scheduling and management software, and both advertise on the Internet. Network sells its software under the mark AutoMate, while Systems' product is sold under the registered trademark ActiveBatch. Network decided to advertise its product by purchasing certain keywords, such as "ActiveBatch," which when keyed into various search engines, most prominently Google and Microsoft Bing, produce a results page showing "www. Network Automation. com" as a sponsored link. Systems' objection to Network's use of its trademark to interest viewers in Network's website gave rise to this trademark infringement action.

[2] The district court was confronted with the question whether Network's use of ActiveBatch to advertise its products was a clever and legitimate use of readily available technology, such as Google's AdWords, or a likely violation of the Lanham Act, 15 U.S.C. § 1114. The court found a likelihood of initial interest confusion by

applying the eight factors we established more than three decades ago in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir.1979), and reasoning that the three most important factors in “cases involving the Internet” are (1) the similarity of the marks; (2) the relatedness of the goods; and (3) the marketing channel used. The court therefore issued a preliminary injunction against Network's use of the mark ActiveBatch.

[3] Mindful that the *sine qua non* of trademark infringement is consumer confusion, and that the *Sleekcraft* factors are but a nonexhaustive list of factors relevant to determining the likelihood of consumer confusion, we conclude that Systems' showing of a likelihood of confusion was insufficient to support injunctive relief. Therefore, we vacate the injunction and reverse and remand.

I. FACTUAL AND PROCEDURAL BACKGROUND

[4] Systems is a software engineering and consulting firm founded in 1981. It has used the ActiveBatch trademark since 2000, and it procured federal registration of the mark in 2001. Systems markets ActiveBatch software to businesses, which use the product to centralize and manage disparate tasks. Network is a software company founded in 1997 under the name Unisyn. Its signature product, AutoMate, also provides businesses with job scheduling, event monitoring, and related services. Network has approximately 15,000 total customers, and between 4,000 and 5,000 active customers, including Fortune 500 companies and mid-sized and small firms. The cost of a license to use AutoMate typically ranges from \$995 to \$10,995. There is no dispute that Network and Systems are direct competitors, or that ActiveBatch and AutoMate are directly competing products.

[5] Google AdWords is a program through which the search engine sells “keywords,” or search terms that trigger the display of a sponsor's advertisement. When a user enters a keyword, Google displays the links generated by its own algorithm in the main part of the page, along with the advertisements in a separate “sponsored links” section next to or above the objective results. *See* Appendix A.¹ Multiple advertisers can purchase the same keyword, and Google charges sponsors based on the number of times users click on an ad to travel from the search results page to the advertiser's own website. Network purchased “ActiveBatch” as a keyword from Google AdWords and a comparable program offered by Microsoft's Bing search engine.

¹ Appendix A presents a compilation of exhibits from the district court record showing results pages displayed when users search for “ActiveBatch” on Google or Bing.

[6] As a result, consumers searching for business software who enter “ActiveBatch” as a search term would locate a results page where the top objective results are links to Systems’ own website and various articles about the product. See Appendix A. In the “Sponsored Links” or “Sponsored Sites” section of the page, above or to the right of the regular results, users see Network’s advertisement, either alone or alongside Systems’ own sponsored link. The text of Network’s advertisements begin with phrases such as “Job Scheduler,” “Intuitive Job Scheduler,” or “Batch Job Scheduling,” and end with the company’s web site address, www.NetworkAutomation.com. The middle line reads: “Windows Job Scheduling + Much More. Easy to Deploy, Scalable. D/L Trial.”

[7] On November 16, 2009, Systems demanded that Network cease and desist from using the ActiveBatch mark in its search engine advertising, as it was not “authorized to use these marks in commerce.” In a second letter, Systems explained that Network’s use of ActiveBatch in its Google AdWords keyword advertising infringed Systems’ trademark rights by deceiving customers into believing that Network’s software products were affiliated with Systems’ products. Systems threatened litigation unless Network immediately ceased all use of Systems’ mark, including removing the mark from the Google AdWords Program. Network responded that its use of the ActiveBatch mark was non-infringing as a matter of law, and filed this lawsuit seeking a declaratory judgment of non-infringement. Systems counterclaimed on February 22, 2010, alleging trademark infringement under the Lanham Act, 15 U.S.C. § 1114(1), and moved for a preliminary injunction against Network’s use of the ActiveBatch mark pending trial.

[8] The district court granted injunctive relief on April 30, 2010. Noting that the parties did not dispute the validity or ownership of the ActiveBatch mark, the district court ruled that Systems was likely to succeed in satisfying the Lanham Act’s “use in commerce” requirement by showing that Network “used” the mark when it purchased advertisements from search engines triggered by the term “ActiveBatch.” Applying the eight-factor *Sleekcraft* test for source confusion,² the district court emphasized three factors it viewed as significant for “cases involving the Internet”: the similarity of the marks, relatedness of the goods or services, and simultaneous use of the Web as a marketing channel. The district court concluded that all three

² The eight factors we identified in *Sleekcraft* were: “[1] strength of the mark; [2] proximity of the goods; [3] similarity of the marks; [4] evidence of actual confusion; [5] marketing channels used; [6] type of goods and the degree of care likely to be exercised by the purchaser; [7] defendant’s intent in selecting the mark; and [8] likelihood of expansion of the product lines.” 599 F.2d at 348–49.

factors favored Systems: Network used the identical mark to sell a directly competing product, and both advertised on the Internet.

[9] The district court also concluded that Systems' mark was strong because, as a federally registered trademark, ActiveBatch is presumptively distinctive. It concluded that the degree of consumer care suggested likely confusion because "there is generally a low degree of care exercised by Internet consumers." Moreover, Network intentionally used Systems' mark to advertise its own product. Finally, the district court noted that neither party introduced evidence of actual confusion, and that the likelihood of product expansion was not relevant.

[10] The district court also analyzed whether Network infringed Systems' mark by creating initial interest confusion—as opposed to source confusion—which "occurs when the defendant uses the plaintiff's trademark in a manner calculated to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion." (quoting *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1018 (9th Cir.2004) (internal quotations omitted)). Because the district court found that Network's advertisements did not clearly divulge their source, it concluded that consumers might be confused into unwittingly visiting Network's website, allowing the company to "impermissibly capitalize[] on [Systems'] goodwill."

[11] Based on its analysis of the *Sleekcraft* factors and its finding of likely initial interest confusion, the district court concluded that Systems had a strong likelihood of success on the merits of its trademark infringement claim. It then presumed a likelihood of irreparable harm, and concluded that the balance of hardships and the public interest favored Systems. Following entry of the preliminary injunction, Network timely appealed.

...

III. DISCUSSION

[12] "A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest." *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 129 S.Ct. 365, 374, 172 L.Ed.2d 249 (2008). Network argues that the district court erred by ruling that Systems was likely to succeed on the merits of its trademark claim, and by then presuming a likelihood of irreparable injury. It also contends that the preliminary injunction is overbroad.

[13] To prevail on a claim of trademark infringement under the Lanham Act, 15 U.S.C. § 1114, a party "must prove: (1) that it has a protectible ownership interest in

the mark; and (2) that the defendant's use of the mark is likely to cause consumer confusion." *Dep't of Parks & Recreation v. Bazaar Del Mundo Inc.*, 448 F.3d 1118, 1124 (9th Cir.2006).

[14] Network does not contest the ownership or its use of the mark. We note that the district court correctly found the prerequisite "use in commerce" in Network's use of the mark to purchase keywords to advertise its products for sale on the Internet. Previously we have assumed, without expressly deciding, that the use of a trademark as a search engine keyword that triggers the display of a competitor's advertisement is a "use in commerce" under the Lanham Act. *See Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1024 (9th Cir.2004); *Brookfield*, 174 F.3d at 1053; *see also Finance Express LLC v. Nowcom Corp.*, 564 F.Supp.2d 1160, 1172–73 (C.D.Cal.2008). We now agree with the Second Circuit that such use is a "use in commerce" under the Lanham Act. *See Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 127 (2d Cir.2009) (holding that Google's sale of trademarks as search engine keywords is a use in commerce); *see also* J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* §§ 23:11.50, 25:70:25 (4th ed. 2010) (suggesting that cases taking a more restrictive view of "use" in this context are based on an erroneous interpretation of the Lanham Act).

[15] This case, therefore, turns on whether Network's use of Systems' trademark is likely to cause consumer confusion. Network argues that its use of Systems' mark is legitimate "comparative, contextual advertising" which presents sophisticated consumers with clear choices. Systems characterizes Network's behavior differently, accusing it of misleading consumers by hijacking their attention with intentionally unclear advertisements. To resolve this dispute we must apply the *Sleekcraft* test in a flexible manner, keeping in mind that the eight factors it recited are not exhaustive, and that only some of them are relevant to determining whether confusion is likely in the case at hand.

A.

[16] In *Sleekcraft*, we analyzed the likelihood of consumer source confusion between boats that were sold under the marks "Sleekcraft" and "Slickcraft." We noted that "[w]hen the goods produced by the alleged infringer compete for sales with those of the trademark owner, infringement usually will be found if the marks are sufficiently similar that confusion can be expected." 599 F.2d at 348. Although both boats were designed for towing water skiers, and despite a potential overlap in the markets, we concluded that because "Slickcraft" boats appealed to consumers desiring family recreation and "Sleekcraft" boats appealed to the "highly skilled enthusiast" requiring Sleekcraft's higher speeds, the owners were not direct

competitors. *Id.* Because the goods were not competitive, but merely related, factors in addition to the similarity of the marks were “added to the calculus.” *Id.*

[17] We identified eight “relevant” factors for determining whether consumers would likely be confused by related goods: “[1] strength of the mark; [2] proximity of the goods; [3] similarity of the marks; [4] evidence of actual confusion; [5] marketing channels used; [6] type of goods and the degree of care likely to be exercised by the purchaser; [7] defendant’s intent in selecting the mark; and [8] likelihood of expansion of the product lines.” *Id.* at 348–49. We also noted that “the list is not exhaustive,” and that “[o]ther variables may come into play depending on the particular facts presented.” *Id.* at 348 n. 11.

[18] The *Sleekcraft* factors are intended as an adaptable proxy for consumer confusion, not a rote checklist. *See, e.g., Fortune Dynamic, Inc. v. Victoria’s Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1030 (9th Cir.2010) (“This eight-factor analysis is ‘pliant,’ illustrative rather than exhaustive, and best understood as simply providing helpful guideposts.”); *Dreamwerks Prod. Grp., Inc. v. SKG Studio*, 142 F.3d 1127, 1129 (9th Cir.1998) (“The factors should not be rigidly weighed; we do not count beans.”); *Eclipse Assoc. Ltd. v. Data Gen. Corp.*, 894 F.2d 1114, 1118 (9th Cir.1990) (“These tests were not meant to be requirements or hoops that a district court need jump through to make the determination.”).

[19] When we first confronted issues of trademark infringement and consumer confusion in the Internet context over a decade ago in *Brookfield*, we noted that “[w]e must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach.” 174 F.3d at 1054. There, Brookfield, a software company, marketed an entertainment database program under the mark MovieBuff. It sold the software, and offered access to the database, on its website, moviebuffonline.com. *Id.* at 1041–42. West Coast, a video retailer, had registered the mark The Movie Buff’s Movie Store. West Coast operated a website using the domain name moviebuff.com, which included a film database that competed with Brookfield’s product. *Id.* at 1043.

[20] We held that Brookfield was likely to succeed in its claim to be the senior user of MovieBuff, and that there was a likelihood of source confusion stemming from West Coast’s use of the mark in its domain name. *Id.* at 1053, 1060. “Heeding our repeated warnings against simply launching into a mechanical application of the eight-factor *Sleekcraft* test,” we determined that three of the eight factors were the most important in analyzing source confusion in the context of Internet domain names: (1) the similarity of the marks; (2) the relatedness of the goods and services offered; and (3) the simultaneous use of the Internet as a marketing channel. *Id.* at 1054 n. 16. Reasoning that the two marks were virtually identical in terms of sight,

sound and meaning, *id.* at 1055, that West Coast and Brookfield both offered products and services relating to movies, *id.* at 1056, and that they both used the Web as a marketing and advertising device, *id.* at 1057, we concluded that consumer confusion was likely, particularly given the nature of the consumers at issue, who included casual movie watchers unlikely to realize that they had mistakenly clicked on to West Coast's site when they had intended to reach Brookfield's, *id.* at 1060.

[21] Brookfield also asserted that West Coast infringed its mark by causing initial interest confusion because it had included MovieBuff in its “metatags,” code not visible to web users embedded in a website to attract search engines seeking a corresponding keyword.³ *Id.* at 1061 n. 23. Although were we to apply the same analysis in the metatags context as we did in the domain name context, we would easily reach the same conclusion as to each of the factors (with the possible exception of purchaser care), we declined to do so, reasoning that the “question in the metatags context is quite different.” *Id.* at 1062. In the metatags context, the question was whether West Coast could use the mark MovieBuff in the metatags of its website to attract search engines to locate its site when the keyword “MovieBuff” was entered, a question analogous to the issue presented here. As in the domain name context, the degree of care and sophistication of the consumer was a key factor, although the outcome differed. We did not find a likelihood of source confusion because the results list from a search for “MovieBuff” would result in a list that included both Brookfield's and West Coast's websites, and if the consumer clicked on West Coast's site its own name was “prominently display[ed].” *Id.* Thus a consumer was much less likely to be confused about which site he was viewing.

[22] Finding no source confusion, we nonetheless concluded that West Coast's use of MovieBuff in its metatags was likely to cause initial interest confusion. That is, by using Brookfield's mark MovieBuff to direct persons searching for Brookfield's product to the West Coast site, West Coast derived an improper benefit from the goodwill Brookfield developed in its mark. *Id.*

[23] Five years later in *Playboy*, we considered the practice of “keying”—another situation analogous to that here. Netscape operated a search engine that offered an early version of a keyword advertising program. It sold lists of terms to sponsors, and when users searched for the keywords on the list, the sponsor's advertisement would be displayed on the results page. 354 F.3d at 1022. Netscape required its advertisers from the adult entertainment industry to link their ads to one such list that contained more than 400 terms, including trademarks held by

³ Modern search engines such as Google no longer use metatags. Instead they rely on their own algorithms to find websites. *See* McCarthy at § 25:69.

Playboy. *Id.* at 1023. Playboy sued, contending that this practice infringed its trademarks in violation of the Lanham Act. The district court entered summary judgment in favor of Netscape. *Id.*

[24] We reversed, holding that summary judgment was inappropriate because genuine issues of material fact existed as to whether Netscape's keying practices constituted actionable infringement. *Id.* at 1031. Following *Brookfield*, we analyzed the keying issue in terms of initial interest confusion, "find[ing] insufficient evidence to defeat summary judgment on any other theory." *Id.* at 1024 n. 13. Playboy claimed that Netscape "misappropriated the goodwill of [its] marks by leading Internet users to competitors' websites just as West Coast ... misappropriated the goodwill of Brookfield's mark." *Id.* at 1025. In framing the initial interest confusion inquiry, we stressed that Playboy's infringement claim relied on the fact that the linked banner advertisements were "unlabeled," and were, therefore, more likely to mislead consumers into believing they had followed a link to Playboy's own website. *Id.*

[25] In *Playboy*, as in *Brookfield*, we applied the *Sleekcraft* test flexibly, determining that evidence of actual confusion was the most important factor. *Id.* at 1026. Playboy had introduced an expert study showing that a "statistically significant number" of Internet users searching for the terms "playboy" and "playmate" would think that Playboy itself sponsored the banner advertisements which appeared on the search results page. *Id.* We noted that this study "alone probably suffices to reverse the grant of summary judgment," but we nonetheless analyzed other relevant *Sleekcraft* factors. *Id.* As to the strength of the mark, we credited Playboy's expert reports showing it had created strong secondary meanings for "playboy" and "playmate." This suggested that consumers who entered these terms were likely searching for Playboy's products in particular. *Id.* at 1028. Analyzing the nature of the goods and consumer, we "presume[d] that the average searcher seeking adult-oriented materials on the Internet is easily diverted from a specific product he or she is seeking if other options, particularly graphic ones, appear more quickly." *Id.* at 1028. We concluded that there were genuine issues of material fact with respect to whether consumers were likely to be confused by Netscape's keying practices. *Id.* at 1031.

[26] Concurring, Judge Berzon was struck by how analytically similar the keyed advertisements in *Playboy* were to the infringing metatags in *Brookfield*. We agree, and also find similarity to the use of the keyword "ActiveBatch" in this case. Judge Berzon cautioned that a broad reading of *Brookfield*'s metatags holding could result in a finding of initial interest confusion "when a consumer is never confused as to source or affiliation, but instead knows, or should know, from the outset that a

product or web link is not related to that of the trademark holder because the list produced by the search engine so informs him.” *Id.* at 1034–35 (Berzon, J., concurring). She clarified that the *Playboy* panel’s holding was limited to “situations in which the banner advertisements are not labeled or identified.” *Id.* at 1036.

Judge Berzon analogized the experience of browsing clearly labeled keyword advertisements to shopping at Macy’s, explaining that if a shopper en route to the Calvin Klein section is diverted by a prominently displayed Charter Club (Macy’s own brand) collection and never reaches the Calvin Klein collection, it could not be said that Macy’s had infringed on Calvin Klein’s trademark by diverting the customer to it with a clearly labeled, but more prominent display. *Id.* at 1035. Therefore, it would be wrong to expand the initial interest confusion theory of infringement beyond the realm of the misleading and deceptive to the context of legitimate comparative and contextual advertising.

B.

[27] Here we consider whether the use of another’s trademark as a search engine keyword to trigger one’s own product advertisement violates the Lanham Act. We begin by examining the *Sleekcraft* factors that are most relevant to the determination whether the use is likely to cause initial interest confusion.⁴ While the district court analyzed each of the *Sleekcraft* factors, it identified the three most important factors as (1) the similarity of the marks, (2) the relatedness of the goods or services, and (3) the simultaneous use of the Web as a marketing channel, for any case addressing trademark infringement on the Internet. For this proposition the district court cited *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199 (9th Cir.2000), which followed *Brookfield* in emphasizing these three factors. *See GoTo.com*, 202 F.3d at 1205; *Brookfield*, 174 F.3d at 1054 n. 16.

[28] However, we did not intend *Brookfield* to be read so expansively as to forever enshrine these three factors—now often referred to as the “Internet trinity” or “Internet troika”—as the test for trademark infringement on the Internet. *Brookfield* was the first to present a claim of initial interest confusion on the Internet; we recognized at the time it would not be the last, and so emphasized flexibility over rigidity. Depending on the facts of each specific case arising on the Internet, other factors may emerge as more illuminating on the question of consumer confusion. In *Brookfield*, we used the “troika” factors to analyze the risk of source confusion generated by similar domain names, but we did not wholesale

⁴ Systems’ argument rests only on the theory of initial interest confusion. It does not argue source confusion.

adopt them in the metatag analysis. 174 F.3d at 1054–55. Subsequent courts similarly have found the “troika” helpful to resolve disputes involving websites with similar names or appearances. *See, e.g., Internet Specialties West, Inc. v. Milon-DiGiorgio Enters., Inc.*, 559 F.3d 985, 988–89 (9th Cir.2009); *Perfumbay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1169, 1173 (9th Cir.2007); *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 939, 942 (9th Cir.2002); *GoTo.com*, 202 F.3d at 1203–05. The leading trademark treatise correctly explains that the “troika” analysis “is appropriate for domain name disputes.” McCarthy at § 24:39.

[29] Given the multifaceted nature of the Internet and the ever-expanding ways in which we all use the technology, however, it makes no sense to prioritize the same three factors for every type of potential online commercial activity. The “troika” is a particularly poor fit for the question presented here. *See* Jonathan Moskin, *Virtual Trademark Use—The Parallel World of Keyword Ads*, 98 Trademark Reporter 873, 892–93 (2008) (arguing that the “troika” is inadequate for analyzing trademark infringement claims based on search engine keyword advertising because it omits important factors). The potential infringement in this context arises from the risk that while using Systems’ mark to search for information about its product, a consumer might be confused by a results page that shows a competitor’s advertisement on the same screen, when that advertisement does not clearly identify the source or its product.

[30] In determining the proper inquiry for this particular trademark infringement claim, we adhere to two long stated principles: the *Sleekcraft* factors (1) are non-exhaustive, and (2) should be applied flexibly, particularly in the context of Internet commerce. Finally, because the *sine qua non* of trademark infringement is consumer confusion, when we examine initial interest confusion, the owner of the mark must demonstrate likely confusion, not mere diversion.

[31] We turn to an examination of each *Sleekcraft* factor to analyze whether there is a likelihood of consumer confusion in this case, assigning each factor appropriate weight in accordance with its relevance to the factual circumstances presented here.

1. Strength of the Mark

[32] “The stronger a mark—meaning the more likely it is to be remembered and associated in the public mind with the mark’s owner—the greater the protection it is accorded by the trademark laws.” *Brookfield*, 174 F.3d at 1058. Two relevant measurements are conceptual strength and commercial strength. Conceptual strength involves classification of a mark “along a spectrum of generally increasing inherent distinctiveness as generic, descriptive, suggestive, arbitrary, or

fanciful.” *Id.* “A mark’s conceptual strength depends largely on the obviousness of its connection to the good or service to which it refers.” *Fortune Dynamic*, 618 F.3d at 1032–33. Federal trademark “[r]egistration alone may be sufficient in an appropriate case to satisfy a determination of distinctiveness.” *Lahoti v. VeriCheck, Inc.*, 586 F.3d 1190, 1199 (9th Cir.2009). However, “while the registration adds something on the scales, we must come to grips with an assessment of the mark itself.” *Zobmondo Entertainment, LLC v. Falls Media, LLC*, 602 F.3d 1108, 1115 (9th Cir.2010). Commercial strength is based on “actual marketplace recognition,” and thus “advertising expenditures can transform a suggestive mark into a strong mark.” *Brookfield*, 174 F.3d at 1058.

[33] This factor is probative of confusion here because a consumer searching for a generic term is more likely to be searching for a product category. *See id.* at 1058 n. 19 (“Generic terms are those used by the public to refer generally to the product rather than a particular brand of the product.”). That consumer is more likely to expect to encounter links and advertisements from a variety of sources. By contrast, a user searching for a distinctive term is more likely to be looking for a particular product, and therefore could be more susceptible to confusion when sponsored links appear that advertise a similar product from a different source. *See 1-800 Contacts, Inc. v. Lens.com, Inc.*, 755 F.Supp.2d 1151, 2010 WL 5150800 at *17 (D.Utah 2010) (determining that “1800 Contacts” was a weak mark in a keyword advertising case because the “nature of how third parties use generic and descriptive words on search engines” suggested that users who entered the term were likely searching for a type of product). On the other hand, if the ordinary consumers of this particular product are particularly sophisticated and knowledgeable, they might also be aware that Systems is the source of ActiveBatch software and not be confused at all.

[34] The district court acknowledged that the parties failed to address the strength of the mark, but it concluded that the factor favors Systems. It reasoned that ActiveBatch is a suggestive mark because it “requires a mental leap from the mark to the product,” (quoting *Brookfield*, 174 F.3d at 1058), and as a registered trademark it is “inherently distinctive.” We agree. Because the mark is both Systems’ product name and a suggestive federally registered trademark, consumers searching for the term are presumably looking for its specific product, and not a category of goods. Nonetheless, that may not be the end of the inquiry about this factor, as the sophistication of the consumers of the product may also play a role. The district court properly declined to consider commercial strength, which, as an evidence-intensive inquiry, is unnecessary at the preliminary injunction stage.

2. Proximity of the Goods

[35] “Related goods are generally more likely than unrelated goods to confuse the public as to the producers of the goods.” *Brookfield*, 174 F.3d at 1055. “[T]he danger presented is that the public will mistakenly assume there is an association between the producers of the related goods, though no such association exists.” *Sleekcraft*, 599 F.2d at 350. The proximity of goods is measured by whether the products are: (1) complementary; (2) sold to the same class of purchasers; and (3) similar in use and function. *Id.*

[36] The proximity of the goods was relevant in *Playboy*, where unsophisticated consumers were confronted with unlabeled banner advertisements that touted adult-oriented material very similar to Playboy's own products. There, we concluded that under the circumstances, the relatedness of the goods bolstered the likelihood of confusion, and therefore favored Playboy. *Playboy*, 354 F.3d at 1028. However, the proximity of the goods would become less important if advertisements are clearly labeled or consumers exercise a high degree of care, because rather than being misled, the consumer would merely be confronted with choices among similar products. *Id.* at 1035 (Berzon, J., concurring) (“[S]uch choices do not constitute trademark infringement off the internet, and I cannot understand why they should on the internet.”).

[37] Because the products at issue here are virtually interchangeable, this factor may be helpful, but it must be considered in conjunction with the labeling and appearance of the advertisements and the degree of care exercised by the consumers of the ActiveBatch software. By weighing this factor in isolation and failing to consider whether the parties' status as direct competitors would actually lead to a likelihood of confusion, the district court allowed this factor to weigh too heavily in the analysis.

3. Similarity of the Marks

[38] “[T]he more similar the marks in terms of appearance, sound, and meaning, the greater the likelihood of confusion.” *Brookfield*, 174 F.3d at 1054. “Where the two marks are entirely dissimilar, there is no likelihood of confusion.” *Id.* “Similarity of the marks is tested on three levels: sight, sound, and meaning. Each must be considered as they are encountered in the marketplace.” *Sleekcraft*, 599 F.2d at 351 (citations omitted).

[39] In *Sleekcraft*, we concluded that the marks “Sleekcraft” and “Slickcraft” were similar in terms of sight, sound, and meaning by examining the actual situations in which consumers were likely to read, hear, and consider the meaning of the terms. *Id.* at 351–52. Such an inquiry is impossible here where the consumer

does not confront two distinct trademarks. Rather, after entering one company's mark as a search term, the consumer sees a competitor's sponsored link that displays neither company's trademarks. The district court erroneously treated "ActiveBatch," the keyword purchased by Network, as conceptually separate from ActiveBatch the trademark owned by Systems. This is an artificial distinction that does not reflect what consumers "encountered in the marketplace." Again, however, because the consumer keys in Systems' trademark, which results in Network's sponsored link, depending on the labeling and appearance of the advertisement, including whether it identifies Network's own mark, and the degree of care and sophistication of the consumer, it could be helpful in determining initial interest confusion.

4. Evidence of Actual Confusion

[40] "[A] showing of actual confusion among significant numbers of consumers provides strong support for the likelihood of confusion." *Playboy*, 354 F.3d at 1026 (citing *Thane Int'l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 902 (9th Cir.2002)) ("Evidence of actual confusion constitutes persuasive proof that future confusion is likely.... If enough people have been *actually* confused, then a *likelihood* that people are confused is established."). However, "actual confusion is not necessary to a finding of likelihood of confusion under the Lanham Act." *Academy of Motion Picture Arts & Sciences v. Creative House Promotions, Inc.*, 944 F.2d 1446, 1456 (9th Cir.1991) (citing *American Int'l Group, Inc. v. American Int'l Bank*, 926 F.2d 829, 832 (9th Cir.1991)). Indeed, "[p]roving actual confusion is difficult ... and the courts have often discounted such evidence because it was unclear or insubstantial." *Sleekcraft*, 599 F.2d at 352.

[41] In *Playboy*, the expert report showing a significant number of users were confused by the keying practice at issue was strong evidence that Playboy's infringement claim should be allowed to proceed. 354 F.3d at 1027. *Playboy*, however, was decided at the summary judgment stage, whereas here we examine a sparse record supporting preliminary injunctive relief. As the district court noted, neither Network nor Systems provided evidence regarding actual confusion, which is not surprising given the procedural posture. Therefore, while this is a relevant factor for determining the likelihood of confusion in keyword advertising cases, its importance is diminished at the preliminary injunction stage of the proceedings. The district court correctly concluded that this factor should be accorded no weight.

5. Marketing Channels

[42] “Convergent marketing channels increase the likelihood of confusion.” *Sleekcraft*, 599 F.2d at 353. In *Sleekcraft*, the two products were sold in niche marketplaces, including boat shows, specialty retail outlets, and trade magazines. *Id.* at 353. However, this factor becomes less important when the marketing channel is less obscure. Today, it would be the rare commercial retailer that did not advertise online, and the shared use of a ubiquitous marketing channel does not shed much light on the likelihood of consumer confusion. See *Playboy*, 354 F.3d at 1028 (“Given the broad use of the Internet today, the same could be said for countless companies. Thus, this factor merits little weight.”).

[43] Therefore, the district court’s determination that because both parties advertise on the Internet this factor weighed in favor of Systems was incorrect.

6. Type of Goods and Degree of Care

[44] “Low consumer care ... increases the likelihood of confusion.” *Playboy*, 354 F.3d at 1028. “In assessing the likelihood of confusion to the public, the standard used by the courts is the typical buyer exercising ordinary caution.... When the buyer has expertise in the field, a higher standard is proper though it will not preclude a finding that confusion is likely. Similarly, when the goods are expensive, the buyer can be expected to exercise greater care in his purchases; again, though, confusion may still be likely.” *Sleekcraft*, 599 F.2d at 353 (citations omitted).

[45] The nature of the goods and the type of consumer is highly relevant to determining the likelihood of confusion in the keyword advertising context. A sophisticated consumer of business software exercising a high degree of care is more likely to understand the mechanics of Internet search engines and the nature of sponsored links, whereas an un-savvy consumer exercising less care is more likely to be confused. The district court determined that this factor weighed in Systems’ favor because “there is generally a low degree of care exercised by Internet consumers.” However, the degree of care analysis cannot begin and end at the marketing channel. We still must consider the nature and cost of the goods, and whether “the products being sold are marketed primarily to expert buyers.” *Brookfield*, 174 F.3d at 1060.

[46] In *Brookfield*, the websites were visited by both sophisticated entertainment industry professionals and amateur film fans, which supported the conclusion that at least some of the consumers were likely to exercise a low degree of care. *Id.* at 1056. In *Playboy*, the relevant consumer was looking for cheap, interchangeable adult-oriented material, which similarly led to our court’s finding that the consumers at issue would exercise a low degree of care. 354 F.3d at 1029. In

both cases, we looked beyond the medium itself and to the nature of the particular goods and the relevant consumers.

[47] We have recently acknowledged that the default degree of consumer care is becoming more heightened as the novelty of the Internet evaporates and online commerce becomes commonplace. In *Toyota Motor Sales v. Tabari*, 610 F.3d 1171 (9th Cir.2010), we vacated a preliminary injunction that prohibited a pair of automobile brokers from using Toyota's "Lexus" mark in their domain names.⁵ We determined that it was unlikely that a reasonably prudent consumer would be confused into believing that a domain name that included a product name would necessarily have a formal affiliation with the maker of the product, as "[c]onsumers who use the internet for shopping are generally quite sophisticated about such matters." *Id.* at 1178. The *Tabari* panel reasoned,

[I]n the age of FIOS, cable modems, DSL and T1 lines, reasonable, prudent and experienced internet consumers are accustomed to such exploration by trial and error. They skip from site to site, ready to hit the back button whenever they're not satisfied with a site's contents. They fully expect to find some sites that aren't what they imagine based on a glance at the domain name or search engine summary. Outside the special case of ... domains that actively claim affiliation with the trademark holder, consumers don't form any firm expectations about the sponsorship of a website until they've seen the landing page—if then.

Id. at 1179 (citations omitted).

[48] We further explained that we expect consumers searching for expensive products online to be even more sophisticated. *Id.* at 1176 ("Unreasonable, imprudent and inexperienced web-shoppers are not relevant.").

[49] Therefore the district court improperly concluded that this factor weighed in Systems' favor based on a conclusion reached by our court more than a decade ago in *Brookfield* and *GoTo.com* that Internet users on the whole exercise a low

⁵ The *Tabari* court applied the nominative fair use test rather than the *Sleekcraft* factors, but it explained that *Sleekcraft*'s consumer confusion inquiry was "analogous." *Id.* at 1176. Network has not argued that nominative fair use applies here. We find the initial interest confusion analysis more appropriate for the circumstances of this case. *Cf. New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir.1992) (explaining that nominative fair use applies when "the only word reasonably available to describe a particular thing is pressed into service").

degree of care. While the statement may have been accurate then, we suspect that there are many contexts in which it no longer holds true.

7. Defendant's Intent

[50] “When the alleged infringer knowingly adopts a mark similar to another's, reviewing courts presume that the defendant can accomplish his purpose: that is, that the public will be deceived.” *Sleekcraft*, 599 F.2d at 354. Nevertheless, we have also “recognized that liability for infringement may not be imposed for using a registered trademark in connection with truthful comparative advertising.” *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 725 F.2d 1240, 1248 (9th Cir.1984).

[51] Therefore, much like the proximity of the goods, the defendant's intent may be relevant here, but only insofar as it bolsters a finding that the use of the trademark serves to mislead consumers rather than truthfully inform them of their choice of products. The district court incorrectly considered the intent factor in isolation, and concluded that it weighed in Systems' favor without first determining that Network intended to deceive consumers rather than compare its product to ActiveBatch.

8. Likelihood of Expansion of the Product Lines

[52] “Inasmuch as a trademark owner is afforded greater protection against competing goods, a ‘strong possibility’ that either party may expand his business to compete with the other will weigh in favor of finding that the present use is infringing. When goods are closely related, any expansion is likely to result in direct competition.” *Sleekcraft*, 599 F.2d at 354 (citations omitted). Where two companies are direct competitors, this factor is unimportant. *Cf. Brookfield*, 174 F.3d at 1060. Therefore, the district court correctly declined to consider the likelihood of expansion.

9. Other Relevant Factors

[53] The eight *Sleekcraft* factors are “not exhaustive. Other variables may come into play depending on the particular facts presented.” *Sleekcraft*, 599 F.2d at 348 n. 11. In the keyword advertising context the “likelihood of confusion will ultimately turn on what the consumer saw on the screen and reasonably believed, given the context.” *Hearts on Fire Co. v. Blue Nile, Inc.*, 603 F.Supp.2d 274, 289 (D.Mass.2009).⁶

⁶ The *Hearts on Fire* court identified a new seven-factor test to determine whether there is a likelihood of consumer confusion arising from a firm's use of a competitor's trademark as a search engine keyword triggering its own sponsored

In *Playboy*, we found it important that the consumers saw banner advertisements that were “confusingly labeled or not labeled at all.” 354 F.3d at 1023. We noted that clear labeling “might eliminate the likelihood of initial interest confusion that exists in this case.” *Id.* at 1030 n. 43.

[54] The appearance of the advertisements and their surrounding context on the user's screen are similarly important here. The district court correctly examined the text of Network's sponsored links, concluding that the advertisements did not clearly identify their source. However, the district court did not consider the surrounding context. In *Playboy*, we also found it important that Netscape's search engine did not clearly segregate the sponsored advertisements from the objective results. 354 F.3d at 1030. Here, even if Network has not clearly identified itself in the text of its ads, Google and Bing have partitioned their search results pages so that the advertisements appear in separately labeled sections for “sponsored” links. The labeling and appearance of the advertisements as they appear on the results page includes more than the text of the advertisement, and must be considered as a whole.

C.

[55] Given the nature of the alleged infringement here, the most relevant factors to the analysis of the likelihood of confusion are: (1) the strength of the mark; (2) the evidence of actual confusion; (3) the type of goods and degree of care likely to be exercised by the purchaser; and (4) the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page.

[56] The district court did not weigh the *Sleekcraft* factors flexibly to match the specific facts of this case. It relied on the Internet “troika,” which is highly illuminating in the context of domain names, but which fails to discern whether there is a likelihood of confusion in a keywords case. Because the linchpin of trademark infringement is consumer confusion, the district court abused its discretion in issuing the injunction. *See United States v. Hinkson*, 585 F.3d 1247, 1262 (9th Cir.2009) (en banc) (holding that a district court abuses its discretion by failing to identify the correct legal rule to apply); *see also Abercrombie & Fitch Co. v. Moose Creek, Inc.*, 486 F.3d 629, 637 (9th Cir.2007) (holding that the district court abused its discretion in its application of the *Sleekcraft* factors). We need not reach

links. 603 F.Supp.2d at 289. Network urges us to adopt the *Hearts on Fire* factors. While we agree that the decision's reasoning is useful, we decline to add another multi-factor test to the extant eight-factor *Sleekcraft* test.

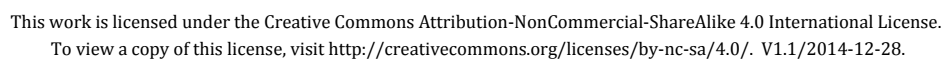
the three remaining preliminary injunction elements, or consider the remaining issues on appeal. *See Advertise.com, Inc. v. AOL Advertising, Inc.*, 616 F.3d 974, 982 (9th Cir.2010).

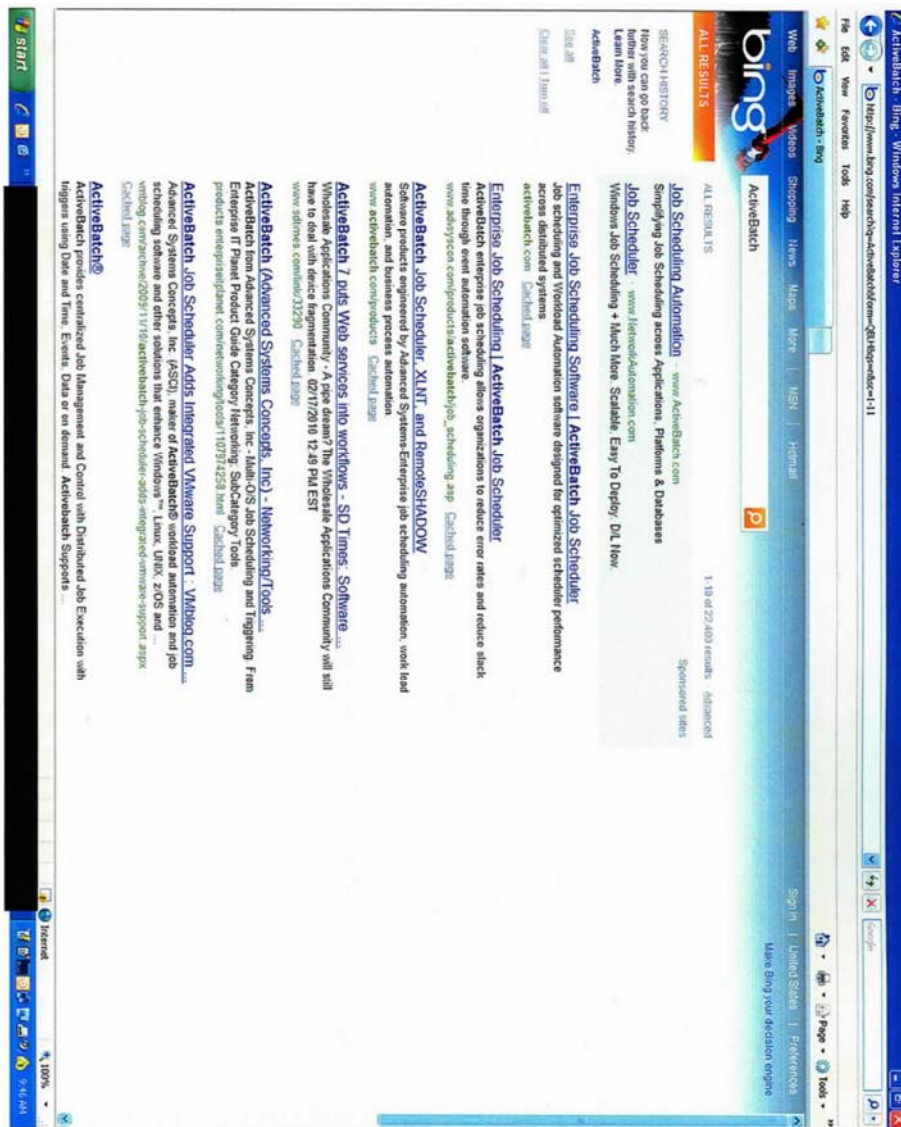
IV. CONCLUSION

[57] We REVERSE the district court's order granting Systems' motion for a preliminary injunction, VACATE the injunction, and REMAND for further proceedings consistent with this opinion.

APPENDIX A

[only two images of the eight are shown]





Questions and Comments

1. *Initial Interest Confusion and Trade Dress.* In *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539 (6th Cir. 2005), Gibson and Paul Reed Smith both manufactured single cutaway guitars, the shape of which is shown below in Gibson's trademark registration for its product configuration. Gibson conceded that there was no likelihood of point-of-sale confusion due to Paul Reed Smith's prominent labelling, but argued that there was a likelihood of initial interest

confusion in that consumers would see a PRS single cutaway guitar from across a store and believe it to be a Gibson guitar. The Sixth Circuit declined to apply initial interest confusion to trade dress. It reasoned:

The potential ramifications of applying this judicially created doctrine to product-shape trademarks are different from the ramifications of applying the doctrine to trademarks on a product's name, a company's name, or a company's logo. *Cf. Versa Prods. Co. v. Bifold Co.*, 50 F.3d 189, 201-03, 207, 209, 212-13, 215 (3rd Cir.1995) (discussing the related context of product-configuration trade dress). Specifically, there are only a limited number of shapes in which many products can be made. A product may have a shape which is neither functional nor generic (and hence which can be trademarked) but nonetheless is still likely to resemble a competing product when viewed from the far end of a store aisle. Thus, many legitimately competing product shapes are likely to create some initial interest in the competing product due to the competing product's resemblance to the better-known product when viewed from afar. In other words, application of the initial-interest-confusion doctrine to product shapes would allow trademark holders to protect not only the actual product shapes they have trademarked, but also a "penumbra" of more or less similar shapes that would not otherwise qualify for trademark protection.

Id. at 551.

(In ruling in favor of Paul Reed Smith on all surviving claims brought against it, the court ruled that Paul Reed Smith's functionality objection to the validity of Gibson's mark was moot).

Int. Cl.: 15

Prior U.S. Cl.: 36

United States Patent and Trademark Office

Reg. No. 1,782,606
Registered July 20, 1993

TRADEMARK
PRINCIPAL REGISTER



GIBSON GUITAR CORP. (DELAWARE CORPORATION)
P.O. BOX 10087
641 MASSMAN DRIVE
NASHVILLE, TN 37210

FOR: GUITARS, IN CLASS 15 (U.S. CL. 36).
FIRST USE 12-0-1952; IN COMMERCE
12-0-1952.

THE LINING OF THE DRAWING IS NOT INTENDED TO INDICATE COLOR.

THE MARK CONSISTS OF A UNIQUELY SHAPED CONFIGURATION FOR THE BODY PORTION OF THE GUITAR AS ILLUSTRATED IN THE DRAWING BY THE SOLID LINES.

SEC. 2(F).

SER. NO. 73-675,665, FILED 7-31-1987.

MARY FRANCES BRUCE, EXAMINING ATTORNEY

2. *Critiquing Initial Interest Confusion.* For a thorough critique of current initial interest confusion doctrine, see Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105 (2005). Rothman observes: “The courts’ initial motivation for adopting initial interest confusion was a legitimate effort to prevent baiting and switching practices. However, since then courts have unreasonably stretched the doctrine to cover many circumstances which should be considered fair competition or which are better addressed by other existing statutes.” *Id.* at 113.

6. Post-Sale Confusion

While initial interest confusion addresses the likelihood of confusion before the point of sale, post-sale confusion, as its name suggests, addresses confusion after the point of sale. One of the first cases to recognize some form of post-sale confusion was *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches, Inc.*, 221 F.2d 464 (2d Cir. 1955). In *Mastercrafters*, the declaratory plaintiff Mastercrafters produced an electric clock made to look like the declaratory defendant’s prestigious and expensive Atmos table clock, a non-electric clock that wound itself from changes in atmospheric pressure. Mastercrafters sold its clock for about \$30; Vacheron sold the Atmos clock for not less than \$175 (about \$1,500 in today’s money). Mastercrafters sought a declaration that its conduct did not

constitute unfair competition. Judge Frank held in favor of Vacheron. Though there was no point-of-sale confusion, there was nevertheless unfair competition:

True, a customer examining plaintiff's clock would see from the electric cord, that it was not an 'atmospheric' clock. But, as the [district] judge found, plaintiff copied the design of the Atmos clock because plaintiff intended to, and did, attract purchasers who wanted a "luxury design" clock. This goes to show at least that some customers would buy plaintiff's cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers' homes would regard as a prestigious article. Plaintiff's wrong thus consisted of the fact that such a visitor would be likely to assume that the clock was an Atmos clock. Neither the electric cord attached to, nor the plaintiff's name on, its clock would be likely to come to the attention of such a visitor; the likelihood of such confusion suffices to render plaintiff's conduct actionable.

Id. at 464.

The post-sale confusion theory has been controversial, as the dissent in the following case suggests. In reading through *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235 (6th Cir. 1991), which involves the unauthorized production of "Faurraris", consider the following questions:

- Should courts take into account the confusion as to source of consumers who would never actually purchase the plaintiff's goods (or the defendant's goods for that matter)?
- Should trademark law be used to protect status goods? If not, is it possible to design trademark law in such a way that it will not protect status goods?

Ferrari S.P.A. v. Roberts

944 F.2d 1235 (6th Cir. 1991)



1971 Ferrari 365 GTS4 Daytona Spyder⁷



Ferrari Testarossa

⁷ <http://blog.hemmings.com/index.php/tag/ferrari-365-gts4-daytona-spyder/>

RYAN, Circuit Judge.

[1] This is a trademark infringement action brought pursuant to the Lanham Act, 15 U.S.C. § 1051, *et seq.* The principal issue is whether the district court correctly concluded that plaintiff Ferrari enjoyed unregistered trademark protection in the exterior shape and appearance of two of its automobiles and, if so, whether defendant Roberts' replicas of Ferrari's designs infringed that protection, in violation of section 43(a) of the Lanham Act....

[2] We hold that the district court properly decided all of the issues and, therefore, we shall affirm.

I.

The Facts

[3] Ferrari is the world famous designer and manufacturer of racing automobiles and upscale sports cars. Between 1969 and 1973, Ferrari produced the 365 GTB/4 Daytona. Because Ferrari intentionally limits production of its cars in order to create an image of exclusivity, only 1400 Daytonas were built; of these, only 100 were originally built as Spyders, soft-top convertibles. Daytona Spyders currently sell for one to two million dollars. Although Ferrari no longer makes Daytona Spyders, they have continuously produced mechanical parts and body panels, and provided repair service for the cars.

[4] Ferrari began producing a car called the Testarossa in 1984. To date, Ferrari has produced approximately 5000 Testarossas. Production of these cars is also intentionally limited to preserve exclusivity: the entire anticipated production is sold out for the next several years and the waiting period to purchase a Testarossa is approximately five years. A new Testarossa sells for approximately \$230,000.

[5] Roberts is engaged in a number of business ventures related to the automobile industry. One enterprise is the manufacture of fiberglass kits that replicate the exterior features of Ferrari's Daytona Spyder and Testarossa automobiles. Roberts' copies are called the Miami Spyder and the Miami Coupe, respectively. The kit is a one-piece body shell molded from reinforced fiberglass. It is usually bolted onto the undercarriage of another automobile such as a Chevrolet Corvette or a Pontiac Fiero, called the donor car. Roberts marketed the Miami Spyder primarily through advertising in kit-car magazines. Most of the replicas were sold as kits for about \$8,500, although a fully accessorized "turnkey" version was available for about \$50,000.

[6] At the time of trial, Roberts had not yet completed a kit-car version of the Miami Coupe, the replica of Ferrari's Testarossa, although he already has two orders for them. He originally built the Miami Coupe for the producers of the television

program “Miami Vice” to be used as a stunt car in place of the more expensive Ferrari Testarossa.

[7] The district court found, and it is not disputed, that Ferrari's automobiles and Roberts' replicas are virtually identical in appearance.

[8] Ferrari brought suit against Roberts in March 1988 alleging trademark infringement, in violation of section 43(a) of the Lanham Act, and obtained a preliminary injunction enjoining Roberts from manufacturing the replica cars. The injunction was later amended to permit Roberts to recommence production of the two models.

[9] Five months later, Roberts filed a voluntary petition in bankruptcy. Despite the Chapter 11 proceedings, the bankruptcy court, in a carefully limited order, lifted the automatic stay and permitted Ferrari to continue to prosecute this action. Prior to trial, the district court denied Roberts' request for a jury, and the case was tried to the court resulting in a verdict for Ferrari and a permanent injunction enjoining Roberts from producing the Miami Spyder and the Miami Coupe.

II.

[10] Section 43(a) of the Lanham Act creates a civil cause of action for trademark infringement. In relevant part, section 43(a) provides:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which-

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person....

....

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

[11] The protection against infringement provided by section 43(a) is not limited to “goods, services or commercial activities” protected by registered trademarks. It extends as well, in certain circumstances, to the unregistered “trade dress” of an article. “Trade dress” refers to “the image and overall appearance of a product.” *Allied Mktg. Group, Inc. v. CDL Mktg., Inc.*, 878 F.2d 806, 812 (5th Cir.1989). It embodies “that arrangement of identifying characteristics or decorations connected with a product, whether by packaging or otherwise, intended to make the

source of the product distinguishable from another and to promote its sale.” *Mr. Gasket Co. v. Travis*, 35 Ohio App.2d 65, 72 n. 13, 299 N.E.2d 906, 912 n. 13 (1973).

[12] Ferrari's Lanham Act claim in this case is a “trade dress” claim. Ferrari charges, and the district court found, that the unique and distinctive exterior shape and design of the Daytona Spyder and the Testarossa are protected trade dress which Roberts has infringed by copying them and marketing his replicas.

[13] Roberts asserts that there has been no infringement under section 43(a) for a number of reasons: (1) the design of Ferrari's vehicles are protected only under design patent law, *see* 35 U.S.C. § 171, and not the Lanham Act; (2) there is no actionable likelihood of confusion between Ferrari's vehicles and Roberts' replicas at the point of sale; and (3) the “aesthetic functionality doctrine” precludes recovery.

[14] We shall take up each argument in turn.

III.

[15] To prove a violation of section 43(a), Ferrari's burden is to show, by a preponderance of the evidence:

- 1) that the trade dress of Ferrari's vehicles has acquired a “secondary meaning,”
- 2) that there is a likelihood of confusion based on the similarity of the exterior shape and design of Ferrari's vehicles and Roberts' replicas, and
- 3) that the appropriated features of Ferrari's trade dress are primarily nonfunctional.

See Kwik-Site Corp. v. Clear View Mfg. Co., Inc., 758 F.2d 167, 178 (6th Cir.1985).

A.

Secondary Meaning

[16] To acquire a secondary meaning in the minds of the buying public, an article of merchandise when shown to a prospective customer must prompt the affirmation, “That is the article I want because I know its source,” and not the negative inquiry as to “Who makes that article?” In other words, the article must proclaim its identification with its source, and not simply stimulate inquiry about it. *West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 595 (6th Cir.) (citation omitted), *cert. denied*, 350 U.S. 840 (1955). Arguably, secondary meaning in this case can be presumed from Roberts' admissions that he intentionally copied Ferrari's designs. Roberts told Vivian Bumgardner, an investigator who recorded her conversations with Roberts, that “we put this whole body right on it and it looks just like a real car, I mean they can't tell by looking.... We build and sell the same car, reproduce it.” The intent to copy was also shown by Roberts' use of the distinctive Ferrari prancing horse logo on the front parking lights of the Daytona Spyder and in

advertising brochures. The original Miami Coupe brochure even copied the Ferrari name by referring to the Roberts' car as the "Miami Testarossa." The evidence of intentional copying shows the strong secondary meaning of the Ferrari designs because "[t]here is no logical reason for the precise copying save an attempt to realize upon a secondary meaning that is in existence." *Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.*, 283 F.2d 551, 558 (9th Cir.1960).

[17] Ferrari, however, need not rely on a presumption of secondary meaning because the evidence at trial showed that the exterior design of Ferrari's vehicles enjoyed strong secondary meaning. Lawrence Crane, Art Director of *Automobile* magazine, testified that the shape of a Ferrari "says Ferrari to the general populous (sic)" and that "because it's so instantly recognizable ... we've used even just portions of Ferraris, the Testarossa, for instance, and people recognize it, and our sales are changed." William Moore, Editor of *Kit Car Illustrated*, and a witness for Roberts, conceded that car replica manufacturers frequently copy Ferraris because the "special image" associated with Ferrari creates a market for cars which look like Ferraris. The testimony of Crane and Moore was supported by survey data which indicated that of survey respondents shown photographs of Ferrari's cars without identifying badges, 73% properly identified a photograph of Daytona Spyder as manufactured by Ferrari and 82% identified the Testarossa as a Ferrari product. Such survey evidence, combined with intentional copying and the widespread publicity surrounding Ferraris, convinced the court in a separate action brought by Ferrari against Roberts' former partner to enjoin him from producing replicas of the Daytona Spyder identical to those produced by Roberts, that the Ferrari vehicle design has a secondary meaning:

In light of defendants' close intentional copying, their failure to introduce any evidence to show that such copying was for any purpose but to associate themselves with the reputation and marketability of the Ferrari DAYTONA SPYDER, the large amount of recognition of said design with Ferrari shown in continuous magazine articles and books about the DAYTONA SPYDER long after the cessation of its manufacture, the showings of the Ferrari DAYTONA SPYDER at vintage car shows, the highly publicized sales of said car by Ferrari customers, and the percentages of recognition in both the plaintiff's and the defendants' surveys, ... the court finds the evidence thorough and convincing that the Ferrari DAYTONA SPYDER design has achieved a strong secondary meaning.

Ferrari S.P.A. v. McBurnie, 11 U.S.P.Q.2d 1843, 1846-47 (S.D.Cal.1989).

[18] Ferrari's vehicles would not acquire secondary meaning merely because they are unique designs or because they are aesthetically beautiful. The design must be one that is instantly identified in the mind of the informed viewer as a Ferrari design. The district court found, and we agree, that the unique exterior design and shape of the Ferrari vehicles are their “mark” or “trade dress” which distinguish the vehicles' exterior shapes not simply as distinctively attractive designs, but as Ferrari creations.

[19] We also agree with the district court that Roberts' admission that he intentionally copied Ferrari's design, the survey evidence introduced by Ferrari, and the testimony of Crane and Moore amount to abundant evidence that the exterior design features of the Ferrari vehicles are “trade dress” which have acquired secondary meaning.

...

B.

Likelihood of Confusion

1.

District Court's Findings

[20] This court has held that in determining likelihood of confusion in a Lanham Act case, the court should consider the following factors: strength of the plaintiff's mark; relatedness of the goods; similarity of the marks; evidence of actual confusion; marketing channels used; likely degree of purchaser care; defendant's intent in selecting the mark; and likelihood of expansion of the product lines. *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 670 F.2d 642, 648 (6th Cir.), *cert. denied*, 459 U.S. 916, 103 S.Ct. 231, 74 L.Ed.2d 182 (1982). A party claiming infringement need not show all, or even most, of these factors in order to prevail. *Wynn Oil Co. v. Thomas*, 839 F.2d 1183, 1186 (6th Cir.1988). A district court's findings regarding each factor are reviewed for clear error, but the further determination of likelihood of confusion based on those factors is a legal conclusion reviewed *de novo*. *Frisch's Restaurants*, 670 F.2d at 651.

[21] The district court found, based upon an evaluation of the eight *Frisch* factors, that the similarity of the exterior design of the Ferrari vehicles and the Roberts replicas was likely to confuse the public. The court noted that while no evidence was offered on two of the factors, evidence of actual confusion and likelihood of expansion of the product lines, two others, marketing channels and purchaser care, favored Roberts and the remaining factors “radically favor[ed] Ferrari.” Summarized, the district court's findings on the *Frisch* “likelihood of confusion” factors are as follows:

Factors

Favor

1.	Strength of the mark	Ferrari
2.	Relatedness of the goods	Ferrari
3.	Similarity of the marks	Ferrari
4.	Evidence of actual confusion	No evidence
5.	Marketing channels used	Roberts
6.	Likely degree of purchaser care	Roberts
7.	Roberts' intent in selecting "mark"	Ferrari
8.	Likelihood of expansion of product lines.	No evidence

[22] Recalling that the claimed mark involved here is the trade dress—the exterior shape and design of the Ferrari vehicles—it is clear that Ferrari's mark is very strong. The strength of the mark is its distinctiveness and Ferrari's designs are unquestionably distinctive. The survey evidence we have discussed, as well as the testimony that the shape of the plaintiff's vehicles "says Ferrari," is evidence of that distinctiveness. Indeed, Roberts' purposeful effort to copy the Ferrari designs is strong circumstantial evidence of the distinctiveness of the originals.

[23] There is no dispute about the relatedness of the goods factor. The products produced by both parties are sports cars.

[24] Likewise, the similarity of the marks—the exterior designs of the vehicles—is indisputable. Ferrari offered survey evidence which showed that 68% of the respondents could not distinguish a photograph of the McBurnie replica, upon which Roberts' Miami Spyder is based, from a photograph of the genuine Ferrari Daytona Spyder. In these photographs, the cars were shown without identifying insignia. Drawings for Roberts' cars show identifying insignia, an "R" on the parking lens and vent window, but the cars produced at the time of trial did not include the "R". Because the survey respondents saw photographs of the McBurnie cars, and because all of the identifying insignia were removed, the survey has limited value in showing the likelihood of confusion between the Roberts and Ferrari vehicles if displayed with identifying emblems. The survey, however, does show that the trade dress of the two car designs, the shapes and exteriors, were quite similar. An examination of the photographs of the cars which are in evidence confirms the striking similarity of the dress of the originals and the replicas. They are virtually indistinguishable.

[25] Finally, Roberts conceded that his intent in replicating the exterior design of Ferrari's vehicles was to market a product that looked as much as possible like a Ferrari original, although Roberts made no claim to his customers that his replicas were Ferraris. " '[The] intent of [a party] in adopting [another's mark] is a critical factor, since if the mark was adopted with the intent of deriving benefit from the reputation of [the plaintiff,] *that fact alone may be sufficient to justify the inference*

that there is confusing similarity.' " *Frisch's Restaurants*, 670 F.2d at 648 (emphasis in original) (quoting *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 263 (5th Cir.), *cert. denied*, 449 U.S. 899, 101 S.Ct. 268, 66 L.Ed.2d 129 (1980)); *see also Mastercrafters*, 221 F.2d at 467. This is especially true in cases, such as this one, where the defendant sold a comparatively cheap imitation of an expensive, exclusive item. As the court in *Rolex Watch* explained:

By selling the bogus watches, only one inference may be drawn: the Defendants intended to derive benefit from the Plaintiff's reputation. This inference is no less reasonable when weighed against the Defendants' assertion that in selling these watches, they did not fail to inform the recipients that they were counterfeits.

Rolex Watch, U.S.A., Inc. v. Canner, 645 F.Supp. 484, 492 (S.D.Fla.1986). Intentional copying, however, is not actionable under the Lanham Act "absent evidence that the copying was done with the intent to derive a benefit from the reputation of another." *Zin-Plas Corp. v. Plumbing Quality AGF Co.*, 622 F.Supp. 415, 420 (W.D.Mich.1985). "Where the copying by one party of another's product is not done to deceive purchasers and thus derive a benefit from another's name and reputation, but rather to avail oneself of a design which is attractive and desirable, a case of unfair competition is not made out." *West Point Mfg.*, 222 F.2d at 586. In this case, where Ferrari's design enjoyed strong secondary meaning and Roberts admitted that he designed his cars to look like Ferrari's, the intent to copy was clear.

[26] We conclude that aside from the presumption of likelihood of confusion that follows from intentional copying, Ferrari produced strong evidence that the public is likely to be confused by the similarity of the exterior design of Ferrari's vehicles and Roberts' replicas.

2.

Roberts' Objections

[27] Roberts disagrees with the legal significance of the district court's findings of likelihood of confusion. He argues that for purposes of the Lanham Act, the requisite likelihood of confusion must be confusion at the point of sale—purchaser confusion—and not the confusion of nonpurchasing, casual observers. The evidence is clear that Roberts assured purchasers of his replicas that they were not purchasing Ferraris and that his customers were not confused about what they were buying.

...

b.

Confusion at Point of Sale

[28] Roberts argues that his replicas do not violate the Lanham Act because he informed his purchasers that his significantly cheaper cars and kits were not genuine Ferraris and thus there was no confusion at the point of sale. The Lanham Act, however, was intended to do more than protect consumers at the point of sale. When the Lanham Act was enacted in 1946, its protection was limited to the use of marks “likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services.” In 1967, Congress deleted this language and broadened the Act’s protection to include the use of marks “likely to cause confusion or mistake or to deceive.” Thus, Congress intended “to regulate commerce within [its control] by making actionable the deceptive and misleading use of marks in such commerce; [and] ... to protect persons engaged in such commerce against unfair competition....” 15 U.S.C. § 1127. Although, as the dissent points out, Congress rejected an anti-dilution provision when recently amending the Lanham Act, it made no effort to amend or delete this language clearly protecting the confusion of goods *in commerce*. The court in *Rolex Watch* explicitly recognized this concern with regulating commerce:

The real question before this Court is whether the alleged infringer has placed a product *in commerce* that is “likely to cause confusion, or to cause mistake, or to deceive.” ... The fact that an immediate buyer of a \$25 counterfeit watch does not entertain any notions that it is the real thing has no place in this analysis. Once a product is injected into commerce, there is no bar to confusion, mistake, or deception occurring at some future point in time.

Rolex Watch, 645 F.Supp. at 492-93 (emphasis in original). The *Rolex Watch* court noted that this interpretation was necessary to protect against the cheapening and dilution of the genuine product, and to protect the manufacturer’s reputation. *Id.* at 495; *see also Mastercrafters*, 221 F.2d at 466. As the court explained:

Individuals examining the counterfeits, believing them to be genuine Rolex watches, might find themselves unimpressed with the quality of the item and consequently be inhibited from purchasing the real time piece. Others who see the watches bearing the Rolex trademarks on so many wrists might find themselves discouraged from acquiring a genuine because the items have become too common place and no longer possess the prestige once associated with them.

Rolex Watch, 645 F.Supp. at 495; *see also Mastercrafters*, 221 F.2d at 466. Such is the damage which could occur here. As the district court explained when deciding whether Roberts’ former partner’s Ferrari replicas would be confused with Ferrari’s cars:

Ferrari has gained a well-earned reputation for making uniquely designed automobiles of quality and rarity. The DAYTONA SPYDER design is well-known among the relevant public and exclusively and positively associated with Ferrari. If the country is populated with hundreds, if not thousands, of replicas of rare, distinct, and unique vintage cars, obviously they are no longer unique. Even if a person seeing one of these replicas driving down the road is not confused, Ferrari's exclusive association with this design has been diluted and eroded. If the replica Daytona looks cheap or in disrepair, Ferrari's reputation for rarity and quality could be damaged....

Ferrari, 11 U.S.P.Q.2d at 1848. The dissent argues that the Lanham Act requires proof of confusion at the point of sale because the eight factor test used to determine likelihood of confusion focuses on the confusion of the purchaser, not the public. The dissent submits that three of the factors, marketing channels used, likely degree of purchaser care and sophistication, and evidence of actual confusion, specifically relate to purchasers. However, evidence of actual confusion is not limited to purchasers. The survey evidence in this case showed that members of the public, but not necessarily purchasers, were actually confused by the similarity of the products. Moreover, the other five factors, strength of the mark, relatedness of the goods, similarity of the marks, defendant's intent in selecting the mark, and likelihood of product expansion, do not limit the likelihood of confusion test to purchasers.

[29] Since Congress intended to protect the reputation of the manufacturer as well as to protect purchasers, the Act's protection is not limited to confusion at the point of sale. Because Ferrari's reputation in the field could be damaged by the marketing of Roberts' replicas, the district court did not err in permitting recovery despite the absence of point of sale confusion.

...

KENNEDY, Circuit Judge, dissenting.

[30] I respectfully dissent because the majority opinion does more than protect consumers against a likelihood of confusion as to the source of goods; it protects the source of the goods, Ferrari, against plaintiff's copying of its design even if the replication is accompanied by adequate labelling so as to prevent consumer confusion. I believe the majority commits two errors in reaching this result. The majority first misconstrues the scope of protection afforded by the Lanham Act by misapplying the "likelihood of confusion" test and reading an anti-dilution provision

into the language of section 43(a). The majority then affirms an injunction that is overbroad....

I. Section 43(a) and Trade Dress Protection

[31] The majority invokes the appropriate test to determine whether protection is available for an unregistered trademark pursuant to section 43(a) of the Lanham Act. *Kwik-Site Corp. v. Clear View Mfg. Co.*, 758 F.2d 167 (6th Cir.1985) (secondary meaning; likelihood of confusion; and nonfunctionality of trade dress). While I agree that Ferrari's designs have acquired secondary meaning and are primarily nonfunctional, I disagree with the majority's construction and application of the likelihood of confusion test and their conclusion that the Lanham Act protects against dilution of a manufacturer's goods.

[32] This Circuit applies an eight-factor test to determine whether relevant consumers in the marketplace will confuse one item with another item. *Frisch's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982). The majority correctly points out one purpose this test is *not* designed to accomplish: "Where the copying by one party of another's product is not done to *deceive purchasers* and thus derive a benefit from another's name and reputation, but rather to avail oneself of a design which is attractive and desirable, a case of unfair competition is not made out." *West Point Mfg. v. Detroit Stamping Co.*, 222 F.2d 581, 586 (6th Cir.) (emphasis added), *cert. denied*, 350 U.S. 840 (1955). This passage properly notes that the statute is triggered when a copier attempts to "pass off" his replica as an original. In other words, the protection afforded by the Lanham Act is primarily to potential purchasers. The protection accruing to a producer is derivative of and only incidental to this primary protection: a producer can market his goods with the assurance that another may not market a replica in a manner that will allow potential purchasers to associate the replica with the producer of the original. Unfortunately, the majority merely pays lip service to this fundamental tenet in its application of the eight-factor test.

[33] The majority never clearly defines the target group that is likely to be confused. Although *West Point* counsels that purchasers must be deceived, the majority concludes that the target group is the "public." The majority errs to the extent that its analysis shifts from potential purchasers to the broader more indefinite group of the "public."

[34] The eight-factor test contemplates that the target group is comprised of potential purchasers. For example, the importance of one factor—evidence of actual confusion—is determined by the kinds of persons confused and degree of confusion. "Short-lived confusion or confusion of individuals casually acquainted with a

business is worthy of little weight....” *Homeowners Group, Inc. v. Home Marketing Specialists, Inc.*, 931 F.2d 1100, 1110 (6th Cir.1991) (quoting *Safeway Stores, Inc. v. Safeway Discount Drugs, Inc.*, 675 F.2d 1160, 1167 (11th Cir.1982)). Two other factors obviously refer to potential purchasers: the marketing channels used and the likely degree of purchaser care and sophistication. Thus, three of the eight factors expressly focus on the likelihood of confusion as to potential purchasers.

[35] Other courts have made clear that section 43(a) is concerned with the welfare of potential purchasers in the marketplace. *See Kwik-Site*, 758 F.2d at 178 (referring to “intending purchasers” when discussing likelihood of confusion); *see also Coach Leatherware Co. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir.1991) (stating that plaintiff must prove that “purchasers are likely to confuse the imitating goods with the originals”); *West Point*, 222 F.2d at 592 (referring to “purchasers exercising ordinary care to discover whose products they are buying....” (quoting *Reynolds & Reynolds Co. v. Norick*, 114 F.2d 278 (10th Cir.1940))).

[36] Plaintiff’s replicas are not likely to confuse potential purchasers. Plaintiff’s vehicles display an “R” on the parking lenses and vent windows. No symbols or logos affiliated with Ferrari are displayed. Roberts informs all purchasers that his product is not affiliated with Ferrari. In light of these distinctions, and the high degree of customer care and sophistication that normally accompanies such a purchase—defendant’s vehicles at issue sell for a minimum of \$230,000, as well as the distinctly different marketing channels employed by the parties, I find the evidence insufficient to prove a likelihood of confusion by potential purchasers in the marketplace.

[37] To be sure, some courts have expanded the application of the likelihood of confusion test to include individuals other than point-of-sale purchasers. These courts have included potential purchasers who may contemplate a purchase in the future, reasoning that in the pre-sale context an “observer would identify the [product] with the [original manufacturer], and the [original manufacturer]’s reputation would suffer damage if the [product] appeared to be of poor quality.” *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145, 148 (4th Cir.1987); *see Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2d Cir.), *cert. denied*, 350 U.S. 832 (1955); *Rolex Watch, U.S.A., Inc. v. Canner*, 645 F.Supp. 484 (S.D.Fla.1986).

[38] In applying the test in this manner, these courts appear to recognize that the deception of a consumer under these circumstances could dissuade such a consumer from choosing to buy a particular product, thereby foreclosing the possibility of point-of-sale confusion but nevertheless injuring the consumer based on this confusion. The injury stems from the consumer’s erroneous conclusion that

the “original” product is poor quality based on his perception of a replica that he thinks is the original. These cases protect a potential purchaser against confusion as to the source of a particular product. Hence, even when expanding the scope of this test, these courts did not lose sight of the focus of section 43(a): the potential purchaser. The majority applies the likelihood of confusion test in a manner which departs from this focus.

[39] The cases which have expanded the scope of the target group are distinguishable from the instant case, however. In *Rolex*, the counterfeit watches were labelled “ROLEX” on their face. Similarly, the *Mastercrafters* court found that the clock was labelled in a manner that was not likely to come to the attention of an individual. It is also noteworthy that the Second Circuit has limited *Mastercrafters* “by pointing out that ‘[i]n that case there was abundant evidence of actual confusion, palming off and an intent to deceive.’” *Bose Corp. v. Linear Design Labs, Inc.*, 467 F.2d 304, 310 n. 8 (2d Cir.1972) (quoting *Norwich Pharmacal Co. v. Sterling Drug, Inc.*, 271 F.2d 569 (2d Cir.1959), *cert. denied*, 362 U.S. 919 (1960)). No evidence was introduced in the instant case to show actual confusion, palming off or an intent to deceive and, as previously noted, plaintiff does not use any name or logo affiliated with Ferrari on its replicas.

[40] Further, these cases conclude that the proper remedy is to require identification of the source of the replica, not prohibit copying of the product. *See West Point*, 222 F.2d at 589 (stating that under such circumstances “the only obligation of the copier is to identify its product lest the public be mistaken into believing that it was made by the prior patentee”); *see also Coach Leatherware*, 933 F.2d at 173 (Winter, J., dissenting in part) (stating that “[a copier] thus has every right to copy [a product] so long as consumers know they are buying [the copied product]”). Accordingly, even if I were to conclude that plaintiff’s copies created confusion in the pre-sale context, I would tailor the remedy to protect only against such confusion; this would best be accomplished through adequate labelling. The majority’s remedy goes well beyond protection of consumers against confusion as to a product’s source. It protects the design itself from being copied. *See supra* at 1239.

[41] In sum, the relevant focus of the eight-factor test should be upon potential purchasers in the marketplace. Plaintiff’s replicas present no likelihood of confusion because plaintiff provides adequate labelling so as to prevent potential purchasers, whether in the pre-sale or point-of-sale context, from confusing its replicas with Ferrari’s automobiles. The majority errs by expanding the target group to include the “public,” an expansion unsupported by the language and purpose of the Lanham Act. To the extent that the majority expands the target group, the test increasingly

protects the design from replication and the producer from dilution, rather than the potential purchaser from confusion.¹

[42] The majority does more than implicitly recognize a dilution cause of action by its misapplication of the eight-factor test; it expressly reads such a cause of action into the statute. To justify this interpretation, the majority points out that Congress deleted the word “purchasers” from the statutory language in 1967. According to the majority, this congressional act demonstrates that Congress intended “to protect against the cheapening and dilution of the genuine product, and to protect the manufacturer’s reputation.” I fail to see how this one congressional act leads to such a conclusion.

[43] As an initial matter, the majority’s method of reasoning should compel it to reach a different conclusion. In 1989, Congress specifically considered and rejected adding an anti-dilution provision to the Lanham Act.² This action, it can be asserted,

¹ I also note that the survey relied upon by the majority to prove a likelihood of confusion is fatally flawed. Generally, “[i]n assessing the likelihood of confusion, a court’s concern is ‘the performance of the marks in the commercial context.’ ” *Homeowners Group, Inc. v. Home Marketing Specialists, Inc.*, 931 F.2d 1100, 1106 (6th Cir.1991) (quoting *Frisch’s Restaurants, Inc. v. Shoney’s, Inc.*, 759 F.2d 1261, 1266 (6th Cir.1985)). “It is the overall impression of the mark, not an individual feature, that counts.” *Id.* at 1109. Applied to the instant case, this means that the analysis must be based on the products as they appear in the marketplace. The ultimate question is “whether relevant consumers are likely to believe that the products or services offered by the parties are affiliated in some way.” *Id.* at 1107.

The survey lacks any probative value on the issue of consumer confusion because of the manner in which it was conducted. The survey was conducted by showing photographs of Ferrari’s cars and Roberts’ replicas *stripped of their identifying badges*. By conducting the survey in this manner, no assessment could be made of the likelihood of confusion in the “commercial context.” Purchasers of plaintiff’s cars are not purchasing from photographs. Accordingly, the survey is meaningless as to the likelihood of confusion.

² The most recent amendment to the Lanham Act, the Trademark Law Revision Act of 1988, Pub.L. No. 100-667, 102 Stat. 3935 (1988) (effective Nov. 16, 1989), as originally introduced in both houses of Congress, permitted separate causes of action for dilution, disparagement and tarnishment. All of these provisions were deleted from the legislation which eventually was enacted. House Rep. 100-1028 (Oct. 3, 1988), *reprinted in* United States Trademark Ass’n, *The Trademark Law*

demonstrates that Congress does not now consider the protection of the Lanham Act to encompass injuries to a manufacturer based on dilution. The majority cannot look to one action of Congress to bolster its position, but ignore other actions which undercut its position.

[44] More importantly, the language of the Lanham Act does not afford such protection to producers of goods. As noted in the previous section, the Lanham Act's protection runs to relevant consumers in the marketplace; its protection to producers is incidental to this primary protection. Requiring adequate labelling ensures that a producer will not have the poor quality of a replica imputed to its product by a confused potential purchaser. This is the only benefit accruing to a producer. Trademark dilution is not a cause of action under the Lanham Act. *See Eveready Battery Co. v. Adolph Coors Co.*, 765 F.Supp. 440 (N.D.Ill.1991).

...

Questions and Comments

1. *Are the Ferrari exterior designs functional?* The district court found that they were not and the Sixth Circuit affirmed:

The district court found that Ferrari proved, by a preponderance of the evidence, that the exterior shapes and features of the Daytona Spyder and Testarossa were nonfunctional. The court based this conclusion on the uncontroverted testimony of Angelo Bellei, who developed Ferrari's grand touring cars from 1964-75, that the company chose the exterior designs for beauty and distinctiveness, not utility.

Ferrari S.P.A., 944 F.2d at 1246.

7. Reverse Confusion

Consider a quick example of a claim of “reverse confusion.” In *Dreamwerks Production, Inc. v. SKG Studio*, 142 F.3d 1127 (9th Cir. 1998), the plaintiff had been using the mark DREAMWERKS since 1984 in connection with services for organizing science fiction conventions in the Northeast and Midwest of the U.S. In 1994, Steven Spielberg, Jeffrey Katzenberg and David Geffen established the massive Hollywood studio known as DreamWorks SKG. The plaintiff sued for “reverse confusion.” It argued that consumers would now believe that the plaintiff's services somehow

Revision Act of 1988, The Legislative History, Reports, Testimony, and Annotated Statutory Text 277, 278 (1989); Cong.Rec. H10411, H10421 (Oct. 19, 1988).

originated in the defendant. In the *Dreamwerks* case, the Ninth Circuit reversed the district court's summary judgment in favor of the defendant and held that the matter should go to trial. The court observed: "Dreamwerks notes that whatever goodwill it has built now rests in the hands of DreamWorks; if the latter should take a major misstep and tarnish its reputation with the public, Dreamwerks too would be pulled down." *Id.* at 1130. The case eventually settled.

In many typical "forward confusion" cases, such as in the *Virgin Wireless* case above, the senior user of the mark is a much larger company than the junior user of the mark. Thus, the senior Goliath claims that the junior David's use of the mark will likely confuse consumers into believing that the junior's goods are coming from the senior user, the company with which consumers are much more familiar.

By contrast, reverse confusion typically involves a situation in which the junior user of the mark is an enormous company with the resources extensively to advertise its use of the mark. The risk is that the junior Goliath will overwhelm the meaning of the senior David's mark, so that consumers will believe that the senior users goods are coming from the junior user. In *A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc.*, 237 F.3d 198 (3d Cir. 2000), the plaintiff made exactly this claim.

Note, importantly, how certain of the factors in the multifactor test for the likelihood of consumer confusion change in a reverse confusion analysis.

***A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc.*
237 F.3d 198 (3d Cir. 2000)**

BECKER, Chief Judge.

[1] The critical question in this trademark infringement case, before us for the second time, is whether a typical consumer is likely to confuse MIRACLESUIT swimwear with THE MIRACLE BRA swimwear.¹ The former is a product of Plaintiff A & H Sportswear Company ("A & H"), which manufactures ten percent of all swimsuits made in the United States. The latter is a product of Defendant Victoria's Secret, the lingerie leviathan that recently entered the swimwear market. A & H filed suit in the District Court for the Eastern District of Pennsylvania claiming that The Miracle Bra swimwear mark violates the Lanham Act because it is confusingly similar to the Miraclesuit swimwear mark, which A & H registered first. A & H contends that: (1) consumers are likely to wrongly associate The Miracle Bra with A

¹ We will refer to the marks in lower case throughout the remainder of the opinion.

& H (the direct confusion claim²); or, in the alternative, (2) consumers are likely to think that Miraclesuit is a product of Victoria's Secret (the reverse confusion claim).

[2] During an extensive bench trial, A & H argued that Victoria's Secret should be enjoined from using The Miracle Bra mark for swimwear. Finding a “possibility of confusion,” the District Court granted relief to A & H. Following an appeal to this Court that clarified that likelihood of confusion (instead of possibility of confusion) was the correct standard, the District Court concluded that A & H had failed to show by a preponderance of the evidence that Victoria's Secret's The Miracle Bra swimwear mark created a likelihood of either direct or reverse confusion with the Miraclesuit product.

[3] In *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 463 (3d Cir.1983), this Court established a ten-factor test (the “*Lapp*” test) to determine the likelihood of confusion for direct confusion claims between goods that do *not* directly compete in the same market, but we have never decided what factors should be considered in the case of directly competing goods. The District Court therefore fashioned its own multi-factored test that approximates, but does not completely match, the *Lapp* test. In employing its test, the District Court acknowledged that the most important factor was the similarity of the marks, and determined that their overall commercial impressions were not similar.

...

[4] In sum, we conclude that neither the District Court's fact-finding nor its balancing of factors warrants reversal, and hence we will affirm its judgment on the direct confusion claim [that there is no likelihood of “direct” confusion].

[5] As for the reverse confusion claim, A & H challenges the District Court's treatment as inadequate, and inconsistent with the method laid out in our leading reverse confusion case, *Fisons Horticulture, Inc. v. Vigoro Industries, Inc.*, 30 F.3d 466 (3d Cir.1994). *Fisons* adopted the doctrine of reverse confusion, and used the *Lapp* factors to assess the likelihood of such confusion, with a few minor modifications. The District Court interpreted our precedents to require a two-step inquiry, engaging the *Lapp* factors only after an initial assessment that the disparity in commercial strength reached a high threshold. Because the threshold degree of commercial disparity that the court believed was required was not met, the court did not even examine whether there existed a likelihood of confusion.

² Although we described this phenomenon as “forward confusion” in *Fisons Horticulture, Inc. v. Vigoro Industries, Inc.*, 30 F.3d 466, 479 (3d Cir.1994), we think that the term “direct confusion” is more sonorous and accurate. Products are not “forwardly confused” but “directly confused.”

[6] After reviewing *Fisons* and our precedent, we are persuaded that the District Court erred in fashioning a two-step inquiry, and in failing to consider the *Lapp* factors as they apply to reverse confusion claims. We will demonstrate that the application of some of the factors changes in the reverse confusion context, and we conclude that, on the record before us, the judgment must be vacated with respect to the reverse confusion claim and the case remanded for further proceedings.

*I. Facts*³

[7] The Miraclesuit bathing suit is made by A & H, which manufactures ten percent of all swimwear in the United States. The Miraclesuit is distributed by Swim Shaper, a division of Mainstream Swimsuits. The Miraclesuit is advertised as having a slimming effect on the wearer without using uncomfortable girdle-like binds. Its material purportedly smooths out middle body bulges and works with a flattering design to confuse the eye such that the wearer is advised, in advertising and in tags that generally accompany the product, that she will “[l]ook ten pounds lighter in 10 seconds[:] The ten seconds it takes to slip it on.” Miraclesuits also include tags indicating that they are Swim Shaper products.

[8] Miraclesuits, which sell for between \$50 and \$100, come in both single pieces and bikinis. Many are equipped with push-up bras, shaping or underwire bras, or simple, unshaped bras. They are typically sold to trade buyers for department store sales and national mail-order catalogues, and, on two occasions, they were featured in the Victoria's Secret catalogue. A & H received a trademark registration for the mark Miraclesuit in the fall of 1992. The District Court found that A & H has spent over \$1.2 million to advertise the Miraclesuit in magazines and trade papers, and has received the equivalent of \$1.5 million of advertising in “free publicity,” i.e., publicity in trade magazines, consumer columns, and the general press. The advertising and publicity campaign has been a success, and Miraclesuits constitute approximately ten percent of all of A & H's sales.

[9] While A & H is busy selling skinny waists and midriffs, Victoria's Secret, the nation's premier lingerie seller, has focused on instant enlargements of the bust. In 1993, Victoria's Secret released The Miracle Bra, a padded push-up bra. Victoria's

³ The facts are set forth more fully in the District Court's three opinions in this case. See *A & H Sportswear Co. v. Victoria's Secret Stores, Inc.*, 926 F.Supp. 1233 (E.D.Pa.1996); *A & H Sportswear Co. v. Victoria's Secret Stores, Inc.*, 967 F.Supp. 1457 (E.D.Pa.1997) (as amended); *A & H Sportswear Co. v. Victoria's Secret Stores, Inc.*, 57 F.Supp.2d 155 (E.D.Pa.1999).

Secret filed an application to register its The Miracle Bra trademark, and unleashed an avalanche of advertising and publicity, ultimately spending over \$13 million on The Miracle Bra products. The campaign succeeded, and sales of The Miracle Bra products have topped \$140 million since they were first introduced.

[10] In 1994, Victoria's Secret's trademark application for The Miracle Bra mark on lingerie was approved. Later that year, Victoria's Secret moved The Miracle Bra mark into swimwear, and The Miracle Bra swimsuit and The Miracle Bra bikini started appearing in Victoria's Secret catalogues. (The Miracle Bra lingerie and swimwear are sold only in Victoria's Secret stores and catalogues.). The cost of The Miracle Bra swimwear varies, but it is typically in the neighborhood of \$70, and The Miracle Bra and Victoria's Secret tags are prominently featured on all swimwear. This product also succeeded: The total sales of The Miracle Bra swimsuits reached \$28 million by summer 1997. The last critical fact regarding this swimwear is that, as a result of this litigation, Victoria's Secret has committed itself to using the following disclaimer with all promotion, advertising, and sales of The Miracle Bra: "The Miracle Bra Swimwear Collection is exclusive to Victoria's Secret and is not associated with Miraclesuit by Swimshaper."

[11] In 1995, after this litigation began, Victoria's Secret applied to the PTO for a trademark for The Miracle Bra for swimsuits, bathing suits, and bikinis. Because it had previously conducted a search for The Miracle Bra as applied to lingerie, which had led it to the conclusion that The Miracle Bra did not threaten to infringe on other trademarks, Victoria's Secret had not conducted a separate trademark search of The Miracle Bra trademark as it applied to swimwear. However, the PTO examining attorney denied Victoria's Secret's application due to its similarity to Miraclesuit because he determined that: (1) "Miracle" was the dominant feature of each mark; and (2) the product lines overlap. The denial was not appealed.

...

V. The Reverse Confusion Claim

A. Introduction

[12] We recently recognized the doctrine of "reverse confusion" as a distinct basis for a claim under § 43(a) of the Lanham Act. *See Fisons*, 30 F.3d at 475. While the essence of a direct confusion claim is that a junior user of a mark is said to free-ride on the "reputation and good will of the senior user by adopting a similar or identical mark," *id.*, reverse confusion occurs when "the junior user saturates the market with a similar trademark and overwhelms the senior user." *Id.* (quoting *Ameritech, Inc. v. American Info. Techs. Corp.*, 811 F.2d 960, 964 (6th Cir.1987)). The harm flowing from reverse confusion is that

[t]he public comes to assume the senior user's products are really the junior user's or that the former has become somehow connected to the latter.... [T]he senior user loses the value of the trademark—its product identity, corporate identity, control over its goodwill and reputation, and ability to move into new markets.

Ameritech, Inc., 811 F.2d at 964; *see also Fisons*, 30 F.3d at 479; *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 957 (7th Cir.1992); *Banff, Ltd. v. Federated Dep't Stores, Inc.*, 841 F.2d 486, 490–91 (2d Cir.1988); *Capital Films Corp. v. Charles Fries Prods, Inc.*, 628 F.2d 387, 393 (5th Cir.1980); *Big O Tire Dealers, Inc., v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1372 (10th Cir.1977). As we explained in *Fisons*, reverse confusion protects “smaller senior users ... against larger, more powerful companies who want to use identical or confusingly similar trademarks.” 30 F.3d at 475. Absent reverse confusion, “a company with a well established trade name and with the economic power to advertise extensively [would be immunized from suit] for a product name taken from a competitor.” *Big O Tire Dealers, Inc.*, 561 F.2d at 1372 (citation omitted). The doctrine of reverse confusion—or, at least, some of its applications—is not without its critics. *See, e.g.*, Thad G. Long & Alfred M. Marks, Reverse Confusion: Fundamentals and Limits, 84 Trademark Rep. 1, 2–3 (1994); Daniel D. Domenico, Note, Mark Madness: How Brent Musburger and the Miracle Bra May Have Led to a More Equitable and Efficient Understanding of the Reverse Confusion Doctrine in Trademark Law, 86 Va.L.Rev. 597, 613–14, 621–24 (2000). The chief danger inherent in recognizing reverse confusion claims is that innovative junior users, who have invested heavily in promoting a particular mark, will suddenly find their use of the mark blocked by plaintiffs who have not invested in, or promoted, their own marks. *See Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 522 (C.C.P.A.1980). Further, an overly-vigorous use of the doctrine of reverse confusion could potentially inhibit larger companies with established marks from expanding their product lines—for instance, had Victoria's Secret thought, at the outset, that it would not be permitted carry over its popular The Miracle Bra mark from lingerie to swimwear, it might have chosen not to enter the swimsuit market at all.

[13] This would be an undesirable result; in fact, it is precisely to allow a certain amount of “space” for companies to expand their product lines under established marks that we allow infringement suits against suppliers of noncompeting goods. *See Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 464 (3d Cir.1983). This is not to say that the reverse confusion doctrine does not have its proper place; as has been recognized, without the existence of such a claim, smaller business owners might not have any incentive to invest in their marks at all, for fear

the mark could be usurped at will by a larger competitor. *See SK & F, Co. v. Premo Pharm. Labs., Inc.*, 625 F.2d 1055, 1067 (3d Cir.1980) (“[P]ermitting piracy of ... identifying trade dress can only discourage other manufacturers from making a similar individual promotional effort.”). However, these concerns do sensitize us to the potential untoward effects of an overenthusiastic enforcement of reverse confusion claims, although they cannot supersede our judicial recognition of the doctrine.

B. The Test for Reverse Confusion

[14] As in a direct confusion claim, the ultimate question in a reverse confusion claim is whether there is a likelihood of consumer confusion as to the source or sponsorship of a product. *See Fisons*, 30 F.3d at 475. Although it would seem somewhat counterintuitive to posit that the likelihood of confusion analysis changes from the direct confusion to the reverse confusion context,⁴ there are differences between the two situations that bear mentioning. Therefore, to clarify the test for reverse confusion that has developed in our jurisprudence, we will walk through the factors that a district court should consider (where relevant) in assessing a such a claim.

1. The Factors that are the Same

[15] As an initial matter, there are several factors that should generally be analyzed in the same way for a reverse confusion claim as they are for a direct confusion claim.⁵ First, the attentiveness of consumers does not change (factor (3)); in both direct and reverse confusion, the question is whether this is the kind of product that consumers will care enough about to notice the differences, or purchase hastily with only a limited impression. *See Fisons*, 30 F.3d at 476 n. 12 (considering this factor in the same manner as it would for direct confusion).

⁴ Indeed, some courts have simply inquired whether there exists a likelihood of confusion between the marks, temporarily putting aside the distinction between “direct” or “reverse” confusion until after such a likelihood has been demonstrated. *See Americana Trading Inc. v. Russ Berrie & Co.*, 966 F.2d 1284, 1290 (9th Cir.1992) (reversing district court grant of summary judgment to defendants, on the ground that plaintiffs had put forth enough evidence of “confusion”—some direct, some reverse—to create a genuine issue of material fact).

⁵ We say “generally” only because we recognize that there may be unforeseen circumstances in which these factors actually do apply differently in the reverse confusion context.

Second, and similarly, the degree to which the channels of trade and advertisement overlap (factor (7)) should be analyzed in the same fashion. *See id.* at 475–76 (analyzing the channels of trade in the same manner). Finally, *Lapp* factors (8) and (9), considering the similarity of the targets of the parties' sales efforts and the similarity of products, are also analyzed no differently in the reverse confusion context. *See id.* at 475, 481 (treating these factors in the same way for reverse confusion as they would have been treated for direct confusion).

2. Similarity of the Marks

[16] Generally speaking, the similarity of the marks themselves is necessarily analyzed in the same way in direct and reverse confusion claims; the court looks to sight, sound, and meaning, and compares whether these elements combine to create a general commercial impression that is the same for the two marks. *See, e.g., Fisons*, 30 F.3d at 478–79 (analyzing the commercial impression of the marks in light of direct confusion principles). Therefore, a district court would not need to examine these in a different manner than it would in a direct confusion claim.

[17] On the other hand, the direct confusion claim in this case was rejected by the District Court in considerable measure because the court felt that the Victoria's Secret housemark, coupled with the disclaimer, alleviated any confusion that might otherwise result. *See A & H IV*, 57 F.Supp.2d at 168–69. Yet in the reverse confusion context, the presence of housemarks or disclaimers must obviously be treated differently than in the direct confusion context. It is the essence of the reverse confusion claim that, when consumers come across the Miraclesuit in the stream of commerce, they will confuse it with The Miracle Bra and think that it is a Victoria's Secret product. Therefore, the weight of a disclaimer on the Victoria's Secret product is necessarily lessened. Because A & H puts no disclaimer on its product to distinguish it from The Miracle Bra, the consumer considering a purchase of the Miraclesuit will not have the same handy reminder that Miraclesuit is not associated with The Miracle Bra or Victoria's Secret. This is not to say that such a disclaimer may not, in fact, mitigate confusion in some cases; if consumers are faced with the disclaimer every time they flip through the Victoria's Secret catalogue, they are less likely to forget that Miraclesuit is unrelated to The Miracle Bra swimwear.

[18] As to the presence of the housemark on the Victoria's Secret product, not only is there the possibility that consumers will fail to remember the mark when encountering A & H's swimwear, but there is also the possibility that the mark will *aggravate*, rather than mitigate, reverse confusion, by reinforcing the association of the word “miracle” exclusively with Victoria's Secret. *See, e.g., Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 960 (7th Cir.1992); *Americana Trading Inc. v.*

Russ Berrie & Co., 966 F.2d 1284, 1288 (9th Cir.1992). Of course, we do not suggest that this actually occurred in this particular case; after all, the District Court observed that A & H typically includes its own housemark on Miraclesuits, *see A & H IV*, 57 F.Supp.2d at 160, but, because the court only conducted a likelihood of confusion analysis for the direct confusion claim, it only briefly addressed the significance of the A & H housemark, *see id.* at 168 n. 17.

[19] Clearly, the proper significance to be accorded these facts is a matter best suited for the determination of the trial court. Instead, we merely highlight the questions raised by the use of the housemarks and disclaimers in order to emphasize that a district court must separately examine the similarity factor to determine whether there are any aspects of the analysis that should be different for a reverse confusion claim, and, if so, alter its examination accordingly.

3. Strength of the Marks

[20] An important difference between reverse and direct confusion manifests in the analysis of the strength of the marks. As we explained *supra*, this factor requires consideration both of the mark's commercial and conceptual strength. For ease of understanding, we will explain the appropriate treatment of commercial strength first, and the treatment of conceptual strength second.

a. Commercial Strength

[21] It has been observed that a consumer first encountering a mark with one set of goods is likely to continue to associate the mark with those goods, and whether any subsequent confusion is “direct” or “reverse” will depend on whether the consumer's first experience was with the junior or the senior user of the mark. *See Banff, Ltd. v. Federated Dep't Stores, Inc.*, 841 F.2d 486, 490 (2d Cir.1988) (acknowledging such a possibility); Long & Marks, *supra*, at 5. The greater the commercial disparity between the manufacturers, the more likely it is that a consumer's first experience with a mark will be with one particular manufacturer. That is, if one manufacturer—junior or senior—expends tremendous sums in advertising while the other does not, consumers will be more likely to encounter the heavily advertised mark first. Where the greater advertising originates from the senior user, we are more likely to see a case of direct confusion; if the greater advertising originates from the junior user, reverse confusion is more likely. *See 3 McCarthy, supra*, § 23:10, at 23–32; *cf. Fisons*, 30 F.3d at 479 (observing that direct confusion involves a junior user “trad[ing] on” a senior user's name and thus expending less on advertising, whereas reverse confusion involves the opposite pattern).

[22] Logically, then, in a direct confusion claim, a plaintiff with a commercially strong mark is more likely to prevail than a plaintiff with a commercially weak mark. Conversely, in a reverse confusion claim, a plaintiff with a commercially weak mark is more likely to prevail than a plaintiff with a stronger mark, and this is particularly true when the plaintiff's weaker mark is pitted against a defendant with a far stronger mark. McCarthy has written that "the relatively large advertising and promotion of the *junior* user ... is the hallmark of a reverse confusion case." 3 McCarthy, *supra*, § 23:10, at 23–37. "[T]he lack of commercial strength of the smaller senior user's mark is to be given less weight in the analysis because it is the strength of the larger, junior user's mark which results in reverse confusion." *Commerce Nat'l Ins. Servs., Inc. v. Commerce Ins. Agency, Inc.*, 214 F.3d 432, 444 (3d Cir.2000). As we explained in *Fisons*, "the evidence of commercial strength is different from what we expect in a case of forward confusion, where the junior user tries to palm off his goods as those of the senior user." 30 F.3d at 479.

[23] Therefore, in a reverse confusion claim, a court should analyze the "commercial strength" factor in terms of (1) the commercial strength of the junior user as compared to the senior user; and (2) any advertising or marketing campaign by the junior user that has resulted in a saturation in the public awareness of the junior user's mark. *See Fisons*, 30 F.3d at 474, 479.

b. Distinctiveness or Conceptual Strength

[24] In *Fisons* we remanded the case for the district court to "reevaluate [] ... distinctiveness as well as [the mark's] commercial strength" for the reverse confusion claim. *Fisons*, 30 F.3d at 479. Although we explained that the evaluation of commercial strength would have to be altered for reverse confusion claims, we did not discuss how distinctiveness, or conceptual strength, should be re-weighted in light of our adoption of the reverse confusion doctrine. Nor did we clarify this aspect of our jurisprudence in *Commerce National Insurance Services, Inc. v. Commerce Insurance Agency, Inc.*, 214 F.3d 432 (3d Cir.2000), where we referred to the different test for "commercial strength," in a reverse confusion context, without reference to "conceptual strength."

[25] As stated above, in the paradigmatic reverse confusion case, the senior user has a commercially weak mark when compared with the junior user's commercially strong mark. When it comes to conceptual strength, however, we believe that, just as in direct confusion cases, a strong mark should weigh in favor of a senior user. Our decision is supported by the fact that those courts that have clearly distinguished conceptual from commercial strength in the reverse confusion context have weighed a conceptually strong mark in the senior user's favor, in the

same manner as they would in direct confusion cases. *See, e.g., Worthington Foods, Inc. v. Kellogg Co.*, 732 F.Supp. 1417, 1456 (S.D.Ohio 1990).

[26] In *H. Lubovsky, Inc. v. Esprit de Corp.*, 627 F.Supp. 483 (S.D.N.Y.1986), the court explained that conceptual distinctiveness was relevant in the same way for a reverse confusion claim because “if a customer saw a doll in a toy store bearing a strong familiar trademark like ‘Exxon,’ he might well assume that the oil company had gone into the toy business; if, on the other hand, he saw a doll bearing a familiar but weak laudatory trademark like Merit, he would be unlikely to assume that it is connected with the similarly named gasoline or cigarettes.” *Id.* at 487; *see also* Long & Marks, *supra*, at 22.

[27] The *H. Lubovsky* logic resonates, for it makes more sense to hold that conceptual strength, unlike commercial strength, works in the plaintiff’s favor. That is, if we were to apply the rule stated above for commercial strength, i.e., weighing weakness in the plaintiff’s favor, we would bring about the perverse result that less imaginative marks would be more likely to win reverse confusion claims than arbitrary or fanciful ones. We therefore hold that, as in direct confusion claims, a district court should weigh a conceptually strong mark in the plaintiff’s favor, particularly when the mark is of such a distinctive character that, coupled with the relative similarity of the plaintiff’s and defendant’s marks, a consumer viewing the plaintiff’s product is likely to assume that such a mark would only have been adopted by a single source—i.e., the defendant.

4. The Intent of the Defendant

[28] In the direct confusion context, the intent of the defendant is relevant to the extent that it bears on the likelihood of confusion analysis. As we have said:

In the likelihood of confusion inquiry ... we do not focus on a defendant’s bare intent to adopt a mark ... substantially identical to a plaintiff’s mark ..., since there is little basis in fact or logic for supposing from a defendant’s intent to copy without more that the defendant’s actions will in fact result in confusion. Thus, what we have held is that a defendant’s intent to confuse or deceive consumers as to the product’s source may be highly probative of likelihood of confusion.

Versa Prods. Co., Inc. v. Bifold Co. (Mfg.) Ltd., 50 F.3d 189, 205 (3d Cir.1995) (emphasis omitted).

[29] When reverse, rather than direct, confusion is alleged, “intent to confuse” is unlikely to be present. *Cf. Fisons*, 30 F.3d at 480. However, though perhaps unusual, should an intent to confuse exist, it would be relevant to the likelihood of confusion analysis in the same manner as it would for a direct confusion claim. For

instance, in *Commerce National Insurance Services, Inc. v. Commerce Insurance Agency, Inc.*, 214 F.3d 432 (3d Cir.2000), we were confronted with a situation in which the litigants had used very similar marks in noncompetitive industries for a number of years, each fully aware of the other and with no incidents of actual confusion. Eventually, however, the larger company expanded into the smaller company's line of business, deliberately choosing to promote its services under an almost identical mark. In holding that the smaller company could maintain its claim against the larger for reverse confusion, we specifically highlighted the possibility that the larger company had adopted the mark with the deliberate intent of pushing its rival out of the market, and that it was this sort of usurpation of business identity that the reverse confusion doctrine was designed to prevent. *See id.* at 445.

[30] As we have noted in our two prior cases on this issue, the defendant's intent may be discovered through such inquiries as whether the defendant was aware of the senior user's mark when it adopted its own mark, and whether the defendant considered that its adoption of the mark might result in confusion. *See id.* at 444; *Fisons*, 30 F.3d at 480. If such an intent to confuse does, in fact, exist in a reverse confusion case, it should weigh against the defendant in the same manner as it would in a direct confusion case. *Cf. W.W.W. Pharm. Co., Inc. v. Gillette Co.*, 984 F.2d 567, 575 (2d Cir.1993) (weighing the "intent" factor in a reverse confusion case in the defendant's favor because the plaintiff had not demonstrated an intent to confuse).

[31] Although we recognize that our opinion in *Fisons* perhaps implied that mere carelessness, as opposed to deliberate intent to confuse, would weigh in a plaintiff's favor in a reverse confusion case, we are reluctant to adopt such an interpretation, as it would be manifestly out of step with our prior holdings regarding the relevance of "intent" in trademark infringement claims. *Cf. O. Hommel Co. v. Ferro Corp.*, 659 F.2d 340, 354 (3d Cir.1981). Ultimately, all of the *Lapp* factors are meant only to determine whether *confusion* is likely; mere carelessness, like deliberate copying, does not shed any light on this inquiry. Further, to the extent that the intent inquiry in the likelihood of confusion analysis carries with it the attribution of fault, there is no reason to ascribe higher penalties to a lower degree of fault because a particular case involves reverse, rather than direct, confusion. Finally, in light of the policy concerns implicated by the reverse confusion doctrine, it would be troubling indeed to hold that a *lesser* degree of culpability would weigh in the plaintiff's favor for a reverse confusion claim than it would for a direct confusion claim.

5. Factors Relating to Actual Confusion

[32] As a matter of intuition, one would expect that in a reverse confusion claim, evidence of actual confusion would be as important as in a direct confusion claim, though the nature of the confusion that would be probative would be quite different. *See Lang v. Retirement Living Publ'g Co.*, 949 F.2d 576, 583 (2d Cir.1991) (holding that evidence of “actual confusion” in which the public thought the senior user was the origin of the junior user's products was irrelevant for a reverse confusion claim). As applied to this case, for example, evidence that consumers thought that The Miracle Bra was an A & H product would be probative on a direct confusion claim, but not on a reverse confusion claim. Conversely, evidence that consumers thought that Miraclesuit was a Victoria's Secret product would support a reverse confusion claim, but not a direct confusion claim. This was apparently the District Court's intuition; although it declined to consider A & H's reverse confusion claim, it did observe that most of the evidence A & H had put forth with regard to “actual confusion” related to direct, rather than reverse, confusion. *See A & H IV*, 57 F.Supp.2d at 178 n. 32.

[33] However, marshalling evidence of actual confusion is often difficult. *See, e.g., Liquid Glass Enters., Inc. v. Dr. Ing. h.c.F. Porsche AG*, 8 F.Supp.2d 398, 403 (D.N.J.1998). In our view, if we were to create a rigid division between “direct” and “reverse” confusion evidence, we would run the risk of denying recovery to meritorious plaintiffs. For example, if a plaintiff alleged theories of both direct and reverse confusion and was able to prove a few instances of “actual” confusion in each direction, we might conclude that the plaintiff did not have enough evidence of either type to succeed on either of its claims, even though, taken together, all of the evidence of actual confusion would be probative of a real problem. As we explained in Part V.B.3, *supra*, the manifestation of consumer confusion as “direct” or “reverse” may merely be a function of the context in which the consumer first encountered the mark. Isolated instances of “direct” confusion may occur in a reverse confusion case, and vice-versa. *See Long & Marks, supra*, at 5. Though we might expect that, in most instances, the consumer's first encounter will be with the mark that has greater commercial strength, this will not invariably be the case.

[34] Given the problems litigants typically encounter in locating evidence of actual confusion, then, we decline to create a strict bar to the use of “direct” confusion evidence in a “reverse” confusion case, or vice versa. However, evidence working in the same direction as the claim is preferred, and “misfitting” evidence must be treated carefully, for large amounts of one type of confusion in a claim for a different type may in fact work against the plaintiff. For instance, the existence of reverse confusion might disprove a plaintiff's claim that its descriptive mark has

secondary meaning, thus resulting in no recovery at all. *See Jefferson Home Furniture Co., Inc. v. Jefferson Furniture Co., Inc.*, 349 So.2d 5, 8 (Ala.1977).

[35] It follows that the other factor relating to actual confusion, *Lapp* factor (4), examining the time the mark has been used without evidence of actual confusion, should be approached similarly.

6. Other Relevant Facts

[36] The final factor of the *Lapp* test directs courts to look at “other facts suggesting that the consuming public might expect the prior owner to manufacture both products, or expect the prior owner to manufacture a product in the defendant's market, or expect that the prior owner is likely to expand into the defendant's market.” This factor is necessarily transformed in the reverse confusion context to an examination of other facts suggesting that the consuming public might expect the larger, more powerful company to manufacture both products, or expect the larger company to manufacture a product in the plaintiff's market, or expect that the larger company is likely to expand into the plaintiff's market. *See Fisons*, 30 F.3d at 480 (directing the district court to examine facts suggesting that the public might think that the junior user would expand into the senior user's market).

7. Summary of the Test for Reverse Confusion

[37] In sum, in the typical case in which there is a claim of reverse confusion, a court should examine the following factors as aids in its determination whether or not there is a likelihood of such confusion:

- (1) the degree of similarity between the owner's mark and the alleged infringing mark;
- (2) the strength of the two marks, weighing both a commercially strong junior user's mark and a conceptually strong senior user's mark in the senior user's favor;
- (3) the price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase;
- (4) the length of time the defendant has used the mark without evidence of actual confusion arising;
- (5) the intent of the defendant in adopting the mark;
- (6) the evidence of actual confusion;
- (7) whether the goods, competing or not competing, are marketed through the same channels of trade and advertised through the same media;

- (8) the extent to which the targets of the parties' sales efforts are the same;
- (9) the relationship of the goods in the minds of consumers, whether because of the near-identity of the products, the similarity of function, or other factors;
- (10) other facts suggesting that the consuming public might expect the larger, more powerful company to manufacture both products, or expect the larger company to manufacture a product in the plaintiff's market, or expect that the larger company is likely to expand into the plaintiff's market.

[38] As with the test for direct confusion, no one factor is dispositive, and in individual cases, particular factors may not be probative on the issue of likelihood of confusion. "The weight given to each factor in the overall picture, as well as its weighing for plaintiff or defendant, must be done on an individual fact-specific basis." *Fisons*, 30 F.3d at 476 n. 11.

D. Guidance for Remand

1. Introduction

...

[39] Inasmuch as we have clarified the law of reverse confusion in this circuit by filling the gaps left in *Fisons*, it will be useful to the District Court if we comment on the extent to which it needs to revisit the various issues.

...

2. Similarity of the Marks

[40] When addressing the direct confusion claim, the District Court placed great weight on the presence of Victoria's Secret's housemark and disclaimer when it concluded that the marks were not confusingly similar. *See A & H IV*, 57 F.Supp.2d at 168–69. However, as we explained *supra*, although such embellishments of the junior user's mark may still have relevance in the reverse confusion context, their weight must necessarily be reevaluated. Therefore, on remand, the District Court should reconsider the similarity of the marks in light of A & H's reverse confusion claims.

3. Strength of the Marks

[41] The District Court did not consider the commercial strength of the marks within the ambit of the reverse confusion *Fisons* analysis, but it functionally did as much in its "threshold" determination that A & H lacked sufficient "economic

disparity” relative to Victoria's Secret to advance a reverse confusion claim. Therefore, the District Court essentially demonstrated that it weighed this factor in favor of Victoria's Secret. However, in comparing the relative commercial strengths of the products, the District Court committed clear error: Although it considered the free publicity received by A & H in determining its commercial strength, it did not consider the free publicity received by Victoria's Secret. This led to an inaccurate comparison of their relative commercial vitality. Had the court used the same calipers to measure the commercial strength of each, it might have determined that the Miraclesuit had less commercial strength relative to The Miracle Bra. Of course, the court might well deem the difference unimportant, but we cannot say that either Victoria's Secret or A & H should have this factor weighed in its favor as a matter of law.

[42] Furthermore, the court should have also considered the conceptual strength of the Miraclesuit mark, according to the standards for conceptual strength set forth in Sections IV.B and V.B.3, *supra*. In so doing, the court must gauge the strength of the Miraclesuit mark and must consider whether—as with the example set forth *supra* involving a doll with the mark “Exxon”—the Miracle Bra/Miraclesuit marks are so distinctive that, when considered simultaneously with the court's determination as to their similarities, consumers with a general awareness of The Miracle Bra swimsuit are likely to assume that the Miraclesuit is a Victoria's Secret product.

4. Intent

[43] In its evaluation of A & H's direct confusion claim, the District Court concluded that Victoria's Secret's “choice to extend The Miracle Bra mark to swimwear was for legitimate reasons, rather than out of bad faith.” *A & H IV*, 57 F.Supp.2d at 172. However, because it “decline[d] to examine whether a likelihood of reverse confusion exists,” *id.* at 178, the District Court focused on whether Victoria's Secret had intended to “profit[] from the notoriety of Plaintiffs' Miraclesuit mark,” *A & H IV*, 57 F.Supp.2d at 173–74. The court did not specifically address the question whether Victoria's Secret, rather than intending to “free ride” on A & H's goodwill, instead intended to usurp it by deliberately undertaking to cause consumer confusion (and thereby destroy A & H's business identity). On remand, the District Court should consider whether its previous finding of Victoria's Secret's good faith is dispositive of the reverse confusion intent analysis, or whether further examination of this issue is warranted.

E. Summary

[44] Although we believe that the District Court's evaluation of individual factors relating to market, sales, and functionality would have remained unchanged had it examined A & H's reverse confusion claim in light of the *Lapp* factors, we simply do not know how it would have treated the commercial strength and mark similarity factors had it considered the free advertising The Miracle Bra received, or the effect of the housemark and disclaimer in the reverse confusion context. We also cannot predict what the result would have been had the District Court examined the "intent" factor in light of A & H's reverse confusion claim, or how the District Court would have weighed the various factors had it not determined that there was a threshold commercial disparity requirement.

[45] The question of likelihood of confusion is ultimately one of fact, and we cannot roll up our sleeves and engage in the balancing ourselves. In its balancing on the direct confusion claim, the District Court found that the case was close, holding that no likelihood of confusion existed "solely based on the presumption that Defendants will continue to use the disclaimer when marketing The Miracle Bra swimwear," *A & H IV*, 57 F.Supp.2d at 169. As we have explained, we believe that Victoria's Secret's disclaimer has a lessened significance for reverse confusion. We also believe that the conceptual strength of the Miraclesuit mark must be reevaluated. Under these circumstances, we cannot say as a matter of law that a different weighing of the factors could not have influenced the District Court to make a different finding of ultimate fact, thus necessitating a remand.

...

Comments and Questions

1. *The Outcome of A&H Sportswear on Remand.* In *A & H Sportswear Inc. v. Victoria's Secret Stores, Inc.*, No. 94 Civ. 7408, 2002 WL 27735 (E.D. Pa. 2002), the district court found reverse confusion and issued a blanket injunction against the defendant's use of its MIRACLEBRA mark. The court found that disclaimers would be ineffective and would actually create further confusion.

2. *Other Examples of Reverse Confusion Found.* See, e.g., *H. Lubovsky, Inc. v. Esprit De Corp.*, 627 F. Supp. 483, 228 U.S.P.Q. (BNA) 814 (S.D. N.Y. 1986) (defendant's extension of ESPRIT brand to women's shoes created reverse confusion with plaintiff's prior use of same mark for same products); *Tanel Corp. v. Reebok Intern., Ltd.*, 774 F. Supp. 49 (D. Mass. 1990) (defendant's junior use of 360 DEGREES for shoes created reverse confusion with small company's senior use of same mark for same products).

3. *Examples of Reverse Confusion Not Found.* See, e.g., *Survivor Media, Inc. v. Survivor Productions*, 406 F.3d 625 (9th Cir. 2005) (SURVIVOR television show did not create reverse confusion with SURFVIVOR for beach-themed products); *Harlem Wizards Entertainment Basketball, Inc. v. NBA Properties, Inc.*, 952 F. Supp. 1084 (D.N.J. 1997) (NBA team's adoption of name WASHINGTON WIZARDS would not create reverse confusion with HARLEM WIZARDS trick basketball team); *Pump, Inc. v. Collins Management, Inc.*, 746 F. Supp. 1159 (D. Mass. 1990) (Rock band Aerosmith's album entitled "Pump" did not create confusion with little-known rock band by same name where visual displays of marks and contexts in which they were used were different); *Lobo Enterprises, Inc. v. Tunnel, Inc.*, 693 F. Supp. 71 (S.D.N.Y. 1988) (Large nightclub TUNNEL did not create reverse confusion with small gay bar TUNNEL BAR where clienteles of club and bar were sufficiently different to preclude reverse confusion); *Andy Warhol Enterprises, Inc. v. Time Inc.*, 700 F. Supp. 760 (S.D.N.Y. 1988) (*People Magazine's* use of "Interview" as the descriptive heading of its interview section did not create reverse confusion with magazine of same name where consumers would not believe that defendant published plaintiff's magazine).

8. Reverse Passing Off

"Reverse passing off" generally involves situations in which a "defendant falsely takes credit for another's goods or services," MCCARTHY § 25.6. More specifically, reverse passing off occurs when the defendant passes off as its own product (or service) what was in fact made (or performed) by the plaintiff, perhaps to gain the goodwill that the plaintiff's product might generate for the defendant, perhaps simply to meet a production deadline.

Reverse passing off is an exceedingly rare cause of action, even more so after the case below, *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003). We consider reverse passing off and the *Dastar* case because of the profound policy questions implicated by the cause of action and the facts of the *Dastar* case. Recall that one advantage trademark protection enjoys over copyright or patent protection is that trademark protection is unlimited in time, provided that the trademark owner continue to use the mark in commerce. Thus, when patent or copyright protection of a product feature expires, the patent or copyright owner may continue to exert control over that feature through trademark law (provided that the feature satisfies the various requirements of trademark protection). This raises significant concerns. Consider the example of the Mickey Mouse image mark, whose registration is shown below:

Int. Cl.: 28

Prior U.S. Cls.: 22, 23, 38, and 50

United States Patent and Trademark Office

Reg. No. 3,619,662

Registered May 12, 2009

TRADEMARK
PRINCIPAL REGISTER



DISNEY ENTERPRISES, INC. (DELAWARE CORPORATION)
500 SOUTH BUENA VISTA STREET
BURBANK, CA 91521

FOR: GAMES, NAMELY, ACTION SKILL GAMES, BOARD GAMES, MANIPULATIVE GAMES; PLAYTHINGS, NAMELY, ACTION FIGURES AND ACCESSORIES THEREFOR, BEAN BAG DOLLS, PLUSH TOYS, BATH TOYS, BUILDING BLOCKS, DOLLS AND DOLL CLOTHING, DOLL PLAYSETS, CRIB TOYS, ELECTRIC ACTION TOYS, PARTY FAVORS IN THE NATURE OF SMALL TOYS, MULTIPLE ACTIVITY TOYS, WIND-UP TOYS, TOY VEHICLES, TOY CARS, TOY TRUCKS,

TOY ROCKETS, MUSICAL TOYS, TOY FIGURINES, PUPPETS, FACE MASKS, HAND-HELD UNITS FOR PLAYING ELECTRONIC GAMES, IN CLASS 28 (U.S. CLS. 22, 23, 38 AND 50).

FIRST USE 3-28-2008; IN COMMERCE 3-28-2008.

OWNER OF U.S. REG. NOS. 2,461,981, 2,781,641, AND OTHERS.

SN 76-588,173, FILED 4-19-2004.

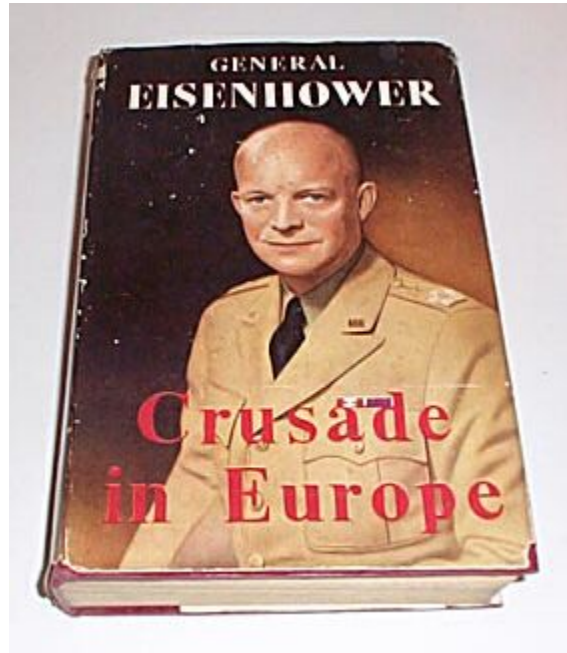
TEJBIR SINGH, EXAMINING ATTORNEY

At some point, Disney's copyright rights in the countless cartoons in which Mickey Mouse is depicted will begin to expire. But can Disney then use its trademark rights in the image of the character to prevent others from reproducing these cartoons? With copyright law, the public agrees to grant short-term exclusive rights to the author of a work in order to incentivize authorship, but an exceedingly important part of that bargain is that these rights will eventually expire and the work will be dedicated to the public domain, free for anyone to use in any way. Should trademark rights be allowed to trump this basic bargain?

In *Dastar*, the respondent sought to assert, through trademark law, continued control over expression in which it had lost its copyright rights. As you read through *Dastar*, consider the following questions:

- Does *Dastar* resolve the question of whether Disney may continue to assert exclusive rights through trademark law after its copyright claims have expired?
- Should trademark law and specifically the concept of "reverse passing off" provide a cause of action for plagiarism of someone else's ideas? More specifically, if I take someone else's product, merely re-label it with my own trademark, and sell that product as my own, then I would likely be liable for the "reverse passing off" of someone else's product as my own. Should the

same principle apply if I take someone else's original expression or ideas and pass them off as my own original expression or ideas? If not, why are expression and ideas different?



Dastar Corp. v. Twentieth Century Fox Film Corp.
539 U.S. 23 (2003)

Justice SCALIA delivered the opinion of the Court.

[1] In this case, we are asked to decide whether § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), prevents the unaccredited copying of a work, and if so, whether a court may double a profit award under § 1117(a), in order to deter future infringing conduct.

I

[2] In 1948, three and a half years after the German surrender at Reims, General Dwight D. Eisenhower completed *Crusade in Europe*, his written account of the allied campaign in Europe during World War II. Doubleday published the book, registered it with the Copyright Office in 1948, and granted exclusive television rights to an affiliate of respondent Twentieth Century Fox Film Corporation (Fox). Fox, in turn, arranged for Time, Inc., to produce a television series, also called *Crusade in Europe*, based on the book, and Time assigned its copyright in the series to Fox. The television series, consisting of 26 episodes, was first broadcast in 1949.

It combined a soundtrack based on a narration of the book with film footage from the United States Army, Navy, and Coast Guard, the British Ministry of Information and War Office, the National Film Board of Canada, and unidentified “Newsreel Pool Cameramen.” In 1975, Doubleday renewed the copyright on the book as the “proprietor of copyright in a work made for hire.” App. to Pet. for Cert. 9a. Fox, however, did not renew the copyright on the Crusade television series, which expired in 1977, leaving the television series in the public domain.

[3] In 1988, Fox reacquired the television rights in General Eisenhower's book, including the exclusive right to distribute the Crusade television series on video and to sublicense others to do so. Respondents SFM Entertainment and New Line Home Video, Inc., in turn, acquired from Fox the exclusive rights to distribute Crusade on video. SFM obtained the negatives of the original television series, restored them, and repackaged the series on videotape; New Line distributed the videotapes.

[4] Enter petitioner Dastar. In 1995, Dastar decided to expand its product line from music compact discs to videos. Anticipating renewed interest in World War II on the 50th anniversary of the war's end, Dastar released a video set entitled World War II Campaigns in Europe. To make Campaigns, Dastar purchased eight beta cam tapes of the *original* version of the Crusade television series, which is in the public domain, copied them, and then edited the series. Dastar's Campaigns series is slightly more than half as long as the original Crusade television series. Dastar substituted a new opening sequence, credit page, and final closing for those of the Crusade television series; inserted new chapter-title sequences and narrated chapter introductions; moved the “recap” in the Crusade television series to the beginning and retitled it as a “preview”; and removed references to and images of the book. Dastar created new packaging for its Campaigns series and (as already noted) a new title.

[5] Dastar manufactured and sold the Campaigns video set as its own product. The advertising states: “Produced and Distributed by: *Entertainment Distributing*” (which is owned by Dastar), and makes no reference to the Crusade television series. Similarly, the screen credits state “DASTAR CORP presents” and “an ENTERTAINMENT DISTRIBUTING Production,” and list as executive producer, producer, and associate producer employees of Dastar. Supp.App. 2–3, 30. The Campaigns videos themselves also make no reference to the Crusade television series, New Line's Crusade videotapes, or the book. Dastar sells its Campaigns videos to Sam's Club, Costco, Best Buy, and other retailers and mail-order companies for \$25 per set, substantially less than New Line's video set.

[6] In 1998, respondents Fox, SFM, and New Line brought this action alleging that Dastar's sale of its Campaigns video set infringes Doubleday's copyright in

General Eisenhower's book and, thus, their exclusive television rights in the book. Respondents later amended their complaint to add claims that Dastar's sale of Campaigns "without proper credit" to the Crusade television series constitutes "reverse passing off"¹ in violation of § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and in violation of state unfair-competition law. App. to Pet. for Cert. 31a. On cross-motions for summary judgment, the District Court found for respondents on all three counts, *id.*, at 54a–55a, treating its resolution of the Lanham Act claim as controlling on the state-law unfair-competition claim because "the ultimate test under both is whether the public is likely to be deceived or confused," *id.*, at 54a. The court awarded Dastar's profits to respondents and doubled them pursuant to § 35 of the Lanham Act, 15 U.S.C. § 1117(a), to deter future infringing conduct by petitioner.

[7] The Court of Appeals for the Ninth Circuit affirmed the judgment for respondents on the Lanham Act claim, but reversed as to the copyright claim and remanded. 34 Fed.Appx. 312, 316 (2002). (It said nothing with regard to the state-law claim.) With respect to the Lanham Act claim, the Court of Appeals reasoned that "Dastar copied substantially the entire *Crusade in Europe* series created by Twentieth Century Fox, labeled the resulting product with a different name and marketed it without attribution to Fox[, and] therefore committed a 'bodily appropriation' of Fox's series." *Id.*, at 314. It concluded that "Dastar's 'bodily appropriation' of Fox's original [television] series is sufficient to establish the reverse passing off." *Ibid.*² The court also affirmed the District Court's award under the Lanham Act of twice Dastar's profits. We granted certiorari. 537 U.S. 1099 (2003).

¹ Passing off (or palming off, as it is sometimes called) occurs when a producer misrepresents his own goods or services as someone else's. See, e.g., *O. & W. Thum Co. v. Dickinson*, 245 F. 609, 621 (C.A.6 1917). "Reverse passing off," as its name implies, is the opposite: The producer misrepresents someone else's goods or services as his own. See, e.g., *Williams v. Curtiss-Wright Corp.*, 691 F.2d 168, 172 (C.A.3 1982).

² As for the copyright claim, the Ninth Circuit held that the tax treatment General Eisenhower sought for his manuscript of the book created a triable issue as to whether he intended the book to be a work for hire, and thus as to whether Doubleday properly renewed the copyright in 1976. See 34 Fed.Appx., at 314. The copyright issue is still the subject of litigation, but is not before us. We express no opinion as to whether petitioner's product would infringe a valid copyright in General Eisenhower's book.

II

[8] The Lanham Act was intended to make “actionable the deceptive and misleading use of marks,” and “to protect persons engaged in ... commerce against unfair competition.” 15 U.S.C. § 1127. While much of the Lanham Act addresses the registration, use, and infringement of trademarks and related marks, § 43(a), 15 U.S.C. § 1125(a) is one of the few provisions that goes beyond trademark protection. As originally enacted, § 43(a) created a federal remedy against a person who used in commerce either “a false designation of origin, or any false description or representation” in connection with “any goods or services.” 60 Stat. 441. As the Second Circuit accurately observed with regard to the original enactment, however—and as remains true after the 1988 revision—§ 43(a) “does not have boundless application as a remedy for unfair trade practices,” *Alfred Dunhill, Ltd. v. Interstate Cigar Co.*, 499 F.2d 232, 237 (C.A.2 1974). “[B]ecause of its inherently limited wording, § 43(a) can never be a federal ‘codification’ of the overall law of ‘unfair competition,’ ” 4 J. McCarthy, *Trademarks and Unfair Competition* § 27:7, p. 27–14 (4th ed. 2002) (McCarthy), but can apply only to certain unfair trade practices prohibited by its text.

[9] Although a case can be made that a proper reading of § 43(a), as originally enacted, would treat the word “origin” as referring only “to the geographic location in which the goods originated,” *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 777, (1992) (STEVENS, J., concurring in judgment),³ the Courts of Appeals considering the issue, beginning with the Sixth Circuit, unanimously concluded that it “does not merely refer to geographical origin, but also to origin of source or

³ In the original provision, the cause of action for false designation of origin was arguably “available only to a person doing business in the locality falsely indicated as that of origin,” 505 U.S., at 778, n. 3. As adopted in 1946, § 43(a) provided in full:

“Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.” 60 Stat. 441.

manufacture,” *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405, 408 (C.A.6 1963), thereby creating a federal cause of action for traditional trademark infringement of unregistered marks. See 4 McCarthy § 27:14; *Two Pesos, supra*, at 768, 112 S.Ct. 2753. Moreover, every Circuit to consider the issue found § 43(a) broad enough to encompass reverse passing off. See, e.g., *Williams v. Curtiss-Wright Corp.*, 691 F.2d 168, 172 (C.A.3 1982); *Arrow United Indus., Inc. v. Hugh Richards, Inc.*, 678 F.2d 410, 415 (C.A.2 1982); *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago*, 214 USPQ 409, 416, 1982 WL 19198 (C.A.7 1982); *Smith v. Montoro*, 648 F.2d 602, 603 (C.A.9 1981); *Bangor Punta Operations, Inc. v. Universal Marine Co.*, 543 F.2d 1107, 1109 (C.A.5 1976). The Trademark Law Revision Act of 1988 made clear that § 43(a) covers origin of production as well as geographic origin.⁴ Its language is amply inclusive, moreover, of reverse passing off—if indeed it does not implicitly adopt the unanimous court-of-appeals jurisprudence on that subject. See, e.g., *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 963–964, n. 6 (C.A.D.C.1990) (Thomas, J.).

[10] Thus, as it comes to us, the gravamen of respondents' claim is that, in marketing and selling Campaigns as its own product without acknowledging its nearly wholesale reliance on the Crusade television series, Dastar has made a “false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which ... is likely to cause confusion ... as to the origin ... of his or her goods.” § 43(a). See, e.g., Brief for Respondents 8, 11. That claim would undoubtedly be sustained if Dastar had bought some of New Line's Crusade videotapes and merely repackaged them as its own. Dastar's alleged wrongdoing,

⁴ Section 43(a) of the Lanham Act now provides:

“Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

“(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

“(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.” 15 U.S.C. § 1125(a)(1).

however, is vastly different: It took a creative work in the public domain—the Crusade television series—copied it, made modifications (arguably minor), and produced its very own series of videotapes. If “origin” refers only to the manufacturer or producer of the physical “goods” that are made available to the public (in this case the videotapes), Dastar was the origin. If, however, “origin” includes the creator of the underlying work that Dastar copied, then someone else (perhaps Fox) was the origin of Dastar's product. At bottom, we must decide what § 43(a)(1)(A) of the Lanham Act means by the “origin” of “goods.”

III

[11] The dictionary definition of “origin” is “[t]he fact or process of coming into being from a source,” and “[t]hat from which anything primarily proceeds; source.” Webster's New International Dictionary 1720–1721 (2d ed.1949). And the dictionary definition of “goods” (as relevant here) is “[w]ares; merchandise.” *Id.*, at 1079. We think the most natural understanding of the “origin” of “goods”—the source of wares—is the producer of the tangible product sold in the marketplace, in this case the physical Campaigns videotape sold by Dastar. The concept might be stretched (as it was under the original version of § 43(a))⁵ to include not only the actual producer, but also the trademark owner who commissioned or assumed responsibility for (“stood behind”) production of the physical product. But as used in the Lanham Act, the phrase “origin of goods” is in our view incapable of connoting the person or entity that originated the ideas or communications that “goods” embody or contain. Such an extension would not only stretch the text, but it would be out of accord with the history and purpose of the Lanham Act and inconsistent with precedent.

[12] Section 43(a) of the Lanham Act prohibits actions like trademark infringement that deceive consumers and impair a producer's goodwill. It forbids,

⁵ Under the 1946 version of the Act, § 43(a) was read as providing a cause of action for trademark infringement even where the trademark owner had not itself produced the goods sold under its mark, but had licensed others to sell under its name goods produced by them—the typical franchise arrangement. See, *e.g.*, *My Pie Int'l, Inc. v. Debould, Inc.*, 687 F.2d 919 (C.A.7 1982). This stretching of the concept “origin of goods” is seemingly no longer needed: The 1988 amendments to § 43(a) now expressly prohibit the use of any “word, term, name, symbol, or device,” or “false or misleading description of fact” that is likely to cause confusion as to “affiliation, connection, or association ... with another person,” or as to “sponsorship, or approval” of goods. 15 U.S.C. § 1125(a).

for example, the Coca-Cola Company's passing off its product as Pepsi-Cola or reverse passing off Pepsi-Cola as its product. But the brand-loyal consumer who prefers the drink that the Coca-Cola Company or PepsiCo sells, while he believes that that company produced (or at least stands behind the production of) that product, surely does not necessarily believe that that company was the "origin" of the drink in the sense that it was the very first to devise the formula. The consumer who buys a branded product does not automatically assume that the brand-name company is the same entity that came up with the idea for the product, or designed the product—and typically does not care whether it is. The words of the Lanham Act should not be stretched to cover matters that are typically of no consequence to purchasers.

[13] It could be argued, perhaps, that the reality of purchaser concern is different for what might be called a communicative product—one that is valued not primarily for its physical qualities, such as a hammer, but for the intellectual content that it conveys, such as a book or, as here, a video. The purchaser of a novel is interested not merely, if at all, in the identity of the producer of the physical tome (the publisher), but also, and indeed primarily, in the identity of the creator of the story it conveys (the author). And the author, of course, has at least as much interest in avoiding passing off (or reverse passing off) of his creation as does the publisher. For such a communicative product (the argument goes) "origin of goods" in § 43(a) must be deemed to include not merely the producer of the physical item (the publishing house Farrar, Straus and Giroux, or the video producer Dastar) but also the creator of the content that the physical item conveys (the author Tom Wolfe, or—assertedly—respondents).

[14] The problem with this argument according special treatment to communicative products is that it causes the Lanham Act to conflict with the law of copyright, which addresses that subject specifically. The right to copy, and to copy without attribution, once a copyright has expired, like "the right to make [an article whose patent has expired]—including the right to make it in precisely the shape it carried when patented—passes to the public." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964); see also *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 121–122 (1938). "In general, unless an intellectual property right such as a patent or copyright protects an item, it will be subject to copying." *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 29 (2001). The rights of a patentee or copyright holder are part of a "carefully crafted bargain," *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–151 (1989), under which, once the patent or copyright monopoly has expired, the public may use the invention or work at will and without attribution. Thus, in construing the Lanham Act, we have been "careful to caution

against misuse or over-extension” of trademark and related protections into areas traditionally occupied by patent or copyright. *Traffix*, 532 U.S., at 29. “The Lanham Act,” we have said, “does not exist to reward manufacturers for their innovation in creating a particular device; that is the purpose of the patent law and its period of exclusivity.” *Id.*, at 34. Federal trademark law “has no necessary relation to invention or discovery,” *In re Trade-Mark Cases*, 100 U.S. 82, 94 (1879), but rather, by preventing competitors from copying “a source-identifying mark,” “reduce[s] the customer’s costs of shopping and making purchasing decisions,” and “helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product,” *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 163–164 (1995) (internal quotation marks and citation omitted). Assuming for the sake of argument that Dastar’s representation of itself as the “Producer” of its videos amounted to a representation that it originated the creative work conveyed by the videos, allowing a cause of action under § 43(a) for that representation would create a species of mutant copyright law that limits the public’s “federal right to ‘copy and to use’” expired copyrights, *Bonito Boats*, *supra*, at 165, 109 S.Ct. 971.

[15] When Congress has wished to create such an addition to the law of copyright, it has done so with much more specificity than the Lanham Act’s ambiguous use of “origin.” The Visual Artists Rights Act of 1990, § 603(a), 104 Stat. 5128, provides that the author of an artistic work “shall have the right ... to claim authorship of that work.” 17 U.S.C. § 106A(a)(1)(A). That express right of attribution is carefully limited and focused: It attaches only to specified “work[s] of visual art,” § 101, is personal to the artist, §§ 106A(b) and (e), and endures only for “the life of the author,” § 106A(d)(1). Recognizing in § 43(a) a cause of action for misrepresentation of authorship of noncopyrighted works (visual or otherwise) would render these limitations superfluous. A statutory interpretation that renders another statute superfluous is of course to be avoided. *E.g.*, *Mackey v. Lanier Collection Agency & Service, Inc.*, 486 U.S. 825, 837, and n. 11 (1988).

[16] Reading “origin” in § 43(a) to require attribution of uncopyrighted materials would pose serious practical problems. Without a copyrighted work as the basepoint, the word “origin” has no discernable limits. A video of the MGM film *Carmen Jones*, after its copyright has expired, would presumably require attribution not just to MGM, but to Oscar Hammerstein II (who wrote the musical on which the film was based), to Georges Bizet (who wrote the opera on which the musical was based), and to Prosper Merimee (who wrote the novel on which the opera was based). In many cases, figuring out who is in the line of “origin” would be no simple task. Indeed, in the present case it is far from clear that respondents have that

status. Neither SFM nor New Line had anything to do with the production of the Crusade television series—they merely were licensed to distribute the video version. While Fox might have a claim to being in the line of origin, its involvement with the creation of the television series was limited at best. Time, Inc., was the principal, if not the exclusive, creator, albeit under arrangement with Fox. And of course it was neither Fox nor Time, Inc., that shot the film used in the Crusade television series. Rather, that footage came from the United States Army, Navy, and Coast Guard, the British Ministry of Information and War Office, the National Film Board of Canada, and unidentified “Newsreel Pool Cameramen.” If anyone has a claim to being the *original* creator of the material used in both the Crusade television series and the Campaigns videotapes, it would be those groups, rather than Fox. We do not think the Lanham Act requires this search for the source of the Nile and all its tributaries.

[17] Another practical difficulty of adopting a special definition of “origin” for communicative products is that it places the manufacturers of those products in a difficult position. On the one hand, they would face Lanham Act liability for *failing* to credit the creator of a work on which their lawful copies are based; and on the other hand they could face Lanham Act liability for *crediting* the creator if that should be regarded as implying the creator’s “sponsorship or approval” of the copy, 15 U.S.C. § 1125(a)(1)(A). In this case, for example, if Dastar had simply “copied [the television series] as Crusade in Europe and sold it as Crusade in Europe,” without changing the title or packaging (including the original credits to Fox), it is hard to have confidence in respondents’ assurance that they “would not be here on a Lanham Act cause of action,” Tr. of Oral Arg. 35.

[18] Finally, reading § 43(a) of the Lanham Act as creating a cause of action for, in effect, plagiarism—the use of otherwise unprotected works and inventions without attribution—would be hard to reconcile with our previous decisions. For example, in *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 529 U.S. 205 (2000), we considered whether product-design trade dress can ever be inherently distinctive. Wal-Mart produced “knockoffs” of children’s clothes designed and manufactured by Samara Brothers, containing only “minor modifications” of the original designs. *Id.*, at 208. We concluded that the designs could not be protected under § 43(a) without a showing that they had acquired “secondary meaning,” *id.*, at 214, so that they “‘identify the source of the product rather than the product itself,’ ” *id.*, at 211 (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851, n. 11 (1982)). This carefully considered limitation would be entirely pointless if the “original” producer could turn around and pursue a reverse-passing-off claim under exactly the same provision of the Lanham Act. Samara would merely have had to

argue that it was the “origin” of the designs that Wal-Mart was selling as its own line. It was not, because “origin of goods” in the Lanham Act referred to the producer of the clothes, and not the producer of the (potentially) copyrightable or patentable designs that the clothes embodied.

[19] Similarly under respondents' theory, the “origin of goods” provision of § 43(a) would have supported the suit that we rejected in *Bonito Boats*, 489 U.S. 141, where the defendants had used molds to duplicate the plaintiff's unpatented boat hulls (apparently without crediting the plaintiff). And it would have supported the suit we rejected in *Traffix*, 532 U.S. 23: The plaintiff, whose patents on flexible road signs had expired, and who could not prevail on a trade-dress claim under § 43(a) because the features of the signs were functional, would have had a reverse-passing-off claim for unattributed copying of his design.

[20] In sum, reading the phrase “origin of goods” in the Lanham Act in accordance with the Act's common-law foundations (which were *not* designed to protect originality or creativity), and in light of the copyright and patent laws (which *were*), we conclude that the phrase refers to the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods. Cf. 17 U.S.C. § 202 (distinguishing between a copyrighted work and “any material object in which the work is embodied”). To hold otherwise would be akin to finding that § 43(a) created a species of perpetual patent and copyright, which Congress may not do. See *Eldred v. Ashcroft*, 537 U.S. 186, 208 (2003).

[21] The creative talent of the sort that lay behind the Campaigns videos is not left without protection. The original film footage used in the Crusade television series could have been copyrighted, see 17 U.S.C. § 102(a)(6), as was copyrighted (as a compilation) the Crusade television series, even though it included material from the public domain, see § 103(a). Had Fox renewed the copyright in the Crusade television series, it would have had an easy claim of copyright infringement. And respondents' contention that Campaigns infringes Doubleday's copyright in General Eisenhower's book is still a live question on remand. If, moreover, the producer of a video that substantially copied the Crusade series were, in advertising or promotion, to give purchasers the impression that the video was quite different from that series, then one or more of the respondents might have a cause of action—not for reverse passing off under the “confusion ... as to the origin” provision of § 43(a)(1)(A), but for misrepresentation under the “misrepresents the nature, characteristics [or] qualities” provision of § 43(a)(1)(B). For merely saying it is the producer of the video, however, no Lanham Act liability attaches to Dastar.

* * *

[22] Because we conclude that Dastar was the “origin” of the products it sold as its own, respondents cannot prevail on their Lanham Act claim. We thus have no occasion to consider whether the Lanham Act permitted an award of double petitioner's profits. The judgment of the Court of Appeals for the Ninth Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

Justice BREYER took no part in the consideration or decision of this case.

Comments and Questions

1. *Dastar and the reverse passing off of “any idea, concept, or communication”.* In the wake of *Dastar*, courts have uniformly held that the “origin of goods” provision of Lanham Act § 43(a) cannot prevent the unattributed use of someone else’s ideas or expression. Consider, for example, *LaPine v. Seinfeld*, 92 U.S.P.Q.2d 1428, 2009 WL 2902584 (S.D.N.Y. 2009), judgment aff’d, 375 Fed. Appx. 81, 96 U.S.P.Q.2d 1130 (2d Cir. 2010). The plaintiff Missy Chase Lapine, a trained chef, wrote a cook book entitled *The Sneaky Chef: Simple Strategies for Hiding Healthy Food in Kids' Favorite Meals*, which was published in April 2007 to mild success. The defendant Jessica Seinfeld, wife of Jerry Seinfeld, subsequently authored—or was credited as the author of—the book *Deceptively Delicious: Simple Secrets to Get Your Kids Eating Good Food*, which was published in October 2007 and reached number one on the *New York Times* bestseller list.



Lapine sued for, among other things, copyright infringement and reverse passing off. The court found no copyright infringement on the ground that the “total concept and feel” of the two cookbooks was dissimilar. *Id.* at *12. On the reverse passing off claim, the court explained:

Plaintiffs' third claim for relief alleges unfair competition in violation of section 43(a) of the Lanham Act. Section 43(a)(1) prohibits any “misleading representation of fact which (A) is likely to cause confusion ... as to the origin ... of ... goods ... or (B) in commercial advertising or promotion, misrepresents the nature, characteristics, [or] qualities ... of his or her or another person's goods.” 15 U.S.C.A. § 1125(a)(1) (West 1998). This claim, too, fails as a matter of law.

In *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 123 S.Ct. 2041, 156 L.Ed.2d 18 (2003), the Supreme Court defined the “origin of goods” for section 43(a) purposes, holding that the phrase “refers to the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods.” *Id.* at 37.¹ To do otherwise would place the Lanham Act in conflict with the copyright [and patent] law and “be akin to finding that § 43(a) created a species of perpetual patent and copyright, which Congress may not do.” *Id.* The Court recognized that the Lanham Act was not intended to protect originality or creativity. *Id.*

Following *Dastar*, a plaintiff may be able to bring a section 43(a) violation based on a defendant's repackaging of plaintiff's material as its own. *Id.* at 31 (the claim “would undoubtedly be sustained if *Dastar* had bought some of New Line's Crusade videotapes and merely repackaged them as its own”); see also *Flaherty v. Filardi*, No. 03 Civ. 2167, 2009 WL 749570, at *9 (S.D.N.Y. Mar. 20, 2009) (“Had [Defendant] merely changed the cover page of the script to list himself as author and provide a new title, Plaintiff might have had a Lanham Act claim.”). However, “the mere act of publishing a written work without proper attribution to its creative source is not actionable under the Lanham Act.” *Wellnx Life Sciences Inc. v. Iovate Health Sciences Research Inc.*, 516

¹ Although *Dastar* involved copying of uncopyrighted work, subsequent decisions have recognized its applicability to copyrighted work as well. See, e.g., *Atrium Group De Ediciones Y Publicaciones, S.L. v. Harry N. Abrams, Inc.*, 565 F.Supp.2d 505, 512–13 (S.D.N.Y.2008) (discussing cases).

F.Supp.2d 270, 285 (S.D.N.Y.2007). Plaintiffs have not alleged that Defendants took Plaintiffs' cookbook and repackaged it as their own, nor could the evidentiary record sustain such a claim because, as explained above, the works are not substantially similar.

Although Plaintiffs did not identify in the Complaint the Section 43 subdivision under which they assert their Lanham Act unfair competition claim, Plaintiffs argue that they are asserting a claim under Section 43(a)(1)(B), the false advertising subsection, and that *Dastar* does not foreclose that claim. This argument is unavailing. Plaintiffs' Lanham Act unfair competition claim is, at its core, the same as Plaintiffs' copyright claim—that Defendants took Plaintiff Lapine's ideas and used them in *Deceptively Delicious* without Plaintiffs' permission and without any attribution as to the source of the ideas and the work.

Plaintiffs' Section 43(a) claim is premised on their allegations that Seinfeld misappropriated Lapine's work in preparing *Deceptively Delicious* and that, consequently, Seinfeld's statements that *Deceptively Delicious* is the product of her own work and Defendants' claim of a copyright in that work constitute falsities because they “assign the entire credit for [*Deceptively Delicious*] and Lapine's property contained therein, to themselves, and fail to credit Lapine or her Book.” (Compl. ¶¶ 73–75.) Plaintiffs assert that the alleged misrepresentations that are likely to cause confusion or deception “as to the origin of [*Deceptively Delicious*] and Lapine's property contained therein.” (*Id.* ¶ 76 (emphasis supplied).) This is precisely the type of claim that is precluded by *Dastar*, and the Court finds persuasive those decisions holding that “a failure to attribute authorship to Plaintiff does not amount to misrepresentation of the nature, characteristics, qualities, or geographic origin of ... [Defendant's] goods.” *Thomas Publishing Company, LLC v. Technology Evaluation Centers, Inc.*, No. 06 Civ.14212, 2007 WL 2193964, at * 3 (S.D.N.Y. July 27, 2007) (alteration in original); see also *Wellnx Life Sciences Inc. v. Iovate Health Sciences Research Inc.*, 516 F.Supp.2d 270, 286 (S.D.N.Y.2007) (“[A] Lanham Act claim cannot be based on false designation of authorship in [Defendant's] publications.”); *Antidote International Films v. Bloomsbury Publishing, PLC*, 467 F.Supp.2d 394, 399–400 (S.D.N.Y.2006) (“the holding in *Dastar* that the word ‘origin’ in § 43(a)(1)(A) refers to producers, rather than authors, necessarily implies that the words ‘nature, characteristics, [and] qualities’ in § 43(a)(1)(B) cannot be read to refer to authorship. If

authorship were a ‘characteristic[]’ or ‘qualit[y]’ of a work, then the very claim Dastar rejected under § 43(a)(1)(A) would have been available under § 43(a)(1)(B)” (alterations in original)). Thus, Plaintiffs’ claims of unfair competition under the Lanham Act are dismissed.

Id. at *14-15.

2. *Dastar and products other than “communicative products”.* Courts have similarly held that short of the mere “repackaging” of another’s products as one’s own, the “origin of goods” provision of Lanham Act § 43(a) will not prevent the unattributed use of someone else’s products as components in one’s own products. Consider, for example, *Bretford Mfg., Inc. v. Smith System Mfg. Corp.*, 419 F.3d 576 (7th Cir. 2005). The plaintiff and defendant were competing table manufacturers. When one of its suppliers failed to produce satisfactory parts, the defendant incorporated some of the plaintiff’s hardware in its sample table that it showed to purchasing officials from a school district, who placed an order. The tables the defendant ultimately delivered to the school district contained none of the plaintiff’s hardware. Judge Easterbrook held for the defendant:

Passing off or palming off occurs when a firm puts someone else’s trademark on its own (usually inferior) goods; reverse passing off or misappropriation is selling someone else’s goods under your own mark. See *Roho, Inc. v. Marquis*, 902 F.2d 356, 359 (5th Cir.1990). It is not clear what’s wrong with reselling someone else’s goods, if you first buy them at retail. If every automobile sold by DeLorean includes the chassis and engine of a Peugeot, with DeLorean supplying only the body shell, Peugeot has received its asking price for each car sold and does not suffer any harm. Still, the Supreme Court said in *Dastar* that “reverse passing off” can violate the Lanham Act if a misdescription of goods’ origin causes commercial injury. Our opinion in *Peaceable Planet, Inc. v. Ty, Inc.*, 362 F.3d 986 (7th Cir.2004), shows how this could occur.

Dastar added that the injury must be a *trademark* loss—which is to say, it must come from a misrepresentation of the goods’ origin. *Dastar* thus had the right (so far as the Lanham Act is concerned) to incorporate into its videos footage taken and edited by others, provided that it manufactured the finished product and did not mislead anyone about who should be held responsible for shortcomings. No one makes a product from scratch, with trees and iron ore entering one end of the plant and a finished consumer product emerging at the other. Ford’s cars include Fram oil filters, Goodyear tires, Owens-Corning glass, Bose radios, Pennzoil lubricants, and many other constituents; buyers can

see some of the other producers' marks (those on the radio and tires for example) but not others, such as the oil and transmission fluid. Smith System builds tables using wood from one supplier, grommets (including Teflon from du Pont) from another, and vinyl molding and paint and bolts from any of a hundred more sources—the list is extensive even for a simple product such as a table. If Smith System does not tell du Pont how the Teflon is used, and does not inform its consumers which firm supplied the wood, has it violated the Lanham Act? Surely not; the statute does not condemn the way in which all products are made.

Legs are a larger fraction of a table's total value than grommets and screws, but nothing in the statute establishes one rule for “major” components and another for less costly inputs. The right question, *Dastar* holds, is whether the consumer knows who has produced the finished product. In the *Dastar* case that was Dastar itself, even though most of the product's economic value came from elsewhere; just so when Smith System includes components manufactured by others but stands behind the finished product. The portion of § 43(a) that addresses reverse passing off is the one that condemns false designations of origin. “Origin” means, *Dastar* holds, “the producer of the tangible product sold in the marketplace”. 539 U.S. at 31. As far as Dallas was concerned, the table's “origin” was Smith System, no matter who made any component or subassembly.

Much of Bretford's argument takes the form that it is just “unfair” for Smith System to proceed as it did, making a sale before its subcontractor could turn out acceptable leg assemblies. Businesses often think competition unfair, but federal law encourages wholesale copying, the better to drive down prices. Consumers rather than producers are the objects of the law's solicitude. If Smith System misled Dallas into thinking that it could supply high-quality tables, when its subcontractor could not match Bretford's welds and other attributes of Bretford's V-shaped leg assemblies, then the victim would be the Dallas school system. (As far as we are aware, however, Dallas is happy with the quality of the tables it received; it has not complained about a bait and switch.) As the Court observed in *Dastar*, creators of certain artistic works are entitled (along the lines of the European approach to moral rights) to control how their work is presented or altered by others. See 539 U.S. at 34-35, citing 17 U.S.C. § 106A. See also *Lee v. A.R.T. Co.*, 125

F.3d 580 (7th Cir.1997). Bretford's table is not a "work of visual art" under § 106A (and the definition in 17 U.S.C. § 101). Once Bretford sold its goods, it had no control over how customers used their components: the Lanham Act does not include any version of the "derivative work" right in copyright law. See 17 U.S.C. § 106(2).

Id. at 580-81

9. Lanham Act § 2(d) Confusion

Recall that a registration application at the PTO may be rejected on the basis that the applied-for mark will create a likelihood of confusion with an already registered mark. The PTO's test for determining whether Lanham Act § 2(d) bars a registration is essentially the same as the multifactor test for the likelihood of confusion in the federal court litigation context. Excerpted below is the discussion of the § 2(d) bar in the Trademark Manual of Examining Procedure.

TMEP § 1207.01 Likelihood of Confusion

[1] In the *ex parte* examination of a trademark application, a refusal under §2(d) is normally based on the examining attorney's conclusion that the applicant's mark, as used on or in connection with the specified goods or services, so resembles a *registered* mark as to be likely to cause confusion. See TMEP §1207.02 concerning application of the §2(d) provision relating to marks that so resemble another mark as to be likely to deceive, and TMEP §1207.03 concerning §2(d) refusals based on unregistered marks (which generally are not issued in *ex parte* examination).

[2] The examining attorney must conduct a search of USPTO records to determine whether the applicant's mark so resembles any registered mark(s) as to be likely to cause confusion or mistake, when used on or in connection with the goods or services identified in the application. The examining attorney also searches pending applications for conflicting marks with earlier effective filing dates.... The examining attorney must place a copy of the search strategy in the record.

[3] If the examining attorney determines that there is a likelihood of confusion between applicant's mark and a previously registered mark or marks, the examining attorney refuses registration of the applicant's mark under §2(d). Before citing a registration, the examining attorney must check the automated records of the USPTO to confirm that any registration that is the basis for a §2(d) refusal is an active registration....

[4] In the seminal case involving §2(d), *In re E. I. du Pont de Nemours & Co.*, the U.S. Court of Customs and Patent Appeals discussed the factors relevant to a determination of likelihood of confusion. 476 F.2d 1357, 177 USPQ 563 (C.C.P.A. 1973)....

[5] Although the weight given to the relevant *du Pont* factors may vary, the following two factors are key considerations in any likelihood of confusion determination:

- The similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression.
- The relatedness of the goods or services as described in the application and registration(s).

See, e.g., Federated Foods, Inc. v. Fort Howard Paper Co., 544 F.2d 1098, 1103, 192 USPQ 24, 29 (C.C.P.A. 1976); *In re Iolo Techs., LLC*, 95 USPQ2d 1498, 1499 (TTAB 2010); *In re Max Capital Grp. Ltd.*, 93 USPQ2d 1243, 1244 (TTAB 2010); *In re Thor Tech, Inc.*, 90 USPQ2d 1634, 1635 (TTAB 2009).

[6] The following factors may also be relevant in an ex parte likelihood-of-confusion determination and must be considered if there is pertinent evidence in the record:

- The similarity or dissimilarity of established, likely-to-continue trade channels.
- The conditions under which and buyers to whom sales are made, i.e., “impulse” vs. careful, sophisticated purchasing (see TMEP §1207.01(d)(vii)).
- The number and nature of similar marks in use on similar goods (see TMEP §1207.01(d)(iii)).
- The existence of a valid consent agreement between the applicant and the owner of the previously registered mark (see TMEP §1207.01(d)(viii)).

See, e.g., du Pont, 476 F.2d at 1362-63, 177 USPQ at 568-69; *In re Davey Prods. Pty Ltd.*, 92 USPQ2d 1198, 1203-04 (TTAB 2009); *In re Toshiba Med. Sys. Corp.*, 91 USPQ2d 1266, 1272-74 (TTAB 2009); *Ass’n of the U.S. Army*, 85 USPQ2d at 1271-73.

[7] As should be clear from the foregoing, there is no mechanical test for determining likelihood of confusion and “each case must be decided on its own facts.” *Du Pont*, 476 F.2d at 1361, 177 USPQ at 567. In some cases, a determination that there is no likelihood of confusion may be appropriate, even where the marks are similar and the goods/services are related, because these factors are outweighed by other factors, such as differences in the relevant trade channels of the goods/services, the presence in the marketplace of a significant number of similar marks in use on similar goods/services, the existence of a valid consent

agreement between the parties, or another established fact probative of the effect of use. For example, in *In re Strategic Partners, Inc.*, 102 USPQ2d 1397 (TTAB 2012), the Board reversed a refusal to register the mark ANYWEAR (in stylized text), for “footwear,” finding no likelihood of confusion with the registered mark ANYWEAR BY JOSIE NATORI (and design), for “jackets, shirts, pants, stretch T-tops and stoles.” Given the similarity in the marks and the relatedness of the goods, the Board stated that “under usual circumstances” it would conclude that confusion is likely to occur; however, an “unusual situation” compelled the Board “to balance the similarities between the marks and goods against the facts that applicant already owns a registration for a substantially similar mark for the identical goods, and that applicant’s registration and the cited registration have coexisted for over five years.” *Id.* at 1399. Applicant’s prior registration of ANYWEARS for goods including footwear was substantially similar to the applied-for mark ANYWEAR for the same goods, and the registration had achieved incontestable status. *Id.* Basing its decision on the thirteenth *du Pont* factor, which “relates to ‘any other established fact probative of the effect of use,’” the Board determined that this factor outweighed the others and confusion was unlikely. *Id.* at 1399-1400 (quoting *du Pont*, 476 F.2d at 1361, 177 USPQ at 567).

[8] The decision in *Strategic Partners* may be applied and weighed against a §2(d) refusal in the limited situation where: (1) an applicant owns a prior registration for the same mark or a mark with no meaningful difference from the applied-for-mark; (2) the identifications of goods/services in the application and applicant’s prior registration are identical or identical in relevant part; and (3) the applicant’s prior registration has co-existed for at least five years with the registration being considered as the basis for the Section 2(d) refusal. See *Id.* at 1400.

[9] The determination of likelihood of confusion under §2(d) in an intent-to-use application under §1(b) of the Trademark Act does not differ from the determination in any other type of application.

1207.03 Marks Previously Used in United States but Not Registered

As a basis for refusal, §2(d) refers not only to registered marks but also to “a mark or trade name previously used in the United States by another and not abandoned.” Refusal on the basis of an unregistered mark or trade name has sometimes been referred to as refusal on the basis of a “known mark.” This provision is not applied in ex parte examination because of the practical difficulties with which an examining attorney is faced in locating “previously used” marks, and

determining whether anyone has rights in them and whether they are “not abandoned.”

C. Trademark Dilution

Lanham Act § 43(c)¹ provides protection for trademarks against “dilution,” which is probably the single most muddled concept in all of trademark doctrine. Of the many reasons for this, perhaps the most significant—and avoidable—is that trademark courts and commentators tend to speak of several different species of trademark dilution without identifying them any more specifically than by the generic name “dilution.” From the very beginning of your study of dilution, it may be worthwhile to distinguish among three specific species of dilution: (1) dilution of uniqueness, (2) dilution by “blurring,” and (3) dilution by “tarnishment.” Because dilution is so easily misunderstood, each form of dilution is briefly discussed below before we turn to the representative case law. Note that, strictly speaking, U.S. trademark law protects against only dilution by blurring and dilution by tarnishment. A brief description of dilution of a trademark’s uniqueness is offered because it is arguably what the trademark practitioner and scholar Frank Schechter had in mind when he first originated the concept of trademark dilution in the 1920s.

Dilution of Uniqueness. In his seminal 1927 article *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927), Schechter introduced to American law the concept of trademark dilution. By “dilution,” Schechter arguably meant to refer to the impairment of a trademark’s *uniqueness*,² or what modern marketing doctrine would term its “brand differentiation.” His primary concern was to preserve what he variously termed a mark’s “arresting uniqueness,” its “singularity,” “identity,” and “individuality,” its quality of being “unique and different from other marks.” Schechter was not so much concerned with a trademark’s distinctiveness *of source*, but with a trademark’s distinctiveness *from other marks*,

¹ The current version of § 43(c) is sometimes referred to as the Trademark Dilution Revision Act or “TDRA,” which became effective on October 6, 2006 (and which replaced the old language of § 43(c) that was established by the Federal Trademark Dilution Act of 1995 or “FTDA”).

² For an important alternative reading of Schechter, which asserts that he sought to provide antidilution protection only to marks which are “synonymous with a single product or product class,” see Sara Stadler Nelson, *The Wages of Ubiquity in Trademark Law*, 88 IOWA L. REV. 731 (2003).

not its “source distinctiveness,” but its “differential distinctiveness.”³ In Schechter’s view, trademark uniqueness was worth protecting because it generated “selling power.” Certain very strong marks were not simply a means of identifying and advertising source. In a new age of mass production, they were also a means of endowing the goods to which they were attached with the characteristic of uniqueness as against the crowds of other mass-produced goods in the marketplace, a characteristic for which consumers would pay a premium.

Schechter believed, quite rightly at the time, that antidilution protection was necessary because anti-infringement protection, based on consumer confusion as to source, would not fully preserve the uniqueness of famous marks. In situations where a defendant used a famous mark on goods unrelated to those on which the famous mark normally appeared (e.g., KODAK pianos, ROLLS ROYCE chewing gum), consumers would not likely assume that the defendant’s product had the plaintiff as its source. Thus, no cause of action for consumer confusion as to source would lie.

The beauty of Schechter’s original conception of antidilution protection was that it was relatively easy to put into practice. Uniqueness is an absolute concept. A mark is either unique or it is not. If a senior mark is unique in the marketplace and a junior mark appears that is identical to it, then the junior mark will destroy the senior mark’s uniqueness. Thus, the test for dilution was an essentially formal one. The judge need only consider the identity or close similarity of the parties’ marks. If they were identical or closely-similar, then the loss of uniqueness could be presumed. See *Eli Lilly & Co. v. Natural Answers, Inc.* 233 F.3d 456, 468-69 (7th Cir. 2000) (considering only similarity of the parties’ marks and the “renown” of the senior mark in finding a likelihood of dilution); *Ringling Bros-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, 170 F.3d 449, 464 (4th Cir. 1999) (“[O]nly mark similarity and, possibly, degree of ‘renown’ of the senior mark would appear to have trustworthy relevance under the federal Act.”). Where the consumer confusion test was a messy and unpredictable empirical analysis centered on the *consumer*, the trademark dilution test was a simple and relatively predictable analysis centered on the *trademark*.

Note that Schechter’s original conception has never been enacted into law, and the language of Lanham Act § 43(c) is careful to steer clear of it. Indeed, in the early

³ See Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621 (2004) (distinguishing between source distinctiveness, or in semiotic terms, “signification,” and differential distinctiveness, or in semiotic terms, “value”).

stages of the drafting of the Act, a form of antidilution protection based on “uniqueness” was proposed and rejected.⁴

Dilution by Blurring. The idea underlying the concept of trademark “blurring” is that the defendant’s use of a mark similar or identical to the plaintiff’s mark, though perhaps not confusing as to source, will nevertheless “blur” the link between the plaintiff’s mark and the goods or services to which the plaintiff’s mark is traditionally attached. In modern marketing parlance, anti-blurring protection seeks to preserve a brand’s “typicality,” the brand’s “ability to conjure up a particular product category.” Alexander F. Simonson, *How and When Do Trademarks Dilute: A Behavioral Framework to Judge “Likelihood of Dilution”*, 83 TRADEMARK REP. 149, 152-53 (1993). In *Ty Inc. v. Perryman*, 306 F.3d 509 (7th Cir. 2002), Judge Posner provides a hypothetical example of blurring:

[T]here is concern that consumer search costs will rise if a trademark becomes associated with a variety of unrelated products. Suppose an upscale restaurant calls itself “Tiffany.” There is little danger that the consuming public will think it’s dealing with a branch of the Tiffany jewelry store if it patronizes this restaurant. But when consumers next see the name “Tiffany” they may think about both the restaurant and the jewelry store, and if so the efficacy of the name as an identifier of the store will be diminished. Consumers will have to think harder—incur as it were a higher imagination cost—to recognize the name as the name of the store. So “blurring” is one form of dilution.

Id. at 511 (citations omitted). As Judge Posner’s description suggests, the increase in “imagination cost” that blurring is thought to cause forms the basis of the economic defense of antidilution protection. As then Professor Posner explained, “[a] trademark seeks to economize on information costs by providing a compact, memorable and unambiguous identifier of a product or service. The economy is less when, because the trademark has other associations, a person seeing it must think for a moment before recognizing it as the mark of the product or service.” Richard Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUDIES 67, 75 (1992).

The beauty of the blurring theory of dilution is that it is emphatically empirical in orientation. For the judge to find that a junior mark “blurs” a senior mark, the

⁴ See *Trademark Dilution Revision Act of 2005: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Judiciary Comm.*, 109th Cong. 12-13 (2005) [hereinafter *2005 Hearing*] (statement of Anne Gundelfinger, President, International Trademark Association). See also *id.* at 22-23 (testimony of William G. Barber on behalf of the American Intellectual Property Law Association).

judge must find that the junior mark is causing consumers to “think for a moment” before recognizing that the senior mark refers to the goods of the senior mark’s owner. A merely formal analysis of the similarity of the marks is insufficient. The judge must evaluate the effect of the junior mark on the perceptions of actual consumers and must in the process take into account such factors as the degree of distinctiveness—or typicality—of the senior mark and the sophistication of the relevant consumer population. The analysis is once again centered on the *consumer*.

Dilution by Tarnishment. Dilution by tarnishment is fundamentally different from dilution by blurring (and arguably has nothing to do with “dilution” as Schechter originally formulated the concept). Tarnishment describes damage to the positive associations or connotations of a trademark. See *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 43 (2d Cir. 1994) (“‘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[s].”). In, for example, *New York Stock Exchange, Inc. v. New York, New York Hotel, LLC*, 293 F.3d 550 (2d Cir. 2002), a Las Vegas casino called its players club the “New York \$lot Exchange.” Owners of the NEW YORK STOCK EXCHANGE trademark took offense at the suggestion that there stock exchange was in some sense a venue for gambling, if not also for stacked odds, and sued. The Second Circuit reversed the district court’s grant of summary judgment to the casino on the ground that the casino’s use “would injure NYSE’s reputation.” *Id.* at 558 (analyzing the issue under New York state anti-tarnishment law).

In *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007), the Fourth Circuit set forth the main elements of a claim for dilution by blurring or dilution by tarnishment. The plaintiff must show:

- (1) that the plaintiff owns a famous mark that is distinctive;
- (2) that the defendant has commenced using a mark in commerce that allegedly is diluting the famous mark;
- (3) that a similarity between the defendant’s mark and the famous mark gives rise to an association between the marks; and
- (4) that the association is likely to impair the distinctiveness of the famous mark or likely to harm the reputation of the famous mark.

Id. at 264-65.

In light of the above, the statutory language of § 43(c) excerpted below will reward a close reading. We then turn first to anti-blurring protection and then to anti-tarnishment protection.⁵

Lanham Act § 43(c), 15 U.S.C. § 1125(c)

(c) Dilution by blurring; dilution by tarnishment

(1) Injunctive relief. Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

(2) Definitions

(A) 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. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

(i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.

(ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.

(iii) The extent of actual recognition of the mark.

(iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

(B) For purposes of paragraph (1), "dilution by blurring" is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely

⁵ The student wishing to avoid madness may do well to avoid the term "dilution" altogether and simply refer to these two forms of protection as "anti-blurring protection" and "anti-tarnishment" protection.

to cause dilution by blurring, the court may consider all relevant factors, including the following:

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

- (ii) The degree of inherent or acquired distinctiveness of the famous mark.

- (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 user of the mark or trade name intended to create an association with the famous mark.

- (vi) Any actual association between the mark or trade name and the famous mark.

(C) For purposes of paragraph (1), “dilution by tarnishment” is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.

(3) Exclusions. The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

- (A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services, including use in connection with—

- (i) advertising or promotion that permits consumers to compare goods or services; or

- (ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

- (B) All forms of news reporting and news commentary.

- (C) Any noncommercial use of a mark.

...

1. Dilution by Blurring

The following opinion, *Nike, Inc. v. Nikepal Intern., Inc.*, 84 U.S.P.Q.2d 1820 (N.D. Cal. 2007), was one of the first opinions thoroughly to analyze a claim of dilution by blurring under the new § 43(c) established by the TDRA. In reading *Nikepal*, consider the following questions;

- What is the nature of the harm to the NIKE mark? Is it reasonable to argue that Nikepal's use of the NIKEPAL mark could harm in any significant way a mark as strong as NIKE?
- Does the survey method described in the opinion strike you as valid?
- Though the opinion never addresses the likelihood of consumer confusion as to source, do you think some consumers might be confused as to source by the NIKEPAL mark? More generally, can a plaintiff reasonably argue that a defendant's conduct causes *both* confusion and dilution?

***Nike, Inc. v. Nikepal Intern., Inc.*
84 U.S.P.Q.2d 1820 (N.D. Cal. 2007)**

GARLAND E. BURRELL, JR., United States District Judge.

[1] The following findings of fact and conclusions of law issue as a result of a bench trial conducted in this trademark action. Plaintiff Nike, Inc. ("Nike"), a company headquartered in Beaverton, Oregon which uses the mark NIKE, contests the use of the mark NIKEPAL by Defendant Nikepal International, Inc. ("Nikepal"), a company located in Sacramento, California. Nike initially contested Nikepal's registration of the NIKEPAL mark at the Trademark Trial and Appeal Board ("TTAB") of the United States Patent and Trademark Office ("PTO"); however, the TTAB denied Nike's opposition to Nikepal's registration of the NIKEPAL mark. Nike subsequently appealed the TTAB's ruling to this court under 15 U.S.C. § 1071 and brought additional claims for federal and state trademark dilution under 15 U.S.C. § 1125(c) and California Business and Professions Code section 14330; for trademark infringement under 15 U.S.C. § 1114; and for unfair competition under 15 U.S.C. § 1125(a).⁶

[2] Nike seeks an injunction preventing Nikepal from using the term "Nike" (or any term confusingly similar thereto) alone or as part of any trademark, domain

⁶ For the reasons stated herein, Nike prevails on its federal and state dilution claims. Therefore, Nike's claims for trademark infringement and unfair competition need not be reached.

name or business name under which Nikepal offers goods or services in commerce. Nike also seeks a reversal of the TTAB's ruling allowing Nikepal to register the NIKEPAL mark. Nikepal seeks an affirmation of the TTAB's April 21, 2005 order. (TTAB's April 21, 2005 Order ("TTAB Decision").)

Findings of Fact

I. The Parties and their Businesses

A. Nike

[3] Nike was incorporated in 1968 under the original company name Blue Ribbon Sports. In 1971, it adopted the NIKE mark to brand its footwear products and in May 1978, the company's name was officially changed to "Nike, Inc." Today, Nike is the largest seller of athletic footwear and apparel in the world. Nike sells around 180 million pairs of shoes annually in the United States alone. Nike's principal business activity is the design, development, and worldwide marketing and distribution of high quality and technologically advanced footwear, apparel, equipment, and accessories. Nike has continuously used the NIKE mark on and in connection with the various products offered by the company since the 1970s. Sometimes, the word mark NIKE is the only brand used; sometimes, Nike's Swoosh design mark (i.e. the logo which frequently appears on products along with NIKE, and in some instances alone) is also placed on the product.

B. Nikepal

[4] Nikepal was incorporated on May 18, 1998 by the company's founder and president, Palminder Sandhu ("Mr.Sandhu"), who then began using the NIKEPAL mark in commerce. Nikepal provides services and products to analytical, environmental, and scientific laboratories. Nikepal's trademark application to the PTO requested registration for: "import and export agencies and wholesale distributorships featuring scientific, chemical, pharmaceutical, biotechnology testing instruments and glassware for laboratory use, electrical instruments, paper products and household products and cooking appliances." (Application Serial No. 76123346, filed September 6, 2000) Nikepal distributes glass syringes in varying volumes and other laboratory products to testing and power companies and also distributes paper boxes (syringe carrying cases) and nylon valves and caps for use with the syringes. Nikepal only distributes its products to laboratories, not to individuals.

[5] Nikepal does not have a retail office, but operates its business through its website (located at www.nikepal.com), via email, and via telephone. Nikepal is run by Mr. Sandhu, who also works as a transportation engineer. Currently, Nikepal has

one other part-time employee. Nikepal has only a few hundred customers, but it has a list of thousands of prospective customers, some of whom receive materials from Nikepal advertising its product and service offerings under the mark NIKEPAL.

II. The Parties' Marks

A. NIKE

[6] Nike first registered the NIKE mark with the PTO in February 1974. Nike owns ten federal trademark registrations for the NIKE mark alone, covering footwear, clothing, bags, timepieces, paper products such as notebooks and binders, sport balls, swim accessories, and retail store services, all of which related to pre-May 1998 uses of the mark. By May 1998, Nike was also using and applied for trademark registrations covering the use of the NIKE mark in combination with other terms or designs for footwear, clothing, bags, timepieces, posters, sport balls, swim accessories, weights, gloves, headgear, and retail store services. For example, Nike owns nineteen federal registrations for NIKE composite marks such as: NIKE and the Swoosh design which has been in use since 1971; NIKE AIR which has been in use since 1987; NIKE-FIT which has been in use since 1990; NIKE TOWN which has been in use since 1990; NIKE SHOP which has been in use since 1991; and NIKE GOLF which has been in use since 1993. From 1998 to the present, Nike has continued to use the mark NIKE alone and in combination with other terms or designs.

B. NIKEPAL

[7] Mr. Sandhu testified that he conceived of the term Nikepal when he wanted to create a vanity license plate for his car. He testified that he selected the word “Nike” by opening a dictionary to a random page and choosing the first word he saw, and then combined it with the first three letters of his first name “Pal.” “Pal” means friend or benefactor. Mr. Sandhu admits he knew of the existence of the company Nike and its use of the NIKE mark at the time he devised the term NIKEPAL. Despite Mr. Sandhu's trial testimony concerning the manner in which he conceived of the term NIKEPAL, the court does not find it to be credible.

[43] The “Nike” portion of the NIKEPAL mark is pronounced the same way as the NIKE mark is pronounced: with a hard “i” (like bike) in the first syllable and a hard “e” (like in “key”) in the second syllable.⁷ The articles of incorporation signed

⁷ Nikepal's attorney attempted to convince the court that there is a pronunciation difference between NIKE and NIKEPAL. In her questions during trial, for example, she pronounced Nikepal's mark as “nik-a-pal.” However, in answering

by Mr. Sandhu for Nikepal in 1998 display the company name as “NikePal International, Inc.,” with the first word of the company name spelled “NikePal,” with a capital “N” and a capital “P.”⁸

[8] In addition to using Nikepal as the company name, NIKEPAL appears directly on some of Nikepal's products, including on its syringe products, and on its marketing materials. Nikepal also places www.nikepal.com on its syringes to identify the source of the syringe. Nikepal also uses the NIKEPAL mark in a vanity phone number (1-877-N-I-K-E-P-A-L), on its website, and in its domain names, including nikepal.com, nikepal.biz, nikepal.us, nikepal.tv, nikepal.info, and nikepal.net.

III. Nike's Sales

[9] By the late 1980s, United States sales of NIKE branded products were over one billion dollars per year. Starting in 1991 and through the mid 1990s, sales of NIKE products in the United States were approximately two billion dollars per year, and were above five billion dollars per year by 1997. By 1997, Nike was the largest seller of athletic footwear and apparel in the world. The geographic area of Nike's sales includes the United States and 140 countries throughout the world. Since 1997, Nike has sold over 100,000,000 pairs of NIKE shoes each year.

IV. Advertising and Promotion of the NIKE Mark

[10] Nike has undertaken significant expense to promote the NIKE mark. Nike advertises in various types of media, including traditional print advertising, such as magazines (of both special and general interest), newspapers (of general circulation), leaflets, and billboards. Nike also advertises in electronic media, including radio, television, cable and internet, on sides of buildings, on taxi cabs, and through direct mailings. Nike's television advertisements have run on network channels and have reached national audiences. Nike has also promoted its mark by

her questions at trial, Mr. Sandhu, the president of Nikepal, alternated between the pronunciation of NIKEPAL as “nik-a-pal” and as “Ny-key-pal.” Further, Nike's witness, Joseph Sheehan, a former FBI agent and now a private investigator, provided a tape recording of the outgoing message heard on Nikepal's answering machine which clearly pronounced the term “Nike” with long, or hard, vowels, that is an “i” like in “bike” and “e” like in “key” identical to the pronunciation of the Nike's trademark.

⁸ However, since both parties refer to “Nikepal” with a lowercase “p” in this action, the court adopts this spelling for the purposes of this order.

associating with athletes through endorsement arrangements. By 1991, Nike was spending in excess of one hundred million dollars per year in the United States alone to advertise products bearing the NIKE mark. By 1997, Nike had spent at least \$1,567,900,000.00 to promote the NIKE mark in the United States.

V. Notoriety of NIKE

[11] The NIKE mark has been consistently ranked as a top brand in publications that survey the top brands each year. Since at least 1990, Nike has been named one of the top forty brands in the United States based on the EquiTrend and other studies published in BrandWeek and Financial World Magazine. Other brands ranked in such studies include FRITO LAY, LEVI'S, CAMPBELLS', HEWLETT-PACKARD, SONY, PEPSI, and VISA. One story printed in Forbes magazine, reported a survey conducted by Young & Rubicam that ranked the NIKE brand among the top ten in the United States in 1996 with COKE, DISNEY, and HALLMARK.

VI. Evidence of Actual Association

[12] A survey conducted by Phillip Johnson of Leo J. Shapiro and Associates ("Mr. Johnson's survey"), a Chicago-based market research firm, determined that a significant number of Nikepal's potential laboratory customers actually associated NIKE with NIKEPAL. Mr. Johnson is an expert at designing surveys that measure consumer behavior. The primary business of Shapiro and Associates is to explore consumer behavior through the use of surveys for businesses such as Toys-R-Us, Target, and Petsmart in order to help them better understand their marketplace when developing new retail concepts. Nike retained Mr. Johnson to design a survey to measure, *inter alia*, the likelihood of dilution of the NIKE brand as a result of Nikepal's use of the NIKEPAL mark.

[13] In designing his study, Mr. Johnson used a universe of survey participants randomly selected from lists of companies that Mr. Sandhu's deposition testimony identified as the sources for Nikepal's current and prospective customers. Mr. Johnson conducted the survey by phone and asked respondents about their perception of a website called nikepal.com. In designing his survey, Mr. Johnson chose one of the ways that the NIKEPAL mark is used in commerce which allowed him to reasonably recreate a purchasing context while obtaining a controlled and accurate measurement. Mr. Johnson testified that this survey replicated the circumstances in which people typically encountered the NIKEPAL mark.

[14] Once survey respondents were screened to confirm that they were the persons most responsible for ordering laboratory equipment at their business, they were asked: "What if anything, came to your mind when I first said the word

Nikepal?” Many survey respondents who were not actually confused about the source of the Nikepal website nonetheless identified Nike. Mr. Johnson testified that his survey revealed that the vast majority of respondents, 87%, associated Nikepal with Nike; that is, when they encounter the mark NIKEPAL, they think of Nike and/or its offerings.

[15] Evidence of actual association of the NIKEPAL mark with the NIKE mark also exists beyond the results demonstrated in Mr. Johnson's survey. Mr. Sandhu registered the domain names nikepal.biz, nikepal.us, nikepal.tv, nikepal.net, and nikepal.info with Network Solution, and until just prior to trial, those websites were inactive. Mr. Sandhu testified that at the time he registered those domains he chose not to link them to an active website. As a result, Network Solutions assigned those domains an “under construction” page and then associated with that page promotions and advertisement links to product and service offerings of its choice. These promotions and advertisements all referred to NIKE products or those of one of its competitors. Thus, when accessing Nikepal's NIKEPAL domain names (other than nikepal.com), users received information about Nike or its competitors, but not Nikepal.

Conclusions of Law

I. Dilution

[16] Under the Federal Trademark Dilution Revision Act⁹:

[T]he owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

⁹ The TDRA, signed into law on October 6, 2006, amended the previous federal anti-dilution statute (the Federal Trademark Dilution Act (“FTDA”)). The TDRA revises the FTDA in three ways: it establishes that likelihood of dilution, and not actual dilution, is a prerequisite to establish a dilution claim; it sets forth four relevant factors courts may consider in determining famousness; and it also lists six relevant factors that courts may consider in determining whether a likelihood of dilution exists. *Century 21 Real Estate LLC v. Century Surety Co.*, 2007 WL 433579, at *1 (D.Ariz. Feb.6, 2007).

15 U.S.C. § 1125(c)(1) (“TDRA”). To prevail on its dilution claim, Nike must prove 1) that its mark was famous as of a date prior to the first use of the NIKEPAL mark and 2) that Nikepal’s use of its allegedly diluting mark creates a likelihood of dilution by blurring or tarnishment.¹⁰

[17] If Nike prevails on its federal dilution claim, it will also prevail on its dilution claim under California law. *See Jada Toys, Inc. v. Mattel, Inc.*, 496 F.3d 974 (9th Cir. Aug.2, 2007); *see also Panavision Int’l v. Toeppen*, 141 F.3d 1316, 1324 (9th Cir.1998) (“[Plaintiff’s] state law dilution claim [under California Business and Professions Code section 14330] is subject to the same analysis as its federal [dilution] claim.”).

A. Whether NIKE Was Famous Prior to the First Use of NIKEPAL

[18] A “famous” mark is one that “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.” 15 U.S.C. § 1125(c)(2)(A).

[44] In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

- (i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.
- (ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.
- (iii) The extent of actual recognition of the mark.
- (iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

Id. Since Nikepal’s first use of NIKEPAL commenced in May 1998, Nike must show that NIKE was famous before that date.

¹⁰ California’s anti-dilution statute, under which Nike also brings a claim, prescribes:

Likelihood of injury to business reputation or a dilution of the distinctive quality of a mark registered under this chapter, or a mark valid at common law, or a trade name valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between parties or the absence of confusion as to the source of goods or services.

Cal. Bus. & Prof.Code § 14330.

[19] With regard to the first factor, the evidence clearly establishes that through various combinations of athlete endorsements, television, radio, print media, and billboard placements, NIKE was promoted nationally for more than two decades before 1998. By the 1990s, Nike had spent in excess of a billion dollars for promotion of NIKE products in the United States.

[20] With regard to the second factor, Nike's sales of NIKE products reached the billion dollar per year level in the United States well before May 1998. By 1997, Nike had spent in excess of one billion dollars to promote the NIKE mark in the United States.

[21] Nike also satisfies the third factor, since recognition of the success of NIKE has been recorded by various publications in surveys and articles written prior to May 1998. Since the early 1990s, NIKE has been consistently ranked as a top brand in brand surveys in the United States and the world. Mr. Johnson, who in his professional capacity is familiar with the reputation and methodology used in various brand surveys and literature, opined that these sources evinced that NIKE was famous during the mid 1990s, before Nikepal adopted its mark in 1998. Nikepal counters that only Nike's Swoosh design mark, and not the NIKE mark itself, is famous. However, Mr. Johnson's survey revealed that when participants were exposed solely to the word "Nike" without the Swoosh, the response overwhelmingly indicated recognition of the NIKE mark.

[22] Finally, with regard to the fourth factor, the NIKE mark is registered on the PTO's principal register. Nike owns ten federal registrations for NIKE covering uses prior to 1998 which include retail services, bags, footwear, apparel, heart monitors, electrical items and paper products. Accordingly, the court concludes that NIKE was famous under 15 U.S.C. § 1125(c)(2)(A), prior to Nikepal's first use of the NIKEPAL mark.

B. Likelihood of Dilution by Blurring

[23] The TDRA defines dilution by blurring as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." 15 U.S.C. § 1125(c)(2)(A).

In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.

- (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 user of the mark or trade name intended to create an association with the famous mark.
- (vi) Any actual association between the mark or trade name and the famous mark.

Id.

(i) The Degree of Similarity

[24] Marks in a dilution analysis must be “identical” or “nearly identical.”¹¹ *Thane Int’l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 906 (9th Cir.2002). “For marks to be nearly identical to one another, they ‘must be similar enough that a significant segment of the target group of customers sees the two marks as essentially the same.’ ” *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 806 n. 41 (9th Cir.2002) (internal citation omitted).

[25] The parties’ marks are nearly identical. The NIKEPAL mark is a composite of the word “Nike” with the term of affinity, “pal.” The composite nature of the NIKEPAL mark is evident in the logo selected by the company which clearly features an “N” and a “P.” In each case the dominant feature of the mark is the term “Nike.” In addition, the term “Nike” in both marks is pronounced identically with an “i” like in “bike” and an “e” like in “key.” See *Porsche Cars N. Am., Inc.*, 2000 WL 641209, at *3, (finding that the trademark PORSCHE was diluted by PORCHESOURCE.COM); see also *Jada Toys, Inc.*, 496 F.3d 974, 2007 WL 2199286, at *4 (concluding “that a reasonable trier of fact could find that the HOT WHEELS and HOT RIGZ marks are nearly identical.”).

[26] Further, as shown by Mr. Johnson’s survey, the vast majority of the survey respondents, representing a significant segment of Nikepal’s target customer group, associate Nike and/or its products and services when they encounter the mark

¹¹ Nike argues that the TDRA does not require that the marks be identical or nearly identical. However, the enactment of the TDRA did “not eliminate the requirement that the mark used by the alleged diluter be ‘identical,’ or ‘nearly identical,’ or ‘substantially similar,’ to the protected mark.” *Century 21 Real Estate LLC*, 2007 WL 433579, at *2 (citing House Report on Trademark Dilution Act of 2005 at 8, 25). [Note that the Ninth Circuit subsequently explicitly rejected this “identical or nearly identical” standard. See the casebook note following the opinion.]

NIKEPAL, thus perceiving the two marks as essentially the same. *See Thane Int'l, Inc.*, 305 F.3d at 906 (“The marks must be of sufficient similarity so that, in the mind of the consumer, the junior mark will conjure an association with the senior.”) (citing *Nabisco, Inc. v. PF Brands*, 191 F.3d 208 (2d Cir.1999)). Accordingly, this factor favors Nike.

(ii) Distinctiveness

[27] ““There are five categories of trademarks: (1) generic; (2) descriptive; (3) suggestive; (4) arbitrary; and (5) fanciful.” *Quicksilver, Inc. v. Kymsta Corp.*, 466 F.3d 749, 760 (9th Cir.2006) (internal citations omitted). “[S]uggestive, arbitrary, and fanciful marks are ‘deemed inherently distinctive and are automatically entitled to [trademark] protection because they naturally serve to identify a particular source of a product.’” *Id.* Suggestive marks require the use of imagination to make a connection between the mark and an attribute of the goods or services to which it is applied. *Official Airlines Guides, Inc. v. Goss*, 6 F.3d 1385, 1391 (9th Cir.1993).

[28] Nikepal does not dispute that NIKE is, at the very least, suggestive. (*See Nikepal's Proposed Findings and Recommendations* at 42 (“[Nike's] mark is suggestive when used in connection with Plaintiff's products.”).) Accordingly, NIKE is inherently distinctive and this factor favors Nike.

(iii) Substantially Exclusive Use

[29] The law does not require that use of the famous mark be absolutely exclusive, but merely “substantially exclusive.” *See L.D.Kichler Co. v. Davoil Inc.*, 192 F.3d 1349, 1352 (Fed.Cir.1999) (holding that in the trademark context, “substantially exclusive” use does not mean totally exclusive use). Therefore, a limited amount of third party use is insufficient to defeat a showing of substantially exclusive use. *See Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 878 (9th Cir.1999) (finding that use of the mark was not substantially exclusive when the words “Avery” and “Dennison” were “commonly used as trademarks, both on and off of the Internet, by parties other than Avery Dennison.” (emphasis added)).

[30] Nike asserts that its use of the NIKE mark is substantially exclusive. Nikepal introduced evidence of use of the term “Nike” in the company name “Nike Hydraulics, Inc.,” through a bottle jack purchased from the company and a 1958 trademark registration for “Nike” owned by Nike Hydraulics. However, this evidence is insufficient to disprove Nike's claim that its use of NIKE is substantially exclusive. Even Nikepal's witness, Roger Smith, admitted that he had not encountered Nike Hydraulics before hearing that name in connection with this action. Accordingly, the

court finds that Nike's use of the NIKE mark is substantially exclusive and this factor therefore favors Nike.¹²

(iv) Degree of Recognition

[31] The degree of recognition of NIKE is quite strong. Millions of NIKE products are sold in the United States annually and the evidence demonstrates that NIKE is readily recognized. This factor therefore favors Nike.

(v) Intent to Create Association

[32] Mr. Sandhu admitted that he was aware of the existence of the NIKE mark before he adopted the company name. Although he testified at trial that he came up with the term Nikepal by opening the dictionary to a random page and essentially finding that word by “fate,” his testimony was not credible. Therefore, this factor favors Nike.

(vi) Actual Association

[33] Nikepal registered the domain names nikepal.biz, nikepal.net, nikepal.us, nikepal.info and nikepal.tv. The evidence shows that the domain registrar assigned the domain names an “under construction” page and then associated with that page promotions and advertisement links to a number of web pages that offered NIKE products (or products of Nike's competitors in the shoe and apparel field). Thus, in the internet context, there is actual association between NIKEPAL and NIKE.

[34] Further, Mr. Johnson's survey also evinced that there is a strong degree of association between NIKEPAL and NIKE. Mr. Johnson's survey showed over 87% of the people in Nikepal's own customer pool associated the stimulus “Nikepal” with NIKE. The survey presents ample proof of association between the marks to support a finding that such exists in the general public. Accordingly, the court finds that there is actual association between the NIKEPAL and NIKE marks and this factor favors Nike.

¹² Nikepal also introduced evidence that the term “Nike” appears in dictionaries referring to the Greek goddess of victory, that the image of Nike the goddess appeared on some Olympic medals, and that the United States Government named one of its missile programs “Nike.” However, Nikepal did not show that these uses were made in commerce in association with the sale or marketing of goods or services as required under the TDRA. (See 15 U.S.C. § 1125(c) (1) (providing that under the TDRA, only “use of a mark or trade name in commerce” is actionable as diluting a famous mark.).)

[35] In conclusion, since the six factors considered in the likelihood of dilution analysis favor Nike, there is a likelihood that NIKE will suffer dilution if Nikepal is allowed to continue its use of NIKEPAL. Accordingly, Nike prevails on its federal and state dilution claims.

II. Permanent Injunction

[36] Nike seeks an injunction for violation of the TDRA pursuant to 15 U.S.C. § 1116(a). To establish entitlement to an injunction, Nike must show that: it has suffered an irreparable injury; that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; that considering the balance of hardships between Plaintiff and Defendant, a remedy in equity is warranted; and that the public interest would not be disserved by a permanent injunction. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, ---- (2006).

[37] With regard to irreparable harm, if relief is not granted to Nike under its dilution claim, it will face an escalating erosion of its famous mark and NIKE will lose its ability to serve as a source-identifying mark. Further, there is no adequate remedy at law because monetary damages will not compensate for this harm.

[38] The balance of hardships also points in Nike's favor. Although Nikepal will have to choose another name, Nikepal chose to use the NIKEPAL mark with full awareness of the existence and widespread use of the NIKE mark. Further, given that Nikepal's business is still relatively small, it should not be unduly burdensome for it to notify its customers of its name change.

[39] Finally, the public interest will not be disserved by the issuance of a permanent injunction against Nikepal. By preventing dilution of NIKE, the public can continue to rely on the NIKE mark serving its source designating function. Accordingly, Nike's request for an injunction against Nikepal for the use of the NIKEPAL mark is granted.

III. Reversal of TTAB Decision

[40] Finally, Nike seeks reversal of the TTAB's decision denying its opposition to the registration of the NIKEPAL mark. Specifically, the TTAB held there was no likelihood of dilution based on its finding that the parties' marks were not sufficiently similar.

[T]he Lanham Act provides two avenues for review of TTAB decisions: review by the Federal Circuit on the closed record of the TTAB proceedings ... or review by the district court with the option of presenting additional evidence and raising additional claims In the latter scenario, the district court sits in a dual capacity. It is an appellate

reviewer of facts found by the TTAB and is also a fact-finder based on new evidence introduced to the court. Although the district court's review of the TTAB's decision is considered *de novo* when the parties present new evidence and assert additional claims, the district court also must afford deference to the fact findings of the TTAB.

CAE, Inc. v. Clean Air Eng'g, Inc., 267 F.3d 660, 674 (7th Cir.2001).

[41] Here, Nike presented new evidence in the form of, *inter alia*, Mr. Johnson's survey showing that the vast majority of the survey respondents, representing a significant segment of Nikepal's target customer group, associate Nike and/or its products and services when they encounter NIKEPAL, thus perceiving the two marks as essentially the same. *See Thane Int'l, Inc.*, 305 F.3d at 906 ("The marks must be of sufficient similarity so that, in the mind of the consumer, the junior mark will conjure an association with the senior.") (citing *Nabisco, Inc.*, 191 F.3d at 208); *see also Playboy Enters., Inc.*, 279 F.3d at 806 n. 41 (holding that "[f]or marks to be nearly identical to one another, they 'must be similar enough that a significant segment of the target group of customers sees the two marks as essentially the same.' "). The new evidence submitted by Nike therefore compels a contrary finding on the similarity of the parties' marks.¹³

[42] As to the other dilution factors that the TTAB did not make findings on (e.g., whether Nike is engaging in substantially exclusive use of its mark, whether NIKE is distinctive, the degree of recognition of the NIKE mark, and whether Nikepal intended to create an association with NIKE), the court's findings of fact and conclusions of law made above apply with equal force here.

[43] Accordingly, although the court gives deference to TTAB's fact-finding, the evidence presented by Nike in this action compels reversal of the TTAB's decision dismissing Nike's opposition to the registration of Nikepal's mark.

[44] Therefore, the TTAB ruling is reversed and Nike's request for an order sustaining the opposition to Nikepal's registration for the NIKEPAL mark is granted.

¹³ Further, Mr. Johnson's survey is also relevant on the issue of whether consumers presented with the NIKEPAL mark actually associate it with NIKE, a factor that the TTAB acknowledged was relevant to the dilution analysis but on which it did not make any finding. *See* TTAB Decision at 15 ("In determining whether the mark will be diluted, the [TTAB] looks to the similarity of the marks, the renown of the party claiming fame and *whether purchasers are likely to associate two different products and/or services with the mark* even if they are not confused as to the different origins of the products and/or services.") (emphasis added)).

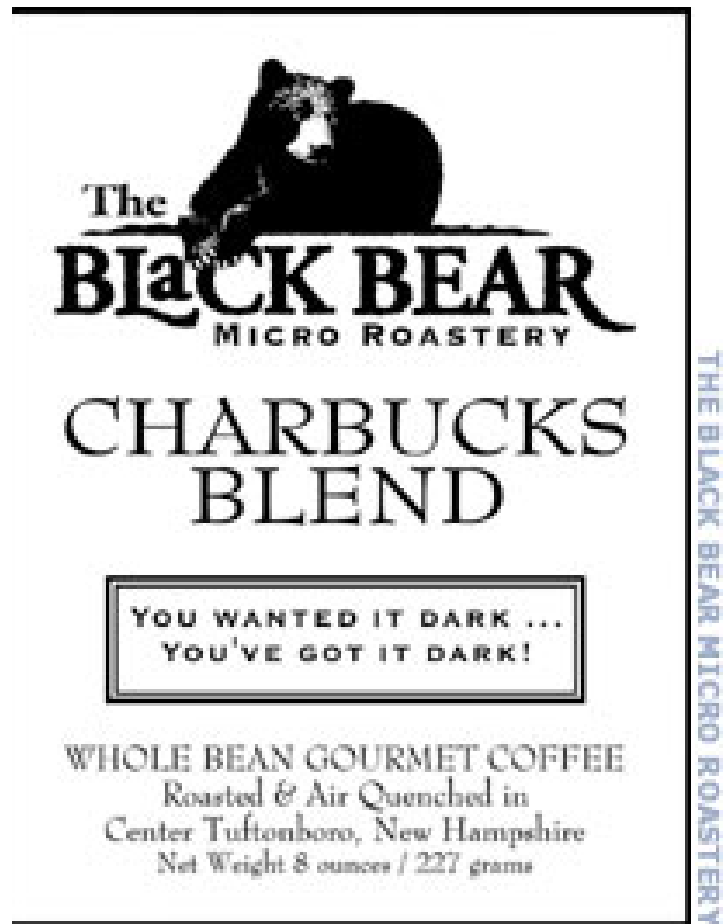
CONCLUSION

[45] For the reasons stated, Nike prevails on its federal and state dilution claims, the decision of the TTAB is reversed, and the opposition to Nikepal's registration of the NIKEPAL mark is sustained. Further, Nikepal is permanently enjoined from using NIKEPAL in connection with the offering of goods or services in commerce, including its use in domain names, on web pages, in printed matter, and on products, and shall cease any such uses of NIKEPAL within sixty days of the date on which this order is filed. Nikepal may continue to use its numeric telephone number, but may not advertise or associate it with the designation "1-877-NIKEPAL."

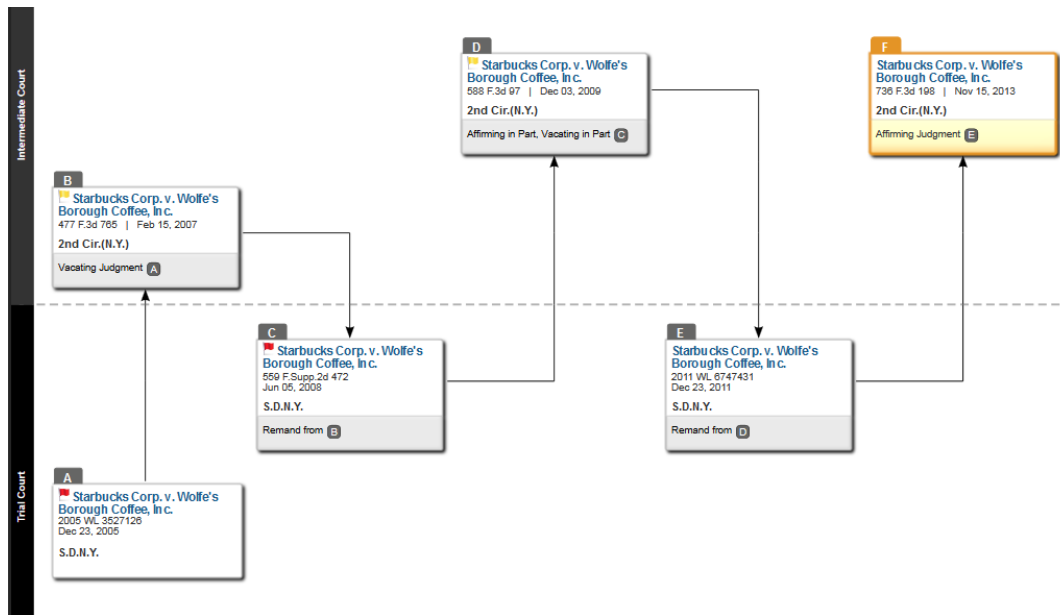
IT IS SO ORDERED.

In reading the following two opinions, *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 736 F.3d 198 (2d Cir. 2013) and *Chanel v. Makarczyk*, Opp. No. 91208352, 2013 WL 2531211 (T.T.A.B. May 27, 2014), and), consider this question:

- How do the *Wolfe's Borough* and *Chanel* opinions' analyses of the blurring issue differ from the analysis undertaken by the *Nikepal* court? Do they simply assume, as does the *Nikepal* court, that association necessarily impairs the distinctiveness of the plaintiff's mark, or do they require an addition showing of impairment?







Starbucks Corp. v. Wolfe's Borough Coffee, Inc.
736 F.3d 198 (2d Cir. 2013)

LOHIER, Circuit Judge:

[1] Starbucks Corporation and Starbucks U.S. Brands LLC (together, “Starbucks”) appeal from a judgment of the United States District Court for the Southern District of New York (Swain, J.) denying Starbucks’ request for an injunction pursuant to the Federal Trademark Dilution Act of 1995 (“FTDA”), 15 U.S.C. § 1125(c), prohibiting Wolfe’s Borough Coffee, Inc., doing business as Black Bear Micro Roastery (“Black Bear”), from using Black Bear’s “Mister Charbucks,” “Mr. Charbucks,” and “Charbucks Blend” marks (the “Charbucks Marks”). After a bench trial followed by additional briefing from the parties upon remand from this Court, the District Court concluded that Starbucks failed to prove that the Charbucks Marks are likely to dilute Starbucks’ famous “Starbucks” marks (the “Starbucks Marks”) and denied Starbucks’ request for an injunction.

[2] On appeal, Starbucks argues that the District Court erred in finding only minimal similarity and weak evidence of actual association between the Charbucks Marks and the Starbucks Marks. Starbucks also contends that the District Court erred in balancing the statutory dilution factors by giving no weight at all to three of the factors—the strong distinctiveness, exclusive use, and high degree of

recognition of the Starbucks Marks—and placing undue weight on the minimal similarity between the marks.

[3] For the following reasons, we conclude that the District Court did not err in its factual findings, and, balancing the statutory factors *de novo*, we agree with the District Court that Starbucks failed to prove a likelihood of dilution. We therefore affirm.

BACKGROUND

[4] We assume familiarity with the underlying facts and long procedural history of the case, which are set forth in our previous opinions, *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 477 F.3d 765 (2d Cir.2007) (“*Starbucks II*”), and *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir.2009) (“*Starbucks IV*”). We recount them here only as necessary to explain our disposition of this appeal.

[5] As of 2005, when the bench trial occurred, Starbucks had grown from a single coffee shop in Seattle in 1971 to a singularly prominent global purveyor of specialty coffee and coffee products, with 8,700 retail locations worldwide and revenues of \$5.3 billion for fiscal year 2004. Starbucks U.S. Brands is the owner, and Starbucks Corporation a licensee, of at least 56 valid United States trademark registrations that include the Starbucks Marks. The Starbucks Marks are displayed on signs and at multiple locations in each Starbucks store, as well as on the Starbucks website.

[6] Starbucks has devoted substantial time, effort, and money to advertising and promoting the Starbucks Marks. From fiscal year 2000 to 2003, Starbucks spent over \$136 million on advertising, promotion, and related marketing activities, essentially all of which featured the Starbucks Marks. Starbucks actively polices the Starbucks Marks, demanding that infringing uses be terminated and, where necessary, commencing litigation. Well before Black Bear used the term “Charbucks” as part of any product name, the Starbucks Marks were “famous” within the meaning of the FTDA. *See* 15 U.S.C. § 1125(c)(2)(A).

[7] Black Bear manufactures and sells roasted coffee beans and related goods via mail and internet order, at a limited number of New England supermarkets, and at a single New Hampshire retail outlet. In 1997 Black Bear developed a coffee blend named “Charbucks Blend”; it now sells a dark-roast coffee called “Mister Charbucks” or “Mr. Charbucks.” When Black Bear began manufacturing coffee using the Charbucks Marks, it was aware of the Starbucks Marks. One of the reasons Black Bear used the term “Charbucks” was the public perception that Starbucks roasted its beans unusually darkly. Soon after Black Bear began to sell Charbucks Blend, Starbucks demanded that it cease using the Charbucks Marks. Black Bear

nevertheless continued to sell coffee under the Charbucks Marks, and in 2001 Starbucks started this action claiming, among other things, trademark dilution in violation of 15 U.S.C. §§ 1125(c), 1127.¹

[8] The District Court held a two-day bench trial in March 2005. At trial, two matters of significance to this appeal occurred. First, Black Bear's founder, James O. Clark III, testified that the name "Charbucks" had previously been used during "the coffee wars in Boston between Starbucks and the Coffee Connection," a Boston-based company. Second, Starbucks introduced the testimony of Warren J. Mitofsky, a scientist in the field of consumer research and polling. Mitofsky explained the results of a telephone survey he had conducted of six hundred participants, designed to be representative of the United States population. The survey found that when asked, "What is the first thing that comes to your mind when you hear the name 'Charbucks,' spelled C-H-A-R-B-U-C-K-S?," 30.5 percent of participants answered "Starbucks," while 9 percent answered "coffee."² When the participants were asked, "Can you name any company or store that you think might offer a product called 'Charbucks'?", 3.1 percent responded "Starbucks," and another 1.3 percent responded "coffee house."³ Mitofsky concluded that "[t]he number one association of the name 'Charbucks' in the minds of consumers is with the brand 'Starbucks.'" Commenting on the scope of his survey, Mitofsky also stated: "[I]f you want to know the reaction to the name Charbucks, then the telephone is perfectly adequate. If you want to measure the reaction or the familiarity with other visual cues, then it's not the right method." *Starbucks IV*, 588 F.3d at 104.

¹ Starbucks also asserted claims of trademark infringement in violation of 15 U.S.C. § 1114(1); unfair competition in violation of 15 U.S.C. § 1125(a); trademark dilution in violation of New York General Business Law § 360-*l*; deceptive acts and business practices and false advertising in violation of New York General Business Law §§ 349, 350; and unfair competition in violation of New York common law. All of these claims were dismissed during the course of this suit and are not the subject of this appeal.

² Other common responses included "barbeque" or "charcoal" (7.9 percent); "restaurant" or "grill" (7.5 percent); "meat," "steak," or "hamburger" (4.6 percent); and "money" (3.9 percent).

³ More popular responses to this second question included: "grocery store" (18.3 percent); "discount store" (16.9 percent); "restaurant" (7.0 percent); "department store" (4.8 percent); and "hardware store" or "home improvement store" (3.7 percent).

[9] In December 2005 the District Court ruled in favor of Black Bear and dismissed Starbucks' complaint. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 01 Civ. 5981, 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005) ("*Starbucks I*"). The District Court determined that there was neither actual dilution, which would establish a violation of federal trademark law,⁴ nor a likelihood of dilution, which would establish a violation of New York trademark law.

[10] Starbucks appealed. While the appeal was pending, Congress passed the Trademark Dilution Revision Act of 2006 ("TDRA"), which amended the FTDA to clarify that the owner of a famous mark seeking an injunction need prove only that the defendant's mark "is likely to cause dilution ... of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury." 15 U.S.C. § 1125(c)(1). The TDRA further redefined "dilution by blurring" as "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." *Id.* § 1125(c)(2)(B). The statute provides the following direction to courts:

In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.
- (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 user of the mark or trade name intended to create an association with the famous mark.
- (vi) Any actual association between the mark or trade name and the famous mark.

Id. In light of this change in the governing law, we vacated the judgment of the District Court and remanded for further proceedings. *Starbucks II*, 477 F.3d at 766.

⁴ At the time, federal law provided: "The owner of a famous mark shall be entitled ... to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and *causes dilution of the distinctive quality of the mark...*" 15 U.S.C. § 1125(c)(1) (1999) (amended 2006) (emphasis added).

[11] On remand, after further briefing, the District Court again ruled in Black Bear's favor for substantially the same reasons set forth in its earlier opinion, but it also analyzed the federal dilution claim in light of the TDRA. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 559 F.Supp.2d 472, 475–79 (S.D.N.Y.2008) (“*Starbucks III*”). In particular, the District Court considered the six non-exclusive factors listed in the statute and made the following findings: (1) the marks were minimally similar, which the court deemed alone sufficient to defeat Starbucks' claim; (2) (a) the distinctiveness of the Starbucks Marks, (b) the exclusivity of their use by Starbucks, and (c) their high degree of recognition, all weighed in favor of Starbucks; (3) the intent factor weighed in Black Bear's favor because Black Bear's intent to create an association with the Starbucks Marks did not constitute bad faith; and (4) evidence from Mitofsky's survey was “insufficient to make the actual confusion factor weigh in [Starbucks'] favor to any significant degree.” *Id.* at 477–78 (quotation marks omitted). Balancing all six factors, the District Court held that the record was “insufficient to demonstrate the requisite likelihood that the association arising from the similarity of the core terms is likely to impair the distinctiveness of Starbucks' mark, and Plaintiff is not entitled to injunctive relief under that statute.” *Id.* at 478.

[12] Starbucks appealed again, arguing that the District Court erred in finding that the Charbucks Marks are not likely to dilute the Starbucks Marks. In *Starbucks IV*, we examined the District Court's findings as to the first, fifth, and sixth factors, as well as its balancing of the statutory factors that bear on the likelihood of dilution by blurring. We held that “the District Court did not clearly err in finding that the Charbucks Marks were minimally similar to the Starbucks Marks,” 588 F.3d at 106, because the context of the Charbucks Marks (on Black Bear's packaging, on its website, and in the phrases “Charbucks Blend” and “Mister Charbucks”) differentiated them from the famous marks. We concluded, however, that “the District Court erred to the extent it required ‘substantial’ similarity between the marks,” *id.* at 107, and we suggested that the District Court had overemphasized the similarity factor. In particular, we stated that the inclusion of “the degree of similarity” as only one of six factors in the revised statute indicates that even a low degree of similarity would not categorically bar a dilution-by-blurring claim. *Id.* at 108.

[13] Turning to the fifth and sixth factors—intent to associate and actual association—we held that the District Court had erred by requiring “bad faith” to find that the intent to associate factor favored Starbucks. *Id.* at 109 (quotation marks omitted). Noting the survey results, which demonstrated some degree of association between “Charbucks” and “Starbucks,” we also held that the District Court erred by

relying on evidence supporting the absence of “actual *confusion*” to conclude that the actual *association* factor did not weigh in Starbucks’ favor “to any significant degree.” *Id.* (quotation marks omitted). The absence of actual or likely confusion, we reasoned, does not bear directly on whether dilution is likely. *Id.*

[14] Emphasizing that the analysis of a dilution by blurring claim must ultimately focus on “whether an *association*, arising from the similarity between the subject marks, ‘impairs the distinctiveness of the famous mark,’ ” *id.* (quoting 15 U.S.C. § 1125(c)(2)(B)), we vacated the judgment of the District Court and remanded for reconsideration of the claim in light of our discussions of the first, fifth, and sixth statutory factors, *id.* at 109–10.

[15] In its opinion and order following that remand, *see Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, No. 01 Civ. 5981, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011) (“*Starbucks V*”), the District Court recognized that the second through fifth statutory factors⁵ favored Starbucks. *Id.* at *3 (citing *Starbucks IV*, 588 F.3d at 106–10). But the court again found that the first factor (the similarity of the marks) favored Black Bear because the marks were only minimally similar when presented in commerce—that is, when the Charbucks Marks are viewed on the packaging, which includes the phrases “Charbucks Blend” or “Mister Charbucks.” *Id.*

[16] As for the sixth factor (actual association), the District Court acknowledged that the results of the Mitofsky survey “constitute evidence of actual association,” *id.* at *4, but it then significantly discounted those results on the ground that the survey inquired into associations only with the isolated word “Charbucks” and failed to present the Charbucks Marks in full context, *id.* The court also compared the survey results in this case with those in other cases. Here, it noted, only 30.5 percent of respondents associated “Charbucks” with “Starbucks,” while in other trade dilution cases 70 percent to 90 percent of survey respondents associated the relevant marks. *Id.* The District Court also compared the 3.1 percent of respondents who thought a product called “Charbucks” would be made by Starbucks to the 28 percent of respondents who made a similar origin association in a Ninth Circuit trademark dilution case. *Id.* (citing *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d 628, 636 (9th Cir.2008)). With the benefit of these comparisons, the District Court found that the actual association factor weighs “no more than minimally” in Starbucks’ favor. *Id.*

⁵ For convenience, we repeat those factors here: (ii) the distinctiveness of the Starbucks Marks; (iii) the exclusivity of Starbucks’ use of its marks; (iv) the high degree of recognition of the Starbucks Marks; and (v) Black Bear’s intent to associate the Charbucks Marks with the Starbucks Marks.

[17] In evaluating the likelihood of dilution, the District Court emphasized the “association” and “similarity” factors. Citing the TDRA’s definition of dilution by blurring as “*association arising from the similarity* between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark,” the District Court explained that “[t]he statutory language leaves no doubt” that these two factors are “obviously important.” *Id.* at *5 (quoting 15 U.S.C. § 1125(c)(2)(B)). After balancing all six factors, the District Court held that Starbucks had failed to meet its burden of showing that it was entitled to injunctive relief:

[T]he Charbucks marks are only weakly associated with the minimally similar Starbucks marks and, thus, are not likely to impair the distinctiveness of the famous Starbucks marks. In other words, [Starbucks] has failed to carry its burden of proving that [Black Bear’s] use of its marks, as evidenced on the record before the Court, is likely to cause dilution by blurring.

Id. at *6.

[18] On appeal, Starbucks challenges both the factual findings of minimal similarity and weak association and the conclusion that it failed to demonstrate a likelihood of dilution.

DISCUSSION

A. History of Federal Trademark Dilution Law

[19] “Federal law allows the owner of a ‘famous mark’ to enjoin a person from using ‘a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark.’ ” *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 110–11 (2d Cir.2010) (quoting 15 U.S.C. § 1125(c)(1)). Dilution by blurring is “the whittling away of the established trademark’s selling power and value through its unauthorized use by others.” *Id.* at 111 (alteration and quotation marks omitted).

[20] Dilution by blurring as a cause of action was championed initially by Frank Schechter in a 1927 law journal article. See Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 Harv. L.Rev. 813 (1927). Schechter argued that a mark both symbolizes existing good will and can *generate* good will. *Id.* at 819 (“The mark actually *sells* the goods. And, self-evidently, the more distinctive the mark, the more effective is its selling power.”). So-called “[t]rademark pirates,” Schechter explained, stopped short of infringing marks in favor of using marks similar to well-known marks on non-competing goods, such as Kodak bicycles, Rolls-Royce radio tubes, and Beech-Nut cigarettes. *Id.* at 825. Schechter described the injury in these cases as

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. Somewhat more vividly in later congressional testimony, Schechter warned that “if you allow Rolls Royce restaurants and Rolls Royce cafeterias, and Rolls Royce pants, and Rolls Royce candy, in 10 years you will not have the Rolls Royce mark any more.” Trade-Marks: Hearings Held Before the H. Comm. on Patents, 72d Cong. 15 (1932) (statement of Frank I. Schechter), *quoted in* Walter J. Derenberg, *The Problem of Trademark Dilution and the Antidilution Statutes*, 44 Cal. L.Rev. 439, 449 (1956).

[21] Heeding Schechter’s warning, some States passed antidilution statutes. *See* 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 24:77 (4th ed. 2012) (“McCarthy”); Derenberg, *supra*, at 452–61. For example, the legislative history of New York’s antidilution statute “disclosed a need for legislation to prevent such ‘hypothetical anomalies’ as ‘Dupont shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos, Bulova gowns, and so forth.’ ” *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2d Cir.1989) (quoting 1954 N.Y. Legis. Ann. 49–50). But the predictable result of these desultory efforts by various States to pass antidilution laws was an uneven regulatory patchwork of protection. *See* S.Rep. No. 100–515, at 7 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5583. Congress first addressed that problem in 1996, when it enacted the FTDA, which entitled any owner of a famous mark “to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark....” 15 U.S.C. § 1125(c)(1) (1996).⁶

[22] In 2003, however, the Supreme Court decided *Moseley v. V. Secret Catalogue, Inc.*, 537 U.S. 418, 123 S.Ct. 1115, 155 L.Ed.2d 1 (2003), which held that

⁶ The legislative history of a failed earlier version of the FTDA strongly suggests that the law was “specifically intended” to come into play “where the unauthorized use by others, on dissimilar products for which the trademark is not registered, dilutes the distinctiveness of [a] famous work.” Sen. Judiciary Comm. Rep. on S. 1883, S.Rep. No. 100–515, at 7 (citing examples of Kodak pianos and Buick aspirin); *see* McCarthy § 24:96 (“[T]o the extent that the language is the same,” the Senate Judiciary Report of 1988 “provide[s] useful legislative history for interpreting the [FTDA] as well as parts of its successor, the [TDRA]”).

the FTDA required a plaintiff to prove “actual dilution,” not simply a “likelihood of dilution,” in order to establish a trademark dilution claim. *Id.* at 433, 123 S.Ct. 1115. In response, the International Trademark Association (“INTA”), a primary advocate for the FTDA, supported a congressional amendment to abrogate *Moseley*. The proposed amendment, which eventually became the TDRA, provided that plaintiffs need prove only a likelihood of dilution and, thus, allowed famous mark owners to “prevent dilution at its incipency” and not force them to “wait until the harm has advanced so far that ... the recognition of the mark ... is permanently impaired” in order to sue. Committee Print to Amend the Federal Trademark Dilution Act: Hearing Before the H. Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 108th Cong. 10 (2004) (“2004 Hearing”) (statement of Jacqueline A. Leimer, INTA); *see* McCarthy § 24:96. At congressional hearings in 2004 and 2005, witnesses criticized the *Moseley* decision as “essentially sa[ying] you have got to wait until the horse is gone, and then the only thing you can do is close the barn door.” Trademark Dilution Revision Act of 2005: Hearing on H.R. 683 Before the H. Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary, 109th Cong. 18 (2005) (“2005 Hearing”) (statement of Mark A. Lemley, William H. Neukom Prof. of Law, Stanford Univ.); *see also* 2004 Hearing, at 44, 46–47 (statement of David C. Stimson, Chief Trademark Counsel, Eastman Kodak Company).

[23] Although a number of witnesses testified at the hearings, the hearing statements of Anne Gundelfinger, then-President of the INTA, are considered a primary source of the legislative history of the TDRA. *See* McCarthy § 24:96. During her testimony, Gundelfinger explained that the association between marks needed only to be “likely to impair the distinctiveness of the famous mark in the marketplace.” 2005 Hearing, at 12. Gundelfinger also proposed a list of six factors that would “go to the question of whether the famous mark’s distinctiveness in the marketplace will be blurred by the junior use.” *Id.* at 14. She explained that courts will “need to balance all of these factors, as well as any others relevant to the question of blurring, in order to make a determination as to whether there is a likelihood of dilution by blurring.” *Id.*

[24] President Bush signed the TDRA into law in 2006.

B. Standard of Review

[25] After a bench trial on a claim for trademark dilution by blurring, where the district court evaluates and balances the factors listed in the TDRA, we review the

court's determinations as to each factor for clear error and its balancing of those factors *de novo*. See *Tiffany*, 600 F.3d at 101; *Starbucks IV*, 588 F.3d at 105.⁷...

[26] Under § 1125(c)(1), the plaintiff must show the defendant's "use of a mark ... in commerce that is likely to cause dilution by blurring ... of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury." Section 1125(c)(2)(B) defines "dilution by blurring" as "association arising from the similarity between a mark ... and a famous mark that impairs the distinctiveness of the famous mark." The statute then instructs that, "[i]n determining whether a mark ... is likely to cause dilution by blurring," the court "may consider all relevant factors," including the six enumerated factors.

[27] We previously have declined to treat the factors pertinent to a trademark dilution analysis as an inflexible, mechanical test, suggesting instead that the importance of each factor will vary with the facts. *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 227–28 (2d Cir.1999), *abrogated on other grounds by Moseley*, 537 U.S. at 433, 123 S.Ct. 1115. Accordingly, we need not consider all six statutory factors listed in 15 U.S.C. § 1125(c)(2)(B)(i)-(vi) if some are irrelevant to the ultimate question; nor are we limited to those six factors. See *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 266 (4th Cir.2007) ("Not every factor will be relevant in every case, and not every blurring claim will require extensive discussion of the factors."). Instead, we employ a "cautious and gradual approach," which favors the development of a nonexclusive list of trademark dilution factors over time. *Nabisco*, 191 F.3d at 217.

C. Factual Findings: The Statutory Factors

[28] On appeal, Starbucks challenges two of the District Court's findings: (1) that there is only a minimal degree of similarity between the Starbucks Marks and the Charbucks Marks; and (2) that Starbucks demonstrated only a weak association

⁷ We employ the same standard here that we use in the context of trademark infringement, where a district court evaluates and then balances the eight factors set forth in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir.1961), to determine whether there is a likelihood of confusion. See, e.g., *Star Indus. v. Bacardi & Co.*, 412 F.3d 373, 384 (2d Cir.2005). The statutory factors enumerated in § 1125(c)(2)(B) are similar in kind to the *Polaroid* factors. For example, both lists include the "similarity between" the two marks; "strength" of the mark in *Polaroid* is akin to "distinctiveness" in § 1125; and "actual confusion" in *Polaroid* mirrors "actual association" in § 1125. See *Polaroid*, 287 F.2d at 495.

between the marks. The District Court did not clearly err with regard to either finding.

1. Degree of Similarity

[29] In *Starbucks IV* we held that “[w]ith respect to the first factor—the degree of similarity between the marks—the District Court did not clearly err in finding that the Charbucks Marks were minimally similar to the Starbucks Marks.” 588 F.3d at 106. We highlighted the difference between the Starbucks Marks and Charbucks Marks when the latter are placed in the context of Black Bear’s packaging and the word “Charbucks” is incorporated into the phrases “Charbucks Blend” and “Mister Charbucks.” *Id.* “The law of the case ordinarily forecloses relitigation of issues expressly or impliedly decided by the appellate court.” *United States v. Quintieri*, 306 F.3d 1217, 1229 (2d Cir.2002) (quotation marks omitted). Although not binding, the doctrine “counsels a court against revisiting its prior rulings in subsequent stages of the same case absent ‘cogent’ and ‘compelling’ reasons such as ‘an intervening change of controlling law, the availability of new evidence, or the need to correct a clear error or prevent manifest injustice.’ ” *Ali v. Mukasey*, 529 F.3d 478, 490 (2d Cir.2008) (quoting *United States v. Tenzer*, 213 F.3d 34, 39 (2d Cir.2000)). Starbucks advances no compelling reason for us to revisit our ruling on the issue of similarity. It urges that the holding in *Starbucks IV* applied only to our “likelihood of confusion” analysis, and that the District Court erred by considering the contexts in which consumers encounter the Charbucks Marks.⁸ We reject such a crabbed view of the holding and adhere to our prior ruling that the District Court did not clearly err in finding minimal similarity.

2. Actual Association

[30] Starbucks next contends that the District Court’s finding that actual association “weighs no more than minimally” in Starbucks’ favor, *Starbucks V*, 2011 WL 6747431, at *4, was error for two reasons. First, Starbucks argues, Black Bear’s admitted intent to create an association—the fifth statutory factor—raises a “presumption of association,” or at least is strong evidence of actual association—the sixth statutory factor. Second, it argues that the District Court improperly discounted the Mitofsky survey evidence, which, in Starbucks’ view, proves a high degree of actual association. We reject both arguments.

⁸ At oral argument, Starbucks’ counsel conceded that our earlier decision on minimal similarity is the law of the case.

a. Intent to Create an Association

[31] As an initial matter, an intent to create an association is a separate factor under the TDRA and does not constitute *per se* evidence that the actual association factor weighs in favor of the owner of the famous mark. In support of its argument to the contrary, Starbucks quotes McCarthy's treatise, which states, "If the junior [user] intended to create an association, the law may assume that it succeeded." McCarthy § 24:119. Starbucks similarly relies on *Federal Express Corp. v. Federal Espresso, Inc.*, 201 F.3d 168 (2d Cir.2000), a dilution case in which we stated that the trier of fact "may well find that the marks are of sufficient similarity so that, in the mind of the consumer, the junior mark will conjure an association with the senior, especially in light of the testimony of [Federal Espresso's founder] that she chose the name Federal Espresso, in part, precisely because it would call to mind Federal Express." *Id.* at 177 (quotation marks omitted).

[32] Both *Federal Espresso* and McCarthy's treatise acknowledge the importance of the intent factor in determining likelihood of dilution. This makes sense, as district courts must evaluate whether a junior mark is "likely to cause" "association arising from the similarity" between the marks "that impairs the distinctiveness of the famous mark," 15 U.S.C. §§ 1125(c)(1), (c)(2)(B), and the intent to associate may bear directly on the likelihood that the junior mark will cause such an association.

[33] That said, "we interpret statutes to give effect, if possible, to every clause and word and to avoid statutory interpretations that render provisions superfluous." *United States v. Al Kassar*, 660 F.3d 108, 124–25 (2d Cir.2011) (quotation marks omitted). Adopting Starbucks' presumption argument would effectively merge the intent to associate and the actual association factors, by making the former determinative of the latter, rather than treating them as distinct but related considerations. We therefore conclude that the District Court did not clearly err in finding that Clark's testimony concerning the origin of the Charbucks Marks was not an "admission" of actual association and that his intentions were not definitive proof of an actual association between the marks.

b. Mitofsky Survey

[34] Nor did the District Court err when it discounted the Mitofsky survey evidence because the survey measured only how respondents reacted to the isolated word "Charbucks," rather than to the Charbucks Marks in context, and because the share of respondents who indicated an association between the marks was "relatively small." *Starbucks V*, 2011 WL 6747431, at *4. We arrive at this conclusion for two reasons.

[35] First, it coheres with our decision in *Starbucks IV*, in which we discerned no clear error in the District Court’s consideration of context—including the addition of “Mister” or “Blend” to “Charbucks” and Black Bear’s packaging—in assessing the marks’ similarity, as consumers are likely to experience the product only in the context of those full phrases and Black Bear’s packaging or website. *Starbucks IV*, 588 F.3d at 106. In our analysis of Starbucks’ infringement claim, we similarly determined that the District Court did not clearly err when it found (1) that the survey failed to demonstrate significant actual confusion, “[p]articularly in light of the fact that the survey was administered by telephone and did not present the term ‘Charbucks’ in the context in which Black Bear used it,” *id.* at 117, and (2) that the survey should have examined the effects of “a hypothetical coffee named either ‘Mister Charbucks’ or ‘Charbucks Blend’ ” on the respondents’ impressions of Starbucks coffee as a measure of dilution by tarnishment, *id.* at 110.

[36] Second, our conclusion also comports with our prior precedents and other cases unrelated to Starbucks. In *Playtex Products, Inc. v. Georgia-Pacific Corp.*, 390 F.3d 158 (2d Cir.2004), a case interpreting the pre-revision FTDA, we held that the results of a consumer survey showing an association between the marks “Moist-Ones” and “Wet Ones” were inadmissible as evidence of actual dilution because the defendant’s product was “presented and packaged” as “*Quilted Northern Moist-Ones*.” *Id.* at 168 (emphasis added). District courts within our Circuit have applied the same reasoning in evaluating surveys in the infringement context. *See, e.g., THOIP v. Walt Disney Co.*, 690 F.Supp.2d 218, 235–40 (S.D.N.Y.2010); *Juicy Couture, Inc. v. L’Oreal USA, Inc.*, No. 04 Civ. 7203, 2006 WL 1012939, at *25–27 (S.D.N.Y. Apr. 19,2006); *WE Media, Inc. v. Gen. Elec. Co.*, 218 F.Supp.2d 463, 474 (S.D.N.Y.2002) (“Germane survey evidence should make some effort to compare the impressions the marks have on potential customers under marketplace conditions.”). In the dilution context, the language of the FTDA, which requires a plaintiff to show the defendant’s “*use of a mark ... in commerce* that is likely to cause dilution by blurring ...,” 15 U.S.C. § 1125(c)(1) (emphasis added), clarifies that the way the defendant’s mark is used in commerce is central to the dilution inquiry. As in *Playtex*, the District Court was within its rights to conclude that the Mitofsky survey had limited probative value because the defendant’s marks were not presented to survey respondents as they are actually “presented and packaged” in commerce.

[37] Citing our decision in *Nabisco*, Starbucks nevertheless argues that consumers are likely to hear and view the term “Charbucks” outside the context of Black Bear’s packaging and without the full phrases “Mister Charbucks” and “Charbucks Blend.” *Nabisco*, 191 F.3d at 218 (rejecting an argument under the pre-revision FTDA that packaging made two marks dissimilar, because many consumers

would see the marks outside of the packaging). But Starbucks presented no record evidence that “Charbucks” is ever read or heard in isolation,⁹ and in the absence of such evidence, we are not persuaded by the argument. To the contrary, as we noted in *Starbucks IV*, “it is unlikely that ‘Charbucks’ will appear to consumers outside the context of its normal use,” 588 F.3d at 106, and “it was not clearly erroneous for the District Court to find that the ‘Mister’ prefix or ‘Blend’ suffix lessened the similarity between the [marks],” *id.* at 107.

[38] Starbucks also challenges the District Court’s finding that the association between “Charbucks” and Starbucks was “relatively small.” It contends that the Mitofsky survey in fact provided evidence of substantial actual association. We disagree.

[39] It is true that in response to Mitofsky’s question most probative of actual association—“What is the FIRST THING that comes to your mind when you hear the name ‘Charbucks,’ spelled C-H-A-R-B-U-C-K-S?”—30.5 percent of respondents said “Starbucks,” and 9 percent said “coffee.” Both of these responses suggest an association between “Charbucks” and the Starbucks Marks. In *Jada Toys*, 518 F.3d at 636, for example, the Ninth Circuit held that a survey demonstrated actual association because it showed that 28 percent of respondents thought Jada’s product was made by Mattel when asked who they thought produced the item. Here, however, the equivalent question in Mitofsky’s survey was: “Can you name any company or store that you think might offer a product called ‘Charbucks?’”¹⁰ In response to that question concerning source on the Mitofsky survey, however, only 3.1 percent of respondents answered “Starbucks” and 1.3 percent answered “coffee house.” These percentages are far below that for the equivalent question in *Jada Toys* and fail to demonstrate anything more than minimal actual association.¹¹ See *Starbucks V*, 2011 WL 6747431, at *4.

⁹ Although the name “Mr. Charbucks” is presented in plain text on at least one page of Black Bear’s website, all other record uses of the Charbucks Marks situate them in Black Bear’s distinct color scheme, font, and layout.

¹⁰ {Footnote 14 in the original opinion} Both that question and the question discussed in *Jada Toys* test not merely *association* but also *source confusion*. Source confusion may be probative of association, because to confuse Charbucks with Starbucks, the word “Charbucks” must call “Starbucks” to mind. See *Nabisco*, 191 F.3d at 221 (“Confusion lessens distinction.”).

¹¹ Although some other respondents gave answers consistent with an association with Starbucks—18.3 percent answered “grocery store,” 16.9 percent answered “discount store,” 7 percent answered “restaurant,” and 4.8 percent

[40] Ultimately, on this factor, we consider only whether the District Court clearly erred when it found that the Mitofsky survey tilts the “actual association” factor “no more than minimally in [Starbucks’] favor.” *Id.* Had the Mitofsky survey presented the Charbucks Marks as they appear in commerce, we might well conclude that the District Court erred. But the word “Charbucks” was presented outside of its marketplace context, and Starbucks, which bears the burden of proof, *see Jada Toys*, 518 F.3d at 634, failed to show that this flaw did not materially impact the survey results. We therefore conclude that the record supports the District Court’s decision to discount the survey and consider the actual association factor as weighing only minimally in Starbucks’ favor.

D. Balancing

[41] We next balance the factors enumerated in § 1125(c)(2)(B), along with any other factors that bear on a likelihood of dilution, *de novo*. In balancing these factors, we are again mindful that the test is not an inflexible one, and that the ultimate question is whether the Charbucks Marks are likely to cause an association arising from their similarity to the Starbucks Marks, which impairs the Starbucks Marks’ tendency to identify the source of Starbucks products in a unique way.

[42] We have already affirmed the District Court’s finding of minimal similarity between the Charbucks Marks and the Starbucks Marks. That finding weighs heavily in Black Bear’s favor. Certainly, a plaintiff may show a likelihood of dilution notwithstanding only minimal similarity. But here, minimal similarity strongly suggests a relatively low likelihood of an association diluting the senior mark. The statute itself emphasizes the similarity of marks. *See* § 1125(c)(2)(B) (defining “dilution by blurring” as “association arising from the *similarity* between a mark or a trade name and a famous mark that impairs the distinctiveness of the famous mark” (emphasis added)). Indeed, in *Starbucks IV*, we stated that “ ‘similarity’ is an integral element in the definition of ‘blurring’ ” under the TDRA and suggested that, without *any* similarity, there could be no dilution by blurring. 588 F.3d at 108–09.¹²

answered “department store”—these responses are also consistent with other views of what “Charbucks” could be, including meat or a charcoal grilling product, as 38.5 percent of respondents suggested.

¹² Of course, in *Starbucks IV*, we rejected a *per se* or threshold requirement of “substantial similarity” between the marks at issue in federal dilution actions. 588 F.3d at 108–09. In doing so, however, we did not suggest that a finding of *minimal* similarity could not be highly probative of the likelihood of dilution.

[43] The next three factors—the degrees of distinctiveness, exclusive use, and recognition—are features of the senior mark itself that do not depend on the use of the junior mark. “[T]he *degree* of distinctiveness of the senior mark has a considerable bearing on the question whether a junior use will have a diluting effect.... [T]he more distinctiveness the mark possesses, the greater the interest to be protected.” *Nabisco*, 191 F.3d at 217. There is no question that “Starbucks”—an arbitrary mark as applied to coffee—is highly distinctive. *See id.* at 216. Moreover, because, as the District Court found, the Starbucks Marks are in substantially exclusive use, *see Starbucks V*, 2011 WL 6747431, at *3, “the mark’s distinctiveness is more likely to be impaired by the junior use,” 2005 Hearing, at 14 (statement of Anne Gundelfinger). Lastly, as 79 percent of Mitofsky survey respondents were familiar with Starbucks, it is undisputed that Starbucks constitutes a widely recognized mark, and that this factor favors Starbucks.

[44] Although the three factors of distinctiveness, recognition, and exclusivity favor Starbucks and bear to some degree on our assessment of the likelihood of dilution by blurring, the more important factors in the context of this case are the similarity of the marks and actual association. We agree with the District Court that the distinctiveness, recognition, and exclusive use of the Starbucks Marks do not overcome the weak evidence of actual association between the Charbucks and Starbucks marks. To the contrary, viewed in light of Starbucks’ fame, both globally and among the Mitofsky survey participants more particularly, the fact that more survey participants did not think of “Starbucks” upon hearing “Charbucks” reinforces the District Court’s finding that the marks are only minimally similar, and therefore unlikely to prompt an association that impairs the Starbucks Marks. Likewise, although the distinctiveness and exclusive use of the Starbucks Marks help Starbucks prove *susceptibility* to dilution by association arising from similarity between the Charbucks and Starbucks marks, they do not demonstrate that such an association is likely to arise, as Starbucks needed to show to obtain an injunction. Accordingly, these factors weigh only weakly in Starbucks’ favor.

[45] In this case, we attribute a moderate amount of significance to the fifth factor, intent to create an association. Clark’s testimony indicated that Black Bear was capitalizing on an historic connection between the word “Charbucks” and “Starbucks,” which arose out of the so-called “coffee-wars” in Boston, Massachusetts, *see Starbucks IV*, 588 F.3d at 111, and that he “meant to evoke an image of dark-roasted coffee of the type offered by Starbucks,” *Starbucks V*, 2011 WL 6747431, at *5. “[W]here, as here, the allegedly diluting mark was created with an intent to associate with the famous mark,” *Starbucks IV*, 588 F.3d at 109, we agree with the

District Court that this factor favors a finding of a likelihood of dilution, *see Starbucks V*, 2011 WL 6747431, at *3, *5.

[46] The final, disputed factor, actual association, is highly relevant to likelihood of association. In the analogous context of determining the “likelihood of confusion” for trademark infringement claims, we have noted that “[t]here can be no more positive or substantial proof of the likelihood of confusion than proof of actual confusion,” even though a showing of actual confusion is not necessary to prevail on such a claim. *Savin Corp. v. Savin Grp.*, 391 F.3d 439, 459 (2d Cir.2004) (quoting *World Carpets, Inc. v. Dick Littrell’s New World Carpets*, 438 F.2d 482, 489 (5th Cir.1971)). The same principle obtains with respect to proof of actual association in dilution claims. And as noted, the Mitofsky survey demonstrated weak actual association, at best.

[47] Weighing the factors above *de novo*, we agree with the District Court that Starbucks did not demonstrate a likelihood of dilution by blurring. Ultimately what tips the balance in this case is that Starbucks bore the burden of showing that it was entitled to injunctive relief on this record. Because Starbucks’ principal evidence of association, the Mitofsky survey, was fundamentally flawed, and because there was minimal similarity between the marks at issue, we agree with the District Court that Starbucks failed to show that Black Bear’s use of its Charbucks Marks in commerce is likely to dilute the Starbucks Marks.

CONCLUSION

[48] We have considered all of Starbucks’ contentions on this appeal and have concluded that they are without merit. For the foregoing reasons, we AFFIRM the judgment of the District Court.

Chanel v. Makarczyk

Opp. No. 91208352, 2013 WL 2531211 (T.T.A.B. May 27, 2014)

Opinion by Lykos, Administrative Trademark Judge:

[1] On April 17, 2012, Jerzy Makarczyk (“applicant”), a Canadian citizen, filed an application pursuant to Section 1(a) of the Trademark Act to register the mark CHANEL in standard character format for “real estate development and construction

of commercial, residential and hotel property” in International Class 37.¹³ The application alleges May 15, 2008 as the date of first use anywhere and in commerce.

[2] Chanel, Inc. (“opposer”) opposed the registration of applicant’s mark on the grounds of likelihood of dilution by blurring under Section 43(c) of the Trademark Act, 15 U.S.C. § 1125(c); likelihood of confusion under Section 2(d) of the Trademark Act, 15 U.S.C. § 1052(d); and false suggestion of a connection under Trademark Act Section 2(a), 15 U.S.C. § 1152(a). Opposer alleged that by virtue of its use and promotion of the CHANEL mark for over 90 years, its mark is “extraordinarily famous and well-known throughout the United States, is inherently distinctive, and has become associated exclusively with opposer.” Opposer submitted with its notice of opposition copies of the following [fourteen] registrations....

II. The Parties

[3] Opposer was founded by fashion designer Gabrielle “Coco” Chanel who entered the fashion business in 1910 in Paris, France with the opening of a small millinery shop under the name “Chanel Modes.” Following the popularity of her custom designed hats, she expanded her product line to clothing. In 1913, she opened a fashion boutique in Deauville, France and then, in 1915, her first couture house in Biarritz, France. The following year, Coco Chanel received acclaim from the U.S. press for her ““charming chemise dress.” In 1921, she introduced her first perfume, CHANEL No. 5, which continues to be one of the best-selling fragrances on the market today. She began designing and selling costume jewelry in 1924. Later, in 1926, she became known for her design of the “little black dress.” Following World War II, she reestablished herself as a fashion designer with the introduction of the “now-classic” quilted fabric handbag with chain and leather shoulder strap, marketed under the CHANEL brand name. In the 1950s, Stanley Marcus, owner of the U.S. department store Neiman Marcus, honored Coco Chanel with an award as the most influential fashion designer of the twentieth century. When Coco Chanel passed away in 1971, all rights in her name and business were assigned to opposer and related companies. Shortly thereafter, opposer launched a full line of cosmetics under the name CHANEL BEAUTÉ as well as a retail store collection of ready-to-wear clothing and accessories under the name CHANEL BOUTIQUE. *Id.* Opposer’s clothing product line varies each year, with at least six different ready-to-wear collections and two *haute couture* collections annually.

[4] Opposer commenced use of CHANEL in the United States as a trademark and trade name at least as early as the 1930s. Currently opposer owns 60 active U.S.

¹³ Application Serial No. 85600670.

registrations consisting of or comprising the term CHANEL. Opposer markets luxury consumer products in the United States in various trade channels, including opposer's own CHANEL boutiques and third-party retailers such as Saks Fifth Avenue and Neiman Marcus. The price-point for opposer's goods ranges from nail polish retailing at \$27 and sunglasses at \$300 to handbags and *haute couture* clothing items costing thousands of dollars.

[5] Applicant, a citizen of Canada who resides and conducts business in Toronto, has applied to register the mark CHANEL for "real estate development and construction of commercial, residential and hotel property." Applicant operates several web sites involving the sale or leasing of real property, including www.condomonde.com, www.condominiums.com, and www.hermesrealty.ca. As a part of his marketing strategy, applicant promoted on his web site a building with units apparently named after luxury brands including Chanel, Givenchy, Cartier, Versace and Dior. Applicant has also used the name Hermes and the mark Playboy in connection with his services.

...

IV. Dilution by Blurring

[6] First, we consider opposer's claim of dilution by blurring. The Trademark Act provides a cause of action for the dilution of famous marks. *See* Sections 13 and 43(c) of the Trademark Act, 15 U.S.C. §§ 1063 and 1125(c). Section 43(c) provides as follows:

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

[7] Opposer contends that applicant's applied-for CHANEL mark will dilute the distinctiveness of opposer's CHANEL mark. The Trademark Act defines dilution by blurring as follows:

"[D]ilution by blurring" is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.

Section 43(c)(2)(B) of the Trademark Act, 15 U.S.C. § 1125(c)(2)(B). "Dilution diminishes the 'selling power that a distinctive mark or name with favorable

associations has engendered for a product in the mind of the consuming public.” *Toro Co. v. ToroHead Inc.*, 61 USPQ2d 1164, 1182 (TTAB 2001) (internal citation omitted).

[8] Our primary reviewing court, the Court of Appeals for the Federal Circuit, has set forth the following four elements a plaintiff must prove in order to prevail on a claim of dilution by blurring in a Board proceeding:

- (1) that plaintiff owns a famous mark that is distinctive;
- (2) the defendant is using a mark in commerce that allegedly dilutes the plaintiff’s famous mark;
- (3) the defendant’s use of its mark began after the plaintiff’s mark became famous; and
- (4) the defendant’s use of its mark is likely to cause dilution by blurring.

Coach Services Inc. v. Triumph Learning LLC, 668 F.3d 1356, 101 USPQ2d 1713, 1723-24 (Fed. Cir. 2012) (“*Coach Services*”).

A. Whether opposer’s CHANEL mark is famous and distinctive

...

[9] Opposer has the burden of establishing that its mark has become famous. “It is well-established that dilution fame is difficult to prove.” *Coach Services*, 101 USPQ2d at 1724, *quoting Toro*, 61 USPQ2d at 1180. As noted in the statute, fame for dilution requires “widespread recognition by the general public.” *Coach Services*, 101 USPQ2d at 1725, *citing* 15 U.S.C. § 1125(c)(2)(A). An opposer must show that, when the general public encounters the mark “in almost any context, it associates the term, at least initially, with the mark’s owner.” *Id.*, *quoting Toro*, 61 USPQ2d at 1180. A famous mark is one that has become a “household name.” *Coach Services*, 101 USPQ2d at 1725 (internal citations omitted).

[10] In addition, “a mark must be not only famous, but also so distinctive that the public would associate the term with the owner of the famous mark even when it encounters the term apart from the owner’s goods or services, i.e., devoid of its trademark context.” *Toro*, 61 USPQ2d at 1177, *citing* H.R. REP. No. 104-374, at 3 (1995) (“the mark signifies something unique, singular, or particular”). The requirement of “distinctiveness” is derived from Section 43(c), which provides that distinctiveness of a famous mark can be shown either through inherent or acquired distinctiveness. Fame and distinctiveness are “two overlapping, but slightly different, concepts.” *Toro*, 61 USPQ2d at 1177. That is to say, “[a] trademark cannot be ‘famous’ unless it is ‘distinctive,’ but it can certainly be ‘distinctive’ without being ‘famous.’ A designation cannot be a trademark at all unless it is ‘distinctive.’ By

definition, all ‘trademarks’ are ‘distinctive’--very few are ‘famous.’” 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 24:104 (4th ed. 2014).

[11] Taking into account the non-exhaustive factors enumerated [in § 43(c)] as well as other considerations, we find that opposer has established that its mark CHANEL is famous for dilution purposes...

[12] We further find that in addition to being famous for dilution purposes, opposer’s CHANEL mark is distinctive as well.

[13] The record shows that opposer’s CHANEL mark is derived from the surname of its founder Coco Chanel, and that some, but not all, of opposer’s marks are registered under Section 2(f). Even assuming that applicant’s mark is not inherently distinctive, the record evidence discussed above more than sufficiently demonstrates that opposer’s mark has acquired distinctiveness, and is therefore “distinctive” within the meaning of Section 43(c) of the Act.

B. Whether applicant is using a mark in commerce that allegedly dilutes opposer’s famous mark

[The court found this requirement to be satisfied].

C. Whether opposer’s CHANEL mark became famous prior to applicant’s use

[The court found this requirement to be satisfied].

D. Whether applicant’s CHANEL mark is likely to cause dilution by blurring the distinctiveness of opposer’s CHANEL mark.

[14] Dilution by blurring is an “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark,” 15 U.S.C. § 1125(c)(2)(B), and may be found “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury,” 15 U.S.C. § 1125(c)(1). Dilution by blurring occurs when a substantial percentage of consumers, upon seeing the junior party’s use of a mark on its goods or services, are immediately reminded of the famous mark and associate the junior party’s use with the owner of the famous mark, even if they do not believe, for example, that the goods or services come from the famous mark’s owner, or that the famous mark’s owner approves the goods or services. *See e.g., Nike Inc. v. Maher*, 100 USPQ2d 1018 (TTAB 2011); *National Pork Board v. Supreme Lobster and Seafood Co.*, 96 USPQ2d 1479 (TTAB 2010). In addition, we must determine not only whether there is an “association’ arising from the similarity of the marks, but whether such association is likely to ‘impair’ the distinctiveness of the famous mark. *Nike Inc. v. Maher*, 100 USPQ2d 1018, 1023 (TTAB 2011) (“*Nike v.*

Maheer”). In determining whether a mark or trade name is likely to cause dilution by blurring, the Board may consider the following six non-exhaustive factors [from 15 U.S.C. § 1125(c)(2)(B)(i)-(vi)].

1. The degree of similarity between the mark or trade name and the famous mark

[15] In this case, there is no dispute that the marks in question are identical. Indeed, applicant admitted in his answer and also stipulated that his applied-for mark CHANEL is identical to opposer’s mark and trade name CHANEL. This factor therefore favors finding a likelihood of dilution by blurring.

2. The degree of inherent or acquired distinctiveness of the famous mark

[16] “This factor requires us to analyze how distinctive or ‘unique’ the mark is to the public. The inquiry is made even when it is undisputed that opposer’s mark is registered on the Principal Register.” *NASDAQ Stock Market Inc. v. Antartica S.r.l.*, 69 USPQ2d 1718, 1735 (TTAB 2003). “The more inherently distinctive and memorable the mark, the more it is likely to be blurred by the use of other identical or similar marks. The more descriptive the mark, the less likely it is to be blurred by uses of identical or similar marks.” Testimony of Anne Gundelfinger, President, International Trademark Association, before House Subcommittee on Courts, the Internet and Intellectual Property, Committee on the Judiciary, February 17, 2005 (109th Cong., 1st Sess.), 2005 WL 408425.

[17] As noted above, opposer’s mark CHANEL was originally derived from the designer Coco Chanel’s surname. The origin of opposer’s brand name, however, does not diminish its distinctiveness. Indeed, opposer has submitted voluminous evidence that the media uses the term CHANEL to refer solely to opposer. In any event, the discussion above regarding opposer’s extensive evidence of fame of the CHANEL mark used in connection with clothing, fashion accessories, beauty products and boutiques more than sufficiently establishes that opposer’s CHANEL mark has acquired a high degree of distinctiveness among consumers. This factor therefore also favors a finding of likelihood of dilution.

3. The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark

[18] The record reflects that opposer has indeed engaged in “substantially exclusive” use of its CHANEL mark. Opposer stated that due to the fame and value of its CHANEL mark, it vigorously enforces its exclusive use and only permits one other unrelated third-party, Luxottica S.r.L., licensed permission to use the CHANEL mark in connection with eyewear products. The Luxottica license agreement contains

“strict quality standards to ensure that products bearing the CHANEL mark meet the same standards for which Chanel has long been known.”

[19] In addition, opposer stated that it expends a “great deal of resources policing the CHANEL mark,” employing a trademark watch service to monitor third-party use. This statement is corroborated by the record evidence showing that from 1998 to the present, opposer has filed over one hundred (100) trademark infringement lawsuits and sent over one thousand (1,000) cease and desist letters, leading the New York Times in 2007 to identify opposer as one of the top ten filers of trademark suits. This includes eight opposition proceedings before the Board, and seventeen successful domain name disputes before WIPO. The record further shows no other unconsented uses of the mark CHANEL by third parties. Accordingly, on this record, we find that opposer has made substantially exclusive use of the CHANEL trademark, and therefore, this dilution factor favors opposer.

4. The degree of recognition of the famous mark

[20] The discussion of fame above shows that opposer’s CHANEL mark enjoys a high degree of recognition among consumers. In particular we note the following: opposer’s surveys conducted in the ordinary course of business showing a high degree of unaided consumer recognition; third-party consumer recognition surveys in both print and social media form (e.g. *Women’s Wear Daily*, *Businessweek*, Facebook); the extensive level of unsolicited third-party media coverage; and the number of prestigious industry awards. Such evidence demonstrates that CHANEL is widely recognized by the general consuming public as a mark identifying opposer’s particular style of clothing, fashion accessories, fragrances, beauty products and retail services. This high degree of consumer recognition favors opposer.

5. Whether the user of the mark or trade name intended to create an association with the famous mark

[21] Opposer has presented evidence demonstrating that applicant intended to create an association with opposer’s famous CHANEL mark, despite the fact that opposer never licensed applicant to use the mark (either orally or in writing) and has never even conducted any business with applicant. According to publicly available evidence opposer obtained from applicant’s websites, www.condomonde.com and www.condominiums.com, applicant markets luxury rental properties by naming units after luxury brands such as Chanel, Dior, Givenchy, and Versace. Applicant stated on his web site that opposer Chanel is among his former or current clients, referring to the Chanel boutiques as “the

world's finest" along with other fashion houses such as Louis Vuitton, Prada and Gucci. Indeed, applicant, in promoting his services on his web site, has referred to the elevated status he purportedly enjoys from his relationship with Chanel. Opposer's corporate counsel testified however that opposer "has not done business with the applicant, nor have we licensed the CHANEL mark to him."

[22] We therefore find that applicant is attempting to trade on the goodwill and fame generated by the CHANEL mark in order to promote and market his own services. As such, this dilution factor also favors opposer.

6. Any actual association between the mark or trade name and the famous mark

[23] Insofar as opposer presented no evidence regarding this factor, it is deemed neutral.

[24] In summary, each factor, with the exception of the sixth factor discussed above which was deemed neutral, favors a finding of likelihood of dilution.

7. Impairment

[25] The statute requires opposer to prove impairment of the distinctiveness of opposer's famous mark. *See Nike Inc. v. Maher*, 100 USPQ2d at 1023. *See also Louis Vuitton Malletier S.A. v. Haute Diggity Dog LLC*, 507 F.3d 252 (4th Cir. 2007). Opposer stated that if applicant were to obtain a registration, "his use of our very mark will devalue the CHANEL brand and cause significant harm to Chanel by diluting the distinctiveness of Chanel's famous mark." We note that although opposer has no current involvement in the real estate or hotel industry, the record shows that many luxury brand companies have licensed use of their marks in connection with hotels. In other words, they have found opportunities to commercially exploit the distinctiveness of their marks in those industries. In addition, many other well-known luxury brands have either expanded into or licensed use of their brand names in fields outside of the fashion industry that are related to real estate. For example, Versace now offers interior design services, Fendi provides kitchen design services and Jason Wu markets designer-styled bathroom fixtures. We find these statements and surrounding circumstances of the industry sufficient to show that opposer is likely to suffer an impairment of the distinctiveness of its CHANEL mark.

[26] In summary, we find that based on the record before us, opposer has demonstrated that applicant's CHANEL mark is likely to cause dilution by blurring of its CHANEL trademarks and service marks.

[27] Decision: The opposition is sustained on opposer's claim of dilution by blurring. Insofar as we are sustaining the opposition on this ground, we need not consider opposer's remaining claims under Sections 2(a) and 2(d) of the Trademark Act.

Comments and Questions

1. *How Similar Must the Parties Marks Be to Show Dilution?* The *Nikepal* court applied an "identical or nearly identical" standard of similarity in its blurring analysis, following *Thane Int'l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894 (9th Cir. 2002). The Second Circuit, however, has rejected this approach. In *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009), it emphasized that the new statute "does not use the words 'very' or 'substantial' in connection with the similarity factor," *id.* at 108, and reasoned that if courts were to impose a heightened similarity standard, this would give undue weight to the similarity factor—by turning the heightened similarity requirement into a threshold requirement that would short-circuit the six-factor multifactor balancing test for blurring. (The Second Circuit found that New York state anti-dilution law, by contrast, does impose a requirement that the marks be "'substantially' similar," *id.* at 114). In *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158 (9th Cir. 2011), the Ninth Circuit subsequently followed the Second Circuit's reasoning:

Turning to the language of subsection (c)(2)(B), the TDRA defines "dilution by blurring" as the "association arising from the similarity between a mark and a trade name and a famous mark that impairs the distinctiveness of the famous mark." *Id.* § 1125(c)(2)(B) (emphasis added). Congress did not require an association arising from the "substantial" similarity, "identity" or "near identity" of the two marks. The word chosen by Congress, "similarity," sets forth a less demanding standard than that employed by many courts under the FTDA.

Id. at 1171. Do you find the Second and Ninth Circuits' reasoning persuasive? As a matter of sound policy, should courts require a heightened standard of similarity when analyzing a blurring claim? And in any case, are you persuaded that Nike and Nikepal are nearly identical?

2. *Mere Association or Association that Impairs Distinctiveness?* Recall that the TDRA defines dilution by blurring as "association...that impairs the distinctiveness of the famous mark." The *Nikepal* court found evidence of association, but it never addressed the question of whether this association "impairs the distinctiveness of the famous mark." Can we assume, as the *Nikepal* court appears to do, that any

association necessarily impairs the distinctiveness of the plaintiff's mark? Consider what the Supreme Court said in *Moseley*:

We do agree, however, with [the] conclusion that, at least where the 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. [S]uch 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. For even though Utah drivers may be reminded of the circus when they see a license plate referring to the "greatest *snow* on earth," it by no means follows that they will associate "the greatest show on earth" with skiing or snow sports, or associate it less strongly or exclusively with the circus. "Blurring" is not a necessary consequence of mental association. (Nor, for that matter, is "tarnishing.")

Moseley v. V Secret Catalogue, 537 U.S. 418 (2003). On remand, the *Moseley* district court took the Supreme Court's teaching very much to heart. See *V Secret Catalogue, Inc. v. Moseley*, 558 F. Supp. 2d 734 (W.D. Ky. 2008). It found all six blurring factors to favor the plaintiff, but nevertheless found no blurring: "The choice of name and presentation by the Moseleys being just slightly different from the VICTORIA'S SECRET mark, conjured the association with the famous mark, but fell short of blurring its distinctiveness in this instance." *Id.* at 748. How can the plaintiff prove that association impairs the distinctiveness of its mark? (Note that the *Moseley* district court found tarnishment instead, *id.* at 750).

3. *Are Some Trademarks So Strong as to Be Immune to Blurring?* In 2000, Professors Maureen Morrin and Jacob Jacoby, the latter of whom is a highly regarded trademark survey expert, reported the results of two studies they conducted to detect the effects of diluting stimuli on brand recognition and recall in test subjects. See Maureen Morrin & Jacob Jacoby, *Trademark Dilution: Empirical Measures for an Elusive Concept*, 19 J. Pub. Pol. & Marketing 265 (2000). Among other findings, they reported: "It appears that very strong brands are immune to dilution because their memory connections are so strong that it is difficult for consumers to alter them or create new ones with the same brand name." *Id.* at 274. Does this make sense to you? What are the implications of such a finding for anti-dilution protection, a form of protection granted only to brands "widely recognized by the general consuming public of the United States"?

4. *Does Dilution Protection Make Any Difference in Practice?* Commentators have long asserted that the very marks that qualify for dilution protection rarely need it. This is because such marks will likely win the conventional likelihood of confusion

cause of action both because of their enormous fame and because the scope of the likelihood of confusion cause of action has expanded dramatically in the past few decades. *See, e.g.*, Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev. 1839, 1913-14 (2007). For example, if a defendant were to begin to sell Coca-Cola brand bicycles, how likely is it that Coca-Cola's lawyers would be able to prove some degree of confusion?

Empirical evidence suggests that when courts consider both confusion and dilution, their dilution determinations are usually redundant of their confusion determinations. One study found that in the year following the October 6, 2006, effective date of the TDRA, no reported federal court opinion that considered both confusion and dilution found the latter but not the former. *See* Barton Beebe, *The Continuing Debacle of U.S. Antidilution Law: Evidence from the First Year of Trademark Dilution Revision Act Case Law*, 24 Santa Clara Computer & High Tech. L.J. 449 (2008). This trend appears to have continued. In the three and a half years following the effective date of the TDRA, two reported federal court opinions have analyzed both confusion and dilution and found the latter but not the former, and one of these opinions was a dissent. *See* *Hershey Co. v. Art Van Furniture, Inc.*, No. 08 Civ. 14463, 2008 WL 4724756 (E.D. Mich. Oct. 24, 2008); *American Century Proprietary Holdings, Inc. v. American Century Casualty Co.*, 295 Fed. Appx. 630 (5th Cir. Oct. 3, 2008) (Garwood, J., dissenting).

This is not to say that the dilution case of action never provides relief not already provided by a confusion cause of action. As in *Nikepal*, courts may decline to consider confusion at all in their opinions and move directly to a finding of dilution. *See, e.g.*, *V Secret Catalogue, Inc. v. Moseley*, 558 F. Supp. 2d 734 (W.D. Ky. 2008). And as in *Chanel v. Makarczyk*, Opp. No. 91208352, 2013 WL __ (T.T.A.B. May 27, 2014), a mark may be opposed in T.T.A.B. proceedings solely on the basis that it dilutes the opposer's mark.

5. *Dilution and Misappropriation.* The European Trade Mark Directive explicitly provides for protection against the taking of "unfair advantage of ... the distinctive character or repute of the trade mark." EC Trade Mark Directive, Parliament and Council Directive 2008/95, art. 5(2), 2008 O.J. (L 299) 28, 29 (EC). The TDRA contains no such prohibition against the misappropriation of a mark's "selling power." David Franklyn has argued that dilution is essentially a form of "free-riding", that courts often hold in favor of diluted plaintiffs in an effort to punish free-riding, and that "it would be better to scrap dilution altogether and replace it with an independent cause of action that explicitly prevents free-riding in appropriate circumstances." David J. Franklyn, *Debunking Dilution Doctrine: Toward*

a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law, 56 HASTINGS L.J. 117 (2004). Do you support this proposal?

As a historical matter, Schechter himself based nearly all of his theory of dilution on a 1924 German court opinion known as the *Odol* opinion. See *Odol darf auch für gänzlich verschiedene Waren wie Mundwasser nicht verwendet werden; Entscheidung des Landgerichts Elberfeld vom 14. Sept. 1924* 13. O. 89/24, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 204 (1924). But in attempting to sell his theory of dilution to American readers, Schechter apparently deliberately excluded from his translation of the *Odol* opinion the court's core holding, that the defendant sought "to appropriate thus the fruits of another's labor." Why might Schechter have suppressed the misappropriation nature of trademark dilution when writing to American lawyers in the 1920s, at the height of American Legal Realism? For an answer, see Barton Beebe, *The Suppressed Misappropriation Origins of Trademark Antidilution Law: the Landgericht Elberfeld's Odol Opinion and Frank Schechter's The Rational Basis of Trademark Protection*, in INTELLECTUAL PROPERTY AT THE EDGE: THE CONTESTED CONTOURS OF IP (Rochelle Dreyfuss & Jane Ginsburg eds, 2013) ("What Schechter sought to obscure in *Rational Basis* is that the *Odol* case was not, strictly speaking, a trademark case. Rather, it was a misappropriation case that happened to involve a trademark."). But see Robert Bone, *Schechter's Ideas in Historical Context and Dilution's Rocky Road*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 469 (2008).

6. *Blurring and "Imagination Costs"*. Do you accept that an increase in consumers' "imagination costs" represents a significant harm? For a very strong critique of this "cognitive/internal-search-costs model" of blurring, see Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEXAS L. REV. 507 (2008).

2. Dilution by Tarnishment



V Secret Catalogue, Inc. v. Moseley
605 F.3d 382 (6th Cir. 2010)

MERRITT, Circuit Judge.

[1] In this trademark “dilution by tarnishment” case, brought under the Trademark Dilution Revision Act of 2006,¹ the question is whether the plaintiff, an international lingerie company that uses the trade name designation “Victoria’s Secret” has a valid suit for injunctive relief against the use of the name “Victor’s

¹ The relevant provisions of the new law change the test for “dilution by tarnishment” from an “actual” to only a likelihood of “harm” to the “reputation” of the senior mark:

15 U.S.C. § 1125(c) Dilution by blurring; dilution by tarnishment

(1) Injunctive relief

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce *that is likely to cause dilution by blurring or dilution by tarnishment* of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition or of actual economic injury.

(2) Definition

....

(C) For purposes of paragraph (1), “dilution by tarnishment” is *association* arising from the similarity between a mark or trade name and a famous mark that *harms the reputation* of the famous mark.

(Emphasis added.)

Little Secret” or “Victor's Secret” by the defendants, a small retail store in a mall in Elizabethtown, Kentucky, that sells assorted merchandise, including “sex toys” and other sexually oriented products. The District Court issued the injunction. Since then the shop has been operating under the name of “Cathy's Little Secret.” The District Court concluded that even though the two parties do not compete in the same market, the “Victor's Little Secret” mark—because it is sex related—disparages and tends to reduce the positive associations and the “selling power” of the “Victoria's Secret” mark. The question is whether the plaintiff's case meets the definitions and standards for “dilution by tarnishment” set out in the new Act which amended the old Act, *i.e.*, the Federal Trademark Dilution Act of 1995.²

[2] The new Act was expressly intended to overrule the Supreme Court interpretation of the old Act in this very same case, *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003), *rev'g* 259 F.3d 464 (6th Cir.2001), *aff'g* 54 U.S.P.Q.2d 1092 (W.D.Ky.2000). The Supreme Court reversed a panel of this Court that had affirmed an injunction against “Victor's Little Secret” issued by the District Court. On remand to the District Court from the Supreme Court after the 2003 reversal, no new evidence was introduced, and the District Court reconsidered the case based on the same evidence but used the new language in the new Act which overrules the Supreme Court in this case. We will first brief the Supreme Court opinion and the reasons Congress overruled the Supreme Court in this case. We will then outline our understanding of the new standards for measuring trademark “dilution by tarnishment” and apply them to this case. We conclude that the new Act creates a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex related products is likely to tarnish a famous mark if there is a clear semantic association between the two. That presumption has not been rebutted in this case.

I. The Supreme Court Opinion and the New Act

² The relevant provisions of the old law provide:

§ 1125(c)(1). The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, *if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark*

....

[3] The Supreme Court explained that this case started when an Army Colonel at Fort Knox saw an ad for “Victor's Secret” in a weekly publication. It advertised that the small store in Elizabethtown sold adult videos and novelties and lingerie.³ There was no likelihood of confusion between the two businesses or the two marks, but the Army Colonel was offended because the sexually-oriented business was semantically associating itself with “Victoria's Secret.” The Court explained that the concepts of “dilution by blurring” and “dilution by tarnishment” originated with an article in the Harvard Law Review, Frank Schechter, “Rational Basis of Trademark Protection,” 40 HARV. L.REV. 813 (1927), and that the history and meaning of the concepts were further well explained in Restatement (Third) of Unfair Competition, Section 25 (1995). The Restatement section referred to by the Supreme Court explains this new intellectual property tort and contains in § 25 a comprehensive statement of “Liability Without Proof of Confusion: Dilution and Tarnishment.” “Tarnishment,” as distinguished from “dilution by blurring” was the only claim before the Supreme Court and is the only claim before us in this new appeal. We

³ The Supreme Court explained:

In the February 12, 1998, edition of a weekly publication distributed to residents of the military installation at Fort Knox, Kentucky, petitioners advertised the “GRAND OPENING just in time for Valentine's Day!” of their store “VICTOR'S SECRET” in nearby Elizabethtown. The ad featured “Intimate Lingerie *for every woman*,” “Romantic Lighting”; “Lycra Dresses”; “Pagers”; and “Adult Novelties/Gifts.” An army colonel, who saw the ad and was offended by what he perceived to be an attempt to use a reputable company's trademark to promote the sale of “unwholesome, tawdry merchandise,” sent a copy to respondents. Their counsel then wrote to petitioners 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. They requested the immediate discontinuance of the use of the name “and any variations thereof.” In response, petitioners changed the name of their store to “Victor's Little Secret.” Because that change did not satisfy respondents, they promptly filed this action in Federal District Court.

537 U.S. at 426 (internal citations omitted).

quote at length the relevant Restatement explanation of “tarnishment” in the footnote below.⁴

⁴ *c. Interests protected.* The antidilution statutes have been invoked against two distinct threats to the interests of a trademark owner. First, a mark may be so highly distinctive and so well advertised that it acts as a powerful selling tool. Such a mark may evoke among prospective purchasers a positive response that is associated exclusively with the goods or services of the trademark owner. To the extent that others use the trademark to identify different goods, services or businesses, a dissonance occurs that blurs this stimulant effect of the mark. The antidilution statutes protect against this dilution of the distinctiveness and selling power of the mark.

The selling power of a trademark also can be undermined by a use of the mark with goods or services such as illicit drugs or pornography that “tarnish” the mark's image through inherently negative or unsavory associations, or with goods or services that produce a negative response when linked in the minds of prospective purchasers with the goods or services of the prior user, such as the use on insecticide of a trademark similar to one previously used by another on food products.

Tarnishment and dilution of distinctiveness, although conceptually distinct, both undermine the selling power of a mark, the latter by disturbing the conditioned association of the mark with the prior user and the former by displacing positive with negative associations. Thus, tarnishment and dilution of distinctiveness reduce the value of the mark to the trademark owner.

....

g. Tarnishment. The antidilution statutes have also been invoked to protect the positive associations evoked by a mark from subsequent uses that may disparage or tarnish those associations. The rule stated in Subsection (1)(b) applies to cases in which the tarnishment results from a subsequent use of the mark or a substantially similar mark in a manner that associates the mark with different goods, services, or businesses. Use of another's mark by the actor, not as a trademark or trade name, but in other ways that may disparage or tarnish the prior user's goods, services, business, or mark is governed by the rule stated in Subsection (2).

Any designation that is distinctive under the criteria established in § 13 is eligible for protection against disparaging or tarnishing use by others. Whenever the subsequent use brings to mind the goods, services, business, or mark of the prior user, there is potential for interference with the positive images associated with the mark. To prove a case of tarnishment, the prior user must demonstrate that the

[4] After reviewing a number of secondary sources other than the Harvard Law Review article and the Restatement, including state statutes on dilution and a Fourth Circuit case, the Supreme Court held that “actual harm” rather than merely the “likelihood of tarnishment” is necessary and stated its conclusion as follows:

Noting that consumer surveys and other means of demonstrating actual dilution are expensive and often unreliable, respondents [Victoria's Secret] and their *amici* argue that evidence of *an actual* “lessening of the capacity of a famous mark to identify and distinguish goods or services,” may be difficult to obtain. 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. *Whatever difficulties of proof may be entailed, they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation.* The evidence in the present record is not sufficient to support the summary judgment on the dilution count. The judgment is therefore reversed, and the case is remanded for further proceedings consistent with this opinion.

537 U.S. at 434, 123 S.Ct. 1115 (emphasis added).

[5] Thus, the Court held that “actual harm” rather than merely a “likelihood” of harm must be shown by Victoria's Secret in order to prevail and that this means that Victoria's Secret carries the burden of proving an actual “lessening of the capacity of the Victoria's Secret mark to identify and distinguish goods or services sold in Victoria's Secret stores or advertised in its catalogs.” *Id.* In the new law Congress rejected the Court's view that a simple “likelihood” of an association in the

subsequent use is likely to come to the attention of the prior user's prospective purchasers and that the use is likely to undermine or damage the positive associations evoked by the mark.

Illustration:

3. *A*, a bank, uses the designation “Cookie Jar” to identify its automatic teller machine. *B* opens a topless bar across the street from *A* under the trade name “Cookie Jar.” Although prospective customers of *A* are unlikely to believe that *A* operates or sponsors the bar, *B* is subject to liability to *A* for tarnishment under an applicable antidilution statute if the customers are likely to associate *A*'s mark or *A*'s business with the images evoked by *B*'s use.

consumer's mind of the Victoria's Secret mark with the sexually-oriented videos and toys of "Victor's Secret" is insufficient for liability.

[6] The House Judiciary Committee Report states the purpose of the new 2006 legislation as follows:

The *Moseley* standard *creates an undue burden* for trademark holders who contest diluting uses and should be revised.

....

The new language in the legislation [provides] ... specifically that the standard for proving a dilution claim is "likelihood of dilution" and that both dilution by blurring and dilution by tarnishment are actionable.

(Emphasis added.) U.S. Code Cong. & Adm. News, 109th Cong.2d Sess.2006, Vol. 4, pp. 1091, 1092, 1097. The relevant language of the new Act designed to carry out this purpose is recited and underlined in footnote 1, *supra*. The drafters of the Committee Report also called special attention to the "burden" of proof or persuasion placed on "trademark holders" by the Supreme Court's opinion in *Moseley*, suggesting a possible modification in the burden of proof. The question for us then is whether "Victor's Little Secret" with its association with lewd sexual toys creates a "likelihood of dilution by tarnishment" of Victoria's Secret mark.

II. Application of Statutory Standard

[7] The specific question in this case is whether, without consumer surveys or polls or other evidence, a semantic "association" is equivalent to a liability-creating mental "association" of a junior mark like "Victor's Little Secret" with a famous mark like "Victoria's Secret" that constitutes dilution by tarnishment when the junior mark is used to sell sexual toys, videos and similar soft-core pornographic products. There appears to be a clearly emerging consensus in the case law, aided by the language of § 25 of the Restatement of Trademarks 3d, quoted in footnote 4, *supra*, that the creation of an "association" between a famous mark and lewd or bawdy sexual activity disparages and defiles the famous mark and reduces the commercial value of its selling power. This consensus stems from an economic prediction about consumer taste and how the predicted reaction of conventional consumers in our culture will affect the economic value of the famous mark.

[8] There have been at least eight federal cases in six jurisdictions that conclude that a famous mark is tarnished when its mark is semantically associated with a new mark that is used to sell sex-related products. We find no exceptions in the case law that allow such a new mark associated with sex to stand. *See Pfizer Inc. v. Sachs*, 652 F.Supp.2d 512, 525 (S.D.N.Y.2009) (defendants' display at an adult entertainment

exhibition of two models riding a VIAGRA-branded missile and distributing condoms would likely harm the reputation of Pfizer's trademark); *Williams-Sonoma, Inc. v. Friendfinder, Inc.*, No. C 06-6572 JSW (MEJ), 2007 WL 4973848, at *7 (N.D.Cal. Dec. 6, 2007) (defendants' use of POTTERY BARN mark on their sexually-oriented websites likely to tarnish "by associating those marks for children and teenager furnishings"); *Kraft Foods Holdings, Inc. v. Helm*, 205 F.Supp.2d 942, 949-50 (N.D.Ill.2002) (pornographic website's use of "VelVeeda" tarnishes VELVEETA trademark); *Victoria's Cyber Secret Ltd. P'ship v. V Secret Catalogue, Inc.*, 161 F.Supp.2d 1339, 1355 (S.D.Fla.2001) (defendants' internet trade names likely to tarnish famous mark when websites "will be used for entertainment of a lascivious nature suitable only for adults"); *Mattel, Inc. v. Internet Dimensions Inc.*, 2000 WL 973745, 55 U.S.P.Q.2d 1620, 1627 (S.D.N.Y. July 13, 2000) (linking BARBIE with pornography will adversely color the public's impressions of BARBIE); *Polo Ralph Lauren L.P. v. Schuman*, 46 U.S.P.Q.2d 1046, 1048 (S.D.Tex.1998) (defendants' use of "The Polo Club" or "Polo Executive Retreat" as an adult entertainment club tarnished POLO trademark); *Pillsbury Co. v. Milky Way Prods., Inc.*, 1981 WL 1402, 215 U.S.P.Q. 124, 135 (N.D.Ga. Dec. 24, 1981) (defendant's sexually-oriented variation of the PILLSBURY DOUGHBOY tarnished plaintiff's mark); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 467 F.Supp. 366, 377 (S.D.N.Y.1979) (pornographic depiction of a Dallas Cowboys Cheerleader-style cheerleader in an adult film tarnished the professional mark of the Dallas Cowboys).

[9] The phrase "likely to cause dilution" used in the new statute (see footnote 1) significantly changes the meaning of the law from "causes actual harm" under the preexisting law. The word "likely" or "likelihood" means "probably," WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 1310 (1963); BLACK'S LAW DICTIONARY 1076 (1968). It is important to note also that the Committee Report quoted above seeks to reduce the "burden" of evidentiary production on the trademark holder. The burden-of-proof problem, the developing case law, and the Restatement (Third) of Trademarks in § 25 (particularly subsection g) should now be interpreted, we think, to create a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex-related products is likely to tarnish a famous mark if there is a clear semantic association between the two. This *res ipsa loquitur*—like effect is not conclusive but places on the owner of the new mark the burden of coming forward with evidence that there is no likelihood or probability of tarnishment. The evidence could be in the form of expert testimony or surveys or polls or customer testimony.

[10] In the present case, the Moseleys have had two opportunities in the District Court to offer evidence that there is no real probability of tarnishment and

have not done so. They did not offer at oral argument any suggestion that they could make such a showing or wanted the case remanded for that purpose. The fact that Congress was dissatisfied with the *Moseley* result and the *Moseley* standard of liability, as well as apparently the *Moseley* burden of proof, supports the view of Victoria's Secret that the present record—in the eyes of the legislative branch—shows a likelihood of tarnishment. Without evidence to the contrary or a persuasive defensive theory that rebuts the presumption, the defendants have given us no basis to reverse the judgment of the District Court. We do not find sufficient the defendants' arguments that they should have the right to use Victor Moseley's first name and that the effect of the association is *de minimis*. The Moseleys do not have a right to use the word “secret” in their mark. They use it only to make the association with the Victoria's Secret mark. We agree that the tarnishing effect of the Moseley's mark on the senior mark is somewhat speculative, but we have no evidence to overcome the strong inference created by the case law, the Restatement, and Congressional dissatisfaction with the burden of proof used in this case in the Supreme Court. The new law seems designed to protect trademarks from any unfavorable sexual associations. Thus, any new mark with a lewd or offensive-to-some sexual association raises a strong inference of tarnishment. The inference must be overcome by evidence that rebuts the probability that some consumers will find the new mark both offensive and harmful to the reputation and the favorable symbolism of the famous mark.

[11] Our dissenting colleague, in relying on the Supreme Court treatment of the proof in this case—for example, the long quotation from the Supreme Court concerning the legal effect of the evidence—fails to concede what seems obvious: Congress overruled the Supreme Court's view of the burden of proof. As quoted above, it said, “the Moseley standard creates an undue burden for trademark holders who contest diluting uses” It seems clear that the new Act demonstrates that Congress intended that a court should reach a different result in this case if the facts remain the same. We do not necessarily disagree with our dissenting colleague that the policy followed by the Supreme Court in such cases may be better. We simply believe that the will of Congress is to the contrary with regard to the proof in this case and with regard to the method of allocating the burden of proof.

...

JULIA SMITH GIBBONS, Circuit Judge, concurring.

[12] I fully concur in the majority opinion with the exception of one small quibble. I would not use the term “rebuttable presumption” to describe the inference that a new mark used to sell sex-related products is likely to tarnish a

famous mark if there is a clear semantic association between the two. Practically speaking, what the inference is called makes little difference. I agree with the majority opinion that the inference is a strong one and that, to counter it, some evidence that there is no likelihood or probability of tarnishment is required. But because we are endeavoring to interpret a new law and because the legislative history is not explicit on the point of modification of the burden of proof, I think it best to end our analysis by characterizing the inference as an inference.

KAREN NELSON MOORE, Circuit Judge, dissenting.

[13] Because I believe that Victoria's Secret has failed to produce sufficient evidence to show that the Moseleys' use of the name "Victor's Little Secret" is likely to tarnish the VICTORIA'S SECRET mark, I would reverse the judgment of the district court and must respectfully dissent.

[14] Under the Trademark Dilution Revision Act of 2006 ("TDRA"), Victoria's Secret is entitled to injunctive relief if the Moseleys' use of "Victor's Little Secret" as the name of their adult-oriented novelty store¹ "is likely to cause dilution ... by tarnishment of the" VICTORIA'S SECRET mark. 15 U.S.C. § 1125(c)(1). "[D]ilution by tarnishment" is defined as an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." *Id.* § 1125(c)(2)(C). Thus, under the terms of the statute, to determine whether the VICTORIA'S SECRET mark is likely to be tarnished by the Moseleys' use, this court must inquire as to both the "association" between the two marks and the "harm" that the association causes to the senior mark.

[15] Because I agree that there is a clear association between the two marks, the determinative inquiry in this dilution-by-tarnishment case is whether that association is likely to harm Victoria's Secret's reputation. *See id.* § 1125(c)(2)(C) ("that harms the reputation of the famous mark"). Contrary to the majority's conclusion, however, given the record before the panel, I would hold that Victoria's

¹ Victor's Little Secret "sell[s] a wide variety of items, including adult videos, adult novelties, and lingerie." *Moseley v. v. Secret Catalogue, Inc.*, 537 U.S. 418, 424, 123 S.Ct. 1115, 155 L.Ed.2d 1 (2003) (internal quotation marks omitted); *see also id.* at 424 n. 4, 123 S.Ct. 1115 (listing numerous other items sold). "Victor Moseley stated in an affidavit that women's lingerie represented only about five percent of their sales." *Id.* at 424, 123 S.Ct. 1115.

Secret has failed to meet its burden to show that the Moseleys' use of "Victor's Little Secret" is likely to dilute Victoria's Secret's mark.²

[16] Victoria's Secret's evidence of tarnishment includes nothing more than the following: (1) an affidavit from Army Colonel John E. Baker stating that he "was ... offended by [the] defendants' use of [Victoria's Secret's] trademark to promote ... unwholesome, tawdry merchandise," such as " 'adult' novelties and gifts," and that since his "wife ... and ... daughter ... shop at Victoria's Secret, [he] was further dismayed by [the] defendants' effort to associate itself with, trade off on the image of, and in fact denigrate a store frequented by members of [his] family," Record on Appeal ("ROA") at 267 (Baker Aff.); and (2) a statement from one of Victoria's Secret's corporate officers that Victoria's Secret strives to "maintain[] an image that is sexy and playful" and one that "avoid[s] sexually explicit or graphic imagery." *Id.* at 90 (Kriss Aff.).

[17] Reviewing Baker's affidavit, I believe that it is plain that Baker made a "mental association" between "Victor's Little Secret" and "Victoria's Secret." *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 434, 123 S.Ct. 1115, 155 L.Ed.2d 1 (2003); see also ROA at 266 (Baker Aff.). It is also clear that Baker held a negative impression of "Victor's Little Secret." See *Moseley*, 537 U.S. at 434, 123 S.Ct. 1115; see also ROA at 267 (Baker Aff.). But despite the clear negative association of this *one* individual when confronted with "Victor's Little Secret," Victoria's Secret has presented *no* evidence that Baker's, or anyone else's, distaste or dislike of "Victor's Little Secret" is likely to taint their positive opinion or perception of Victoria's Secret. Yet evidence that the junior mark is likely to undermine or alter the positive

² I respectfully disagree with the majority's conclusion that in dilution-by-tarnishment cases involving new marks "with lewd or offensive-to-some sexual association[s]" the TDRA establishes a presumption or inference of tarnishment that the Moseleys must rebut. Maj. Op. at 389, 390. To be sure, the House Judiciary Committee Report highlights Congress's concern with the pre-TDRA actual-dilution standard, but I do not read its concern that the previous standard created "an undue burden" to mean that Congress envisioned a modification of the party that bears the burden of proof as opposed to simply a lightening of the evidentiary showing. See H.R.Rep. No. 109-23, at 5 (2005) ("Witnesses at the [] [legislative] hearings focused on the standard of harm threshold articulated in *Moseley* [sic].... The *Moseley* [sic] standard creates an undue burden for trademark holders who contest diluting uses and should be revised."). The burden to show tarnishment remains with Victoria's Secret.

associations of the senior mark—i.e., evidence that the junior mark is likely to harm the reputation of the senior mark—is precisely the showing required under the plain language of 15 U.S.C. § 1125(c)(2)(C) to prove dilution by tarnishment. As the Second Circuit recently noted in *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir.2009):

That a consumer may associate a negative-sounding junior mark with a famous mark says little of whether the consumer views the junior mark as harming the reputation of the famous mark. The more relevant question, for purposes of tarnishment, would have been how a hypothetical coffee [with a negative-sounding name] would affect the positive impressions about the coffee sold by Starbucks.

Starbucks Corp., 588 F.3d at 110; see also J. Thomas McCarthy, 4 McCarthy on Trademarks and Unfair Competition § 24:89 (4th ed.) [hereinafter McCarthy on Trademarks] (discussing tarnishment claims as being premised on the notion that “positive associations” of the senior mark will be displaced or degraded by the negative associations of the junior mark); Restatement (Third) of Unfair Competition § 25 cmt. g (1995) (“To prove a case of tarnishment, the prior user must demonstrate that the subsequent use is likely to ... undermine or damage the positive associations evoked by the mark.”). In fact, when reviewing the exact same evidentiary record, the Supreme Court explicitly noted that Victoria's Secret's offer of proof included no evidence that “Victor's Little Secret” affected Baker's positive impressions of Victoria's Secret:

The record in this case establishes that an army officer ... did make the mental association with “Victoria's Secret,” but it also shows that *he did not therefore form any different impression of the store that his wife and daughter had patronized*. There is a complete absence of evidence of any lessening of the capacity of the VICTORIA'S SECRET mark to identify and distinguish goods or services sold in Victoria's Secret stores or advertised in its catalogs. The officer was offended by the ad, *but it did not change his conception of Victoria's Secret*. His offense was directed entirely at [the Moseleys], not at [Victoria's Secret]. Moreover, the expert retained by respondents had nothing to say about the impact of [the Moseleys'] name on the strength of [Victoria's Secret's] mark.

Moseley, 537 U.S. at 434, 123 S.Ct. 1115 (emphases added).³

³ The majority mischaracterizes my citation to the Supreme Court's decision as evidencing a refusal to follow the “will of Congress” and a desire to follow the pre-TDRA “policy [of the] ... Supreme Court.” Maj. Op. at 389. My citation to the Supreme

Court's decision, however, does no such thing. First, as stated previously, I believe that the majority's conclusion that Congress intended to change which party has the burden of proof—i.e., the framework governing which party must put forth evidence in support of its position—as opposed to the standard of harm—i.e., actual harm versus a likelihood of harm—is not supported by the statute or the legislative history. In fact, the only evidence that the majority cites in support of its belief that Congress intended to place the burden of proof on the defendant is the House Committee Report, but even that Report undercuts the majority's argument. The full paragraph from which the majority draws its quotation states:

Witnesses at the[] [legislative] hearings focused on the *standard of harm threshold* articulated in *Moseley* [sic]. For example, a representative of the International Trademark Association observed that “[b]y the time measurable, provable damage to the mark has occurred much time has passed, the damage has been done, and the remedy, which is injunctive relief, is far less effective.” The Committee endorses this position. The *Moseley* [sic] standard creates an undue burden for trademark holders who contest diluting uses and should be revised.

H.R.Rep. No. 109–23, at 5 (internal footnote omitted and emphasis added). It was the “standard of harm threshold,” i.e., the showing of actual harm that the Supreme Court employed, that was Congress's concern, not the party bearing the burden of proof. This conclusion is supported by the hearings to which the Committee Report refers. During those hearings, the focus of both the House Representatives and the witnesses was whether Congress should “maintain an actual dilution standard, as the Supreme Court held in the *Victoria's Secret* case,” or adopt a “likelihood of dilution standard.” *Trademark Dilution Revision Act of 2005: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 4 (2005) (statement of Rep. Berman); *see generally id.* at 1–54.

I certainly recognize that Congress changed the law concerning dilution in response to the Supreme Court's decision in *Moseley*, but the Supreme Court in *Moseley* said nothing about changing the party bearing the burden of proof and neither does the amended statute. Instead, the statute explicitly states that “dilution by tarnishment” is an “association arising from the similarity between a mark or trade name and a famous mark *that harms the reputation of the famous mark*.” 15 U.S.C. § 1125(c)(2)(C) (emphasis added). In concluding that *Victoria's Secret* has failed to prove a likelihood of tarnishment because it has failed to present evidence

[18] In short, Victoria's Secret has presented *no* probative evidence that anyone is likely to think less of Victoria's Secret as a result of "Victor's Little Secret" and cannot therefore prevail on its claim of dilution by tarnishment. *See Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 507 (2d Cir.1996) ("Absent any showing that Henson's use [of a puppet named Spa'am] will create negative associations with the SPAM mark, there [is] little likelihood of dilution."). Instead of developing a record on remand that contains at least some evidence that Victoria's Secret's reputation is likely to suffer because of the negative response that "Victor's Little Secret" engendered, the record before the panel indicates only that a single individual thinks poorly of "Victor's Little Secret." *See Moseley*, 537 U.S. at 434, 123 S.Ct. 1115. On this record, it is simply no more probable that Victoria's Secret will suffer reputational harm as a result of the Moseleys' use of "Victor's Little Secret" than it is probable that those who are offended by "Victor's Little Secret" will limit their negative impressions to the Moseleys and refrain from projecting those negative associations upon Victoria's Secret. Baker's affidavit does nothing to contradict this conclusion, and given the absence of any indication that his or his family's opinion of Victoria's Secret changed following the Moseleys' use of "Victor's Little Secret," his affidavit may, in fact, provide evidence that individuals are likely to confine their distaste to the Moseleys. *See id.* ("The officer was offended by the ad, but it did not change his conception of Victoria's Secret. His offense was directed entirely at [the Moseleys], not at [Victoria's Secret].").

[19] Certainly, it is *possible* that the Moseleys' use of "Victor's Little Secret" to sell adult-oriented material and other novelties could reflect poorly on the VICTORIA'S SECRET mark and could cause Victoria's Secret to suffer damage to its "sexy and playful" reputation, but the evidentiary standard set forth in the statute is one of likelihood *not* mere possibility. Likelihood is based on probable consequence and amounts to more than simple speculation as to what might possibly happen. *See McCarthy on Trademarks* § 24:115 n. 2 (indicating that " 'likelihood' in the dilution part of the Lanham Act has the same meaning as it does in the traditional infringement sections of the Lanham Act: as synonymous with 'probability' "); *see also Parks v. LaFace Records*, 329 F.3d 437, 446 (6th Cir.2003) ("A 'likelihood' means a 'probability' rather than a 'possibility' of confusion."). Yet, as the majority notes, on

that Victor's Little Secret is likely to harm the reputation of its mark, I am doing nothing more than applying the plain language of the statute that Congress enacted after the Supreme Court's decision. This approach certainly reflects the "will of Congress." Maj. Op. at 389.

the instant record, the “tarnishing effect of the Moseley's mark on the senior mark” is nothing more than “speculative.” Maj. Op. at 388–89.

[20] Despite the absence of evidence, the majority is willing to assume that Victoria's Secret has met its burden to prove the essential element of “harm to reputation” based on the fact that numerous cases from other jurisdictions conclude, without much inquiry, “that a famous mark is tarnished when its mark is semantically associated with a new mark that is used to sell sex-related products.” *Id.* at 388. I do not agree. Although it is true that courts have concluded that a finding of tarnishment is likely when a mark's “likeness is placed in the context of sexual activity, obscenity, or illegal activity,” *Hormel Foods Corp.*, 73 F.3d at 507, a court cannot ignore the showing of reputational harm that the statute requires.⁴

⁴ Nor can the court ignore the character of the senior mark when applying the majority's “rule.” Victoria's Secret sells women's lingerie, and, as Victoria's Secret readily admits, its own mark is already associated with sex, albeit not with sex novelties. *See* ROA at 90 (Kriss Aff.) (noting that Victoria's Secret attempts to maintain a “sexy and playful” image); *see also, e.g., id.* at 156–57 (depicting Victoria's Secret advertisements for “sexy little things” lingerie, which urge customers to “[b]e bad for goodness sake[] [i]n peek-a-boo's, bras and sexy Santa accessories,” to “[g]ive flirty panties” as gifts, and participate in the store's “panty fantasy,” which it describes as “Very racy. Very lacy”); *id.* at 209 (reproducing an article in Redbook magazine entitled “46 Things to Do to a Naked Man,” which highlights Victoria's Secret's role in the sexual activities of one of the contributors).

In essence, the VICTORIA'S SECRET mark is not entirely separate from the sexual context within which the junior mark, “Victor's Little Secret,” operates. This fact makes the instant case unlike many of the cases that the majority cites. *Cf. Williams–Sonoma, Inc. v. Friendfinder, Inc.*, No. C 06–6572 JSW (MEJ), 2007 WL 4973848, at *7 (N.D.Cal. Dec. 6, 2007) (likelihood of tarnishment where “marks for children and teenager furnishings” were associated “with pornographic websites”); *Kraft Foods Holdings, Inc. v. Helm*, 205 F.Supp.2d 942, 949 (N.D.Ill.2002) (likelihood of dilution where the mark for cheese products was associated with websites that “depict[] graphic sexuality and nudity, as well as illustrations of drug use and drug paraphernalia”); *Mattel Inc. v. Internet Dimensions Inc.*, 2000 WL 973745, 55 U.S.P.Q.2d (BNA) 1620, 1627 (S.D.N.Y. July 13, 2000) (likelihood of tarnishment when the BARBIE mark was linked to adult-entertainment websites); *Polo Ralph Lauren L.P. v. Schuman*, 1998 WL 110059, 46 U.S.P.Q.2d (BNA) 1046, 1048 (S.D.Tex. Feb. 9, 1998) (dilution likely where Polo Ralph Lauren's mark was associated with “an adult entertainment business”); *Toys “R” Us Inc. v. Akkaoui*, 1996 WL 772709, 40

[21] Even assuming that “Victor's Little Secret” is plainly unwholesome when compared to Victoria's Secret and that this case is completely analogous to those cases on which the majority relies, I still maintain that it is improper simply to assume likelihood of harm to the reputation of a senior mark when dealing with a junior mark of sexual character. As recounted above, there is *no* evidence connecting Victor's Little Secret's “unwholesome” or “tawdry” sexual character to the senior mark's reputation, and there is nothing in the language of the TDRA that would allow the court to forgive a party's obligation to present proof as to an element of the tarnishment cause of action—i.e., the likelihood of harm to reputation.⁵ See McCarthy on Trademarks § 24:115 (“Even after the 2006 revision when only a likelihood of dilution is required, ... judges should demand persuasive evidence that dilution is likely to occur. Even the probability of dilution should be proven by evidence, not just by theoretical assumptions about what possibly could occur or might happen.”).

[22] With its conclusion that there is sufficient evidence of harm to the reputation of the VICTORIA'S SECRET mark based solely on the sexual nature of the

U.S.P.Q.2d (BNA) 1836, 1838 (N.D.Cal. Oct. 29, 1996) (likelihood of tarnishment where children's toy store was associated with “a line of sexual products”); *Hasbro, Inc. v. Internet Entm't Group Ltd.*, 1996 WL 84853, 40 U.S.P.Q.2d (BNA) 1479, 1480 (W.D.Wash. Feb. 9, 1996) (dilution likely where the children's game Candyland was linked to “a sexually explicit Internet site”); *Am. Express Co. v. Vibra Approved Labs. Corp.*, 10 U.S.P.Q.2d (BNA) 2006, 2014 (S.D.N.Y.1989) (tarnishment likely where an American Express charge card was linked to condoms and a sex-toy store); *Pillsbury Co. v. Milky Way Prods., Inc.*, 1981 WL 1402, 215 U.S.P.Q. (BNA) 124, 126, 135 (N.D.Ga. Dec. 24, 1981) (likelihood of dilution where the Pillsbury dough figures were portrayed as “engaging in sexual intercourse and fellatio”); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 467 F.Supp. 366, 377 (S.D.N.Y.1979), *affirmed by* 604 F.2d 200, 205 (2d Cir.1979) (tarnishment likely where NFL cheerleaders were portrayed in a pornographic film).

⁵ The potential problem with simply assuming tarnishment when the junior mark places the senior mark in a sexual context becomes apparent if one considers a different case. What if the holder of a sex-related senior mark levied a claim of dilution by tarnishment against the holder of a junior mark that was similarly associated with sex? Would the court be willing to assume without further proof that despite their similar sexual origins the junior mark necessarily tarnishes the senior mark? Under the majority's reasoning, such an assumption would be appropriate. This cannot be the law.

junior mark, the majority sanctions an almost non-existent evidentiary standard and, in the process, essentially eliminates the requirement that a plaintiff provide some semblance of proof of likelihood of reputational harm in order to prevail on a tarnishment claim, despite the plain language of 15 U.S.C. § 1125(c)(2). Because I believe that Victoria's Secret has not met its burden to show that "Victor's Little Secret" is likely to dilute the famous mark by way of tarnishment, I respectfully dissent.

Questions and Comments

1. *Tarnishment (and Blurring) and the "Use as a Mark" Requirement.* As Sarah Burstein explains in *Dilution by Tarnishment: The New Cause of Action*, 98 TRADEMARK REP. 1189 (2008), a draft of the TDRA included the following definition of tarnishment: "association arising from the similarity between a *designation of source* and a famous mark that harms the reputation of the famous mark." H.R. 683, 109th Cong. 2 (2006) (emphasis added). The TDRA as adopted included slightly different language. It defined tarnishment as: "association arising from the similarity between *a mark or trade name* and a famous mark that harms the reputation of the famous mark." Lanham Act § 43(c)(2)(C), 15 U.S.C. § 1125(c)(2)(C). Does this reference to "a mark or trade name" require the plaintiff to show that the defendant's tarnishing expression functions as a designation of source for the defendant's own goods? Otherwise, how would that expression qualify as a "mark or trade name"? Notwithstanding Congress's deletion of the reference to "designation of source," it would appear that the statutory language of the TDRA still requires that the plaintiff show that the defendant's alleging infringing expression constitutes a trademark, i.e., a designation of source, for the defendant's goods. See Burstein, at 1224. For this reason, a t-shirt or bumper sticker that states 'Wal-Mart is Evil', though certainly tarnishing, would not be prohibited under the TDRA unless the plaintiff can show that consumers perceive this phrase as a trademark. See Barton Beebe, *A Defense of the New Federal Trademark Antidilution Law*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1143, 1172 (2006). Given that the TDRA's definition of blurring also includes the "mark or trade name" language, should the same use as a mark requirement apply to blurring as well? For a view that both blurring and tarnishment under the TDRA include a requirement that the defendant be shown to be making a "trademark use," see Stacey L. Dogan & Mark A. Lemley, *The Trademark Use Requirement in Dilution Cases*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 541, 549-50 (2008).

D. Cybersquatting

There are three main methods by which a trademark owner may seek to prevent third-party unauthorized uses of its trademark as part of an internet domain name: (1) the trademark owner can pursue a traditional trademark infringement cause of action by claiming that the domain name creates a likelihood of confusion under Lanham Act § 32 or § 43(a); (2) the trademark owner can bring a cause of action for “cybersquatting” under Lanham Act § 43(d); and (3) the trademark owner can seek cancellation of the domain name or the transfer of the domain name to the trademark owner under the Uniform Dispute Resolution Policy (UDRP) or the Uniform Rapid Suspension System (URS). In Part II.D.1, we will consider the first two options. We will then turn in Part II.D.2 to the UDRP and URS.

1. The Section 43(d) Prohibition Against Cybersquatting

Sporty's Farm L.L.C. v. Sportsman's Market, Inc.
202 F.3d 489 (2d Cir. 2000)

CALABRESI, Circuit Judge:

[1] This case originally involved the application of the Federal Trademark Dilution Act (“FTDA”) to the Internet. *See* Federal Trademark Dilution Act of 1995, Pub.L. No. 104-98, 109 Stat. 985 (codified at 15 U.S.C. §§ 1125, 1127 (Supp.1996)). While the case was pending on appeal, however, the Anticybersquatting Consumer Protection Act (“ACPA”), Pub.L. No. 106-113 (1999), *see* H.R.Rep. No. 106-479 (Nov. 18, 1999), was passed and signed into law. That new law applies to this case.

[2] Plaintiff-Counter-Defendant-Appellant-Cross-Appellee Sporty's Farm L.L.C. (“Sporty's Farm”) appeals from a judgment, following a bench trial, of the United States District Court for the District of Connecticut (Alfred V. Covello, *Chief Judge*) dated March 13, 1998. Defendant-Third-Party-Plaintiff-Counter-Claimant-Appellee-Cross-Appellant Sportsman's Market, Inc. (“Sportsman's”) cross-appeals from the same judgment.

[3] The district court held: (1) that the Sportsman's trademark (“*sporty's*”) was a *famous* mark entitled to protection under the FTDA; (2) that Sporty's Farm and its parent company, Third-Party-Defendant-Appellee Omega Engineering, Inc. (“Omega”), diluted the *sporty's* mark by using the Internet domain name “sportys.com” to sell Christmas trees and by preventing Sportsman's from using its trademark as a domain name; (3) that applying the FTDA to Sporty's Farm through an injunction requiring it to relinquish sportys.com was both equitable and not a

retroactive application of the statute; (4) that Sportsman's was limited to injunctive relief since the conduct of Sporty's Farm and Omega did not constitute a willful intent to dilute under the FTDA; and (5) that Sporty's Farm and Omega did not violate the Connecticut Unfair Trade Practices Act ("CUTPA"), Conn. Gen.Stat. Ann. §§ 42-110a to 42-110q (West 1992 & Supp.1999). We apply the new anticybersquatting law and affirm the judgment in all respects, but, given the new law, on different grounds from those relied upon by the district court.

BACKGROUND

I

[4] Although the Internet is on its way to becoming a familiar aspect in our daily lives, it is well to begin with a brief explanation of how it works. The Internet is a network of computers that allows a user to gain access to information stored on any other computer on the network. Information on the Internet is lodged on files called web pages, which can include printed matter, sound, pictures, and links to other web pages. An Internet user can move from one page to another with just the click of a mouse.⁶

[5] Web pages are designated by an address called a domain name. A domain name consists of two parts: a top level domain and a secondary level domain. The top level domain is the domain name's suffix. Currently, the Internet is divided primarily into six top level domains: (1) .edu for educational institutions; (2) .org for non-governmental and non-commercial organizations; (3) .gov for governmental entities; (4) .net for networks; (5) .com for commercial users, and (6) a nation-specific domain, which is .us in the United States. The secondary level domain is the remainder of the address, and can consist of combinations of letters, numbers, and some typographical symbols.⁷ To take a simple example, in the domain name "cnn.com," cnn ("Cable News Network") represents the secondary level domain and .com represents the top level domain. Each domain name is unique.

[6] Over the last few years, the commercial side of the Internet has grown rapidly. Web pages are now used by companies to provide information about their products in a much more detailed fashion than can be done through a standard advertisement. Moreover, many consumers and businesses now order goods and services directly from company web pages. Given that Internet sales are paperless

⁶ A mouse is a device that allows a computer user to issue commands by moving a marker across the screen and then clicking on the symbol, word, or icon that represents the particular information that the user wants to access.

⁷ Certain symbols, such as apostrophes ('), cannot be used in a domain name.

and have lower transaction costs than other types of retail sales, the commercial potential of this technology is vast.

[7] For consumers to buy things or gather information on the Internet, they need an easy way to find particular companies or brand names. The most common method of locating an unknown domain name is simply to type in the company name or logo with the suffix .com.⁸ If this proves unsuccessful, then Internet users turn to a device called a search engine.⁹ A search engine will find all web pages on the Internet with a particular word or phrase. Given the current state of search engine technology, that search will often produce a list of hundreds of web sites through which the user must sort in order to find what he or she is looking for. As a result, companies strongly prefer that their domain name be comprised of the company or brand trademark and the suffix .com. *See* H.R.Rep. No. 106-412, at 5 (1999).

[8] Until recently, domain names with the .com top level domain could only be obtained from Network Solutions, Inc. ("NSI"). Now other registrars may also assign them. But all these registrars grant such names primarily on a first-come, first-served basis upon payment of a small registration fee. They do not generally inquire into whether a given domain name request matches a trademark held by someone other than the person requesting the name. *See id.*

[9] Due to the lack of any regulatory control over domain name registration, an Internet phenomenon known as "cybersquatting" has become increasingly common in recent years.¹⁰ *See, e.g., Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir.1998). Cybersquatting involves the registration as domain names of well-known trademarks by non-trademark holders who then try to sell the names back to the trademark owners. Since domain name registrars do not check to see whether a domain name request is related to existing trademarks, it has been simple and inexpensive for any person to register as domain names the marks of established companies. This prevents use of the domain name by the mark owners, who not

⁸ Nothing prevents an American commercial entity from seeking to use the .org or .us top level domains, but, especially in the United States, it has become customary for commercial web pages to use .com.

⁹ Undoubtedly, there are many people who use a search engine before typing in a company name plus .com. The manner in which users search the Internet depends on how quickly they think the search engine is likely to locate the desired web page.

¹⁰ "Cyber" is the prefix used to denote Internet-related things. The realm of the Internet is often referred to as "cyberspace."

infrequently have been willing to pay “ransom” in order to get “their names” back. See H.R.Rep. No. 106-412, at 5-7; S.Rep. No. 106-140, at 4-7 (1999).

II

[10] Sportsman's is a mail order catalog company that is quite well-known among pilots and aviation enthusiasts for selling products tailored to their needs. In recent years, Sportsman's has expanded its catalog business well beyond the aviation market into that for tools and home accessories. The company annually distributes approximately 18 million catalogs nationwide, and has yearly revenues of about \$50 million. Aviation sales account for about 60% of Sportsman's revenue, while non-aviation sales comprise the remaining 40%.

[11] In the 1960s, Sportsman's began using the logo “*sporty*” to identify its catalogs and products. In 1985, Sportsman's registered the trademark *sporty's* with the United States Patent and Trademark Office. Since then, Sportsman's has complied with all statutory requirements to preserve its interest in the *sporty's* mark. *Sporty's* appears on the cover of all Sportsman's catalogs; Sportsman's international toll free number is 1-800-4*sportys*; and one of Sportsman's domestic toll free phone numbers is 1-800-*Sportys*. Sportsman's spends about \$10 million per year advertising its *sporty's* logo.

[12] Omega is a mail order catalog company that sells mainly scientific process measurement and control instruments. In late 1994 or early 1995, the owners of Omega, Arthur and Betty Hollander, decided to enter the aviation catalog business and, for that purpose, formed a wholly-owned subsidiary called Pilot's Depot, LLC (“Pilot's Depot”). Shortly thereafter, Omega registered the domain name sportys.com with NSI. Arthur Hollander was a pilot who received Sportsman's catalogs and thus was aware of the *sporty's* trademark.

[13] In January 1996, nine months after registering sportys.com, Omega formed another wholly-owned subsidiary called Sporty's Farm and sold it the rights to sportys.com for \$16,200. Sporty's Farm grows and sells Christmas trees, and soon began advertising its Christmas trees on a sportys.com web page. When asked how the name Sporty's Farm was selected for Omega's Christmas tree subsidiary, Ralph S. Michael, the CEO of Omega and manager of Sporty's Farm, explained, as summarized by the district court, that

in his own mind and among his family, he always thought of and referred to the Pennsylvania land where Sporty's Farm now operates as *Spotty's farm*. The origin of the name ... derived from a childhood memory he had of his uncle's farm in upstate New York. As a youngster, Michael owned a dog named Spotty. Because the dog strayed, his uncle

took him to his upstate farm. Michael thereafter referred to the farm as Spotty's farm. The name Sporty's Farm was ... a subsequent derivation. Joint Appendix ("JA") at 277 (emphasis added). There is, however, no evidence in the record that Hollander was considering starting a Christmas tree business when he registered sportys.com or that Hollander was ever acquainted with Michael's dog Spotty.

[14] In March 1996, Sportsman's discovered that Omega had registered sportys.com as a domain name. Thereafter, and before Sportsman's could take any action, Sporty's Farm brought this declaratory action seeking the right to continue its use of sportys.com. Sportsman's counterclaimed and also sued Omega as a third-party defendant for, *inter alia*, (1) trademark infringement, (2) trademark dilution pursuant to the FTDA, and (3) unfair competition under state law. Both sides sought injunctive relief to force the other to relinquish its claims to sportys.com. While this litigation was ongoing, Sportsman's used "sportys-catalogs.com" as its primary domain name.

[15] After a bench trial, the court rejected Sportsman's trademark infringement claim and all related claims that are based on a "likelihood of [consumer] confusion" since "the parties operate wholly unrelated businesses [and t]herefore, confusion in the marketplace is not likely to develop."¹¹ *Id.* at 282-83. But on Sportsman's trademark dilution action, where a likelihood of confusion was not necessary, the district court found for Sportsman's. The court concluded (1) that *sporty's* was a *famous* mark entitled to protection under the FTDA since "the '*Sporty's*' mark enjoys general name recognition in the consuming public," *id.* at 288, and (2) that Sporty's Farm and Omega had diluted *sporty's* because "registration of the '*sportys.com*' domain name effectively compromises Sportsman's Market's ability to identify and distinguish its goods on the Internet [by] preclud[ing] Sportsman's Market from using its 'unique identifier,' " *id.* at 289. The court also held, however, that Sportsman's could only get injunctive relief and was not entitled to "punitive damages ... profits, and attorney's fees and costs" pursuant to the FTDA since Sporty Farm and Omega's conduct did not constitute willful dilution under the FTDA.¹² *Id.* at 292-93.

...

¹¹ The district court also rejected Sportsman's federal actions for false designation and unfair competition on the same rationale. These rulings have not been appealed.

¹² The FTDA does not provide for punitive damages. It does, however, contemplate treble damages. *See* 15 U.S.C. § 1125(c)(2); § 1117(b).

[16] The district court then issued an injunction forcing Sporty's Farm to relinquish all rights to sportys.com. And Sportsman's subsequently acquired the domain name. Both Sporty's Farm and Sportsman's appeal.¹³ Specifically, Sporty's Farm appeals the judgment insofar as the district court granted an injunction in favor of Sportsman's for the use of the domain name. Sportsman's, on the other hand, in addition to urging this court to affirm the district court's injunction, cross-appeals, quite correctly as a procedural matter, the district court's denial of damages under...the FTDA.... See 16A Charles Alan Wright, Arthur R. Miller, Edward H. Cooper, *Federal Practice and Procedure* § 3974.4 (3d ed.1999) (“[A] cross-appeal is required to support modification of the judgment....”).

III

[17] As we noted above, while this appeal was pending, Congress passed the ACPA. That law was passed “to protect consumers and American businesses, to promote the growth of online commerce, and to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks—a practice commonly referred to as ‘cybersquatting’.” S.Rep. No. 106-140, at 4. In particular, Congress viewed the legal remedies available for victims of cybersquatting before the passage of the ACPA as “expensive and uncertain.” H.R.Rep. No. 106-412, at 6. The Senate made clear its view on this point:

While the [FTDA] has been useful in pursuing cybersquatters, cybersquatters have become increasingly sophisticated as the case law has developed and now take the necessary precautions to insulate themselves from liability. For example, many cybersquatters are now careful to no longer offer the domain name for sale in any manner that could implicate liability under existing trademark dilution case law. And, in cases of warehousing and trafficking in domain names, courts have sometimes declined to provide assistance to trademark holders, leaving them without adequate and effective judicial remedies. This uncertainty as to the trademark law's application to the Internet has produced inconsistent judicial decisions and created extensive monitoring obligations, unnecessary legal costs, and uncertainty for consumers and trademark owners alike.

¹³ Omega has not appealed since it prevailed on all the claims made against it by Sportsman's.

S.Rep. No. 106-140, at 7. In short, the ACPA was passed to remedy the perceived shortcomings of applying the FTDA in cybersquatting cases such as this one.

[18] The new act accordingly amends the Trademark Act of 1946, creating a specific federal remedy for cybersquatting. New 15 U.S.C. § 1125(d)(1)(A) reads:

A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person-

(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that—

(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; ...

[19] The Act further provides that “a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark,” 15 U.S.C. § 1125(d)(1)(C), if the domain name was “registered before, on, or after the date of the enactment of this Act,” Pub.L. No. 106-113, § 3010. It also provides that damages can be awarded for violations of the Act,¹⁴ but that they are not “available with respect to the registration, trafficking, or use of a domain name that occurs before the date of the enactment of this Act.” *Id.*

DISCUSSION

[20] This case has three distinct features that are worth noting before we proceed further. First, our opinion appears to be the first interpretation of the ACPA at the appellate level. Second, we are asked to undertake the interpretation of this new statute even though the district court made its ruling based on the FTDA. Third, the case before us presents a factual situation that, as far as we can tell, is rare if not unique: A Competitor X of Company Y has registered Y's trademark as a domain

¹⁴ The new Act permits a plaintiff to “elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits, an award of statutory damages in the amount of not less than \$1,000 and not more than \$100,000 per domain name, as the court considers just.” Pub.L. No. 106-113, § 3003. If the plaintiff does not so elect, the court may award damages under 15 U.S.C. § 1117(a) and (b), based on damages, profits, and the cost of the action. *See id.*

name and then transferred that name to Subsidiary Z, which operates a business wholly unrelated to Y. These unusual features counsel that we decide no more than is absolutely necessary to resolve the case before us.

A. Application of the ACPA to this Case

[21] The first issue before us is whether the ACPA governs this case. The district court based its holding on the FTDA since the ACPA had not been passed when it made its decision. Because the ACPA became law while this case was pending before us, we must decide how its passage affects this case. As a general rule, we apply the law that exists at the time of the appeal. *See, e.g., Hamm v. City of Rock Hill*, 379 U.S. 306, 312-13, 85 S.Ct. 384, 13 L.Ed.2d 300 (1964) (“ ‘[I]f subsequent to the judgment and before the decision of the appellate court, a law intervenes and positively changes the rule which governs, the law must be obeyed, or its obligation denied.’ ” (quoting *United States v. Schooner Peggy*, 5 U.S. (1 Cranch) 103, 110, 2 L.Ed. 49 (1801))).

[22] But even if a new law controls, the question remains whether in such circumstances it is more appropriate for the appellate court to apply it directly or, instead, to remand to the district court to enable that court to consider the effect of the new law. We therefore asked for additional briefing from the parties regarding the applicability of the ACPA to the case before us. After receiving those briefs and fully considering the arguments there made, we think it is clear that the new law was adopted specifically to provide courts with a preferable alternative to stretching federal dilution law when dealing with cybersquatting cases. Indeed, the new law constitutes a particularly good fit with this case. Moreover, the findings of the district court, together with the rest of the record, enable us to apply the new law to the case before us without difficulty. Accordingly, we will do so and forego a remand.

B. “Distinctive” or “Famous”

[23] Under the new Act, we must first determine whether *sporty's* is a distinctive or famous mark and thus entitled to the ACPA's protection. *See* 15 U.S.C. § 1125(d)(1)(A)(ii)(I), (II). The district court concluded that *sporty's* is both distinctive and famous. We agree that *sporty's* is a “distinctive” mark. As a result, and without casting any doubt on the district court's holding in this respect, we need not, and hence do not, decide whether *sporty's* is also a “famous” mark.¹⁵

¹⁵ In most respects, *sporty's* meets the rigorous criteria laid out in § 1125(c)(1), requiring both fame and distinctiveness for protection under the FTDA. *See Nabisco*

[24] More vexing is the question posed by the criterion that focuses on “the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought.” *Id.* at § 1125(c)(1)(F). Sporty's Farm contends that, although *sporty's* is a very well-known mark in the pilot and aviation niche market, Sportsman's did not (and could not) prove that the mark was well-known to *Sporty's Farm's* customers. We need not reach this question, as we would have had to do under the FTDA, since the ACPA provides protection not only to famous marks but also to distinctive marks regardless of fame.

[25] Distinctiveness refers to inherent qualities of a mark and is a completely different concept from fame. A mark may be distinctive before it has been used—when its fame is nonexistent. By the same token, even a famous mark may be so ordinary, or descriptive as to be notable for its lack of distinctiveness. *See Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215-26 (2d Cir.1999). We have no doubt that *sporty's*, as used in connection with Sportsman's catalogue of merchandise and advertising, is inherently distinctive. Furthermore, Sportsman's filed an affidavit under 15 U.S.C. § 1065 that rendered its registration of the *sporty's* mark incontestable, which entitles Sportsman's “to a presumption that its registered trademark is inherently distinctive.” *Equine Technologies, Inc. v. Equitechnology, Inc.*, 68 F.3d 542, 545 (1st Cir.1995). We therefore conclude that, for the purposes of § 1125(d)(1)(A)(ii)(I), the *sporty's* mark is distinctive.

C. “Identical and Confusingly Similar”

[26] The next question is whether domain name sportys.com is “identical or confusingly similar to” the *sporty's* mark.¹⁶ 15 U.S.C. § 1125(d)(1)(A)(ii)(I). As we noted above, apostrophes cannot be used in domain names. *See supra* note 2. As a

Brands, Inc., v. PF Brands, Inc., 191 F.3d 208, 216 (2d Cir.1999). The mark (1) is sufficiently distinctive (as we discuss in the text), (2) has been used by Sportsman's for an extended period of time, (3) has had millions of dollars in advertising spent on it, (4) is used nationwide, and (5) is traded in a wide variety of retail channels. *See* 15 U.S.C. § 1125(c)(1)(A)-(E). Moreover, the record does not indicate that anyone else besides Sportsman's uses *sporty's*, and the mark is, of course, registered with federal authorities. *See id.* at § 1125(c)(1)(G)-(H).

¹⁶ We note that “confusingly similar” is a different standard from the “likelihood of confusion” standard for trademark infringement adopted by this court in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir.1961). *See Wella Corp. v. Wella Graphics, Inc.*, 37 F.3d 46, 48 (2d Cir.1994).

result, the secondary domain name in this case (sportys) is indistinguishable from the Sportsman's trademark (*sporty's*). Cf. *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1055 (9th Cir.1999) (observing that the differences between the mark "MovieBuff" and the domain name "moviebuff.com" are "inconsequential in light of the fact that Web addresses are not caps-sensitive and that the '.com' top-level domain signifies the site's commercial nature"). We therefore conclude that, although the domain name sportys.com is not precisely identical to the *sporty's* mark, it is certainly "confusingly similar" to the protected mark under § 1125(d)(1)(A)(ii)(I). Cf. *Wella Corp. v. Wella Graphics, Inc.* 874 F.Supp. 54, 56 (E.D.N.Y.1994) (finding the new mark "Wello" confusingly similar to the trademark "Wella").

D. "Bad Faith Intent to Profit"

[27] We next turn to the issue of whether Sporty's Farm acted with a "bad faith intent to profit" from the mark *sporty's* when it registered the domain name sportys.com. 15 U.S.C. § 1125(d)(1)(A)(i). The statute lists nine factors to assist courts in determining when a defendant has acted with a bad faith intent to profit from the use of a mark.¹⁷ But we are not limited to considering just the listed factors

¹⁷ These factors are:

- (I) the trademark or other intellectual property rights of the person, if any, in the domain name;
- (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
- (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
- (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
- (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
- (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona

when making our determination of whether the statutory criterion has been met. The factors are, instead, expressly described as indicia that “may” be considered along with other facts. *Id.* § 1125(d)(1)(B)(i).

[28] We hold that there is more than enough evidence in the record below of “bad faith intent to profit” on the part of Sporty’s Farm (as that term is defined in the statute), so that “no reasonable factfinder could return a verdict against” Sportsman’s. *Norville v. Staten Island Univ. Hosp.*, 196 F.3d 89, 95 (2d Cir.1999). First, it is clear that neither Sporty’s Farm nor Omega had any intellectual property rights in sportys.com at the time Omega registered the domain name. *See id.* § 1125(d)(1)(B)(i)(I). Sporty’s Farm was not formed until nine months after the domain name was registered, and it did not begin operations or obtain the domain name from Omega until after this lawsuit was filed. Second, the domain name does not consist of the legal name of the party that registered it, Omega. *See id.* § 1125(d)(1)(B)(i)(II). Moreover, although the domain name does include part of the name of Sporty’s Farm, that entity did not exist at the time the domain name was registered.

[29] The third factor, the prior use of the domain name in connection with the bona fide offering of any goods or services, also cuts against Sporty’s Farm since it did not use the site until after this litigation began, undermining its claim that the offering of Christmas trees on the site was in good faith. *See id.* §

fide offering of any goods or services, or the person’s prior conduct indicating a pattern of such conduct;

(VII) the person’s provision of material and misleading false contact information when applying for the registration of the domain name, the person’s intentional failure to maintain accurate contact information, or the person’s prior conduct indicating a pattern of such conduct;

(VIII) the person’s registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

(IX) the extent to which the mark incorporated in the person’s domain name registration is or is not distinctive and famous within the meaning of subsection(c)(1) of section 43.

15 U.S.C. § 1125(d)(1)(B)(i).

1125(d)(1)(B)(i)(III). Further weighing in favor of a conclusion that Sporty's Farm had the requisite statutory bad faith intent, as a matter of law, are the following: (1) Sporty's Farm does not claim that its use of the domain name was "noncommercial" or a "fair use of the mark," *see id.* § 1125(d)(1)(B)(i)(IV), (2) Omega sold the mark to Sporty's Farm under suspicious circumstances, *see Sporty's Farm v. Sportsman's Market*, No. 96CV0756 (D.Conn. Mar. 13, 1998), *reprinted in* Joint Appendix at A277 (describing the circumstances of the transfer of sportys.com); 15 U.S.C. § 1125(d)(1)(B)(i)(VI), and, (3) as we discussed above, the *sporty's* mark is undoubtedly distinctive, *see id.* § 1125(d)(1)(B)(i)(IX).

[30] The most important grounds for our holding that Sporty's Farm acted with a bad faith intent, however, are the unique circumstances of this case, which do not fit neatly into the specific factors enumerated by Congress but may nevertheless be considered under the statute. We know from the record and from the district court's findings that Omega planned to enter into direct competition with Sportsman's in the pilot and aviation consumer market. As recipients of Sportsman's catalogs, Omega's owners, the Hollanders, were fully aware that *sporty's* was a very strong mark for consumers of those products. It cannot be doubted, as the court found below, that Omega registered sportys.com for the primary purpose of keeping Sportsman's from using that domain name. Several months later, and after this lawsuit was filed, Omega created another company in an unrelated business that received the name Sporty's Farm so that it could (1) use the sportys.com domain name in some commercial fashion, (2) keep the name away from Sportsman's, and (3) protect itself in the event that Sportsman's brought an infringement claim alleging that a "likelihood of confusion" had been created by Omega's version of cybersquatting. Finally, the explanation given for Sporty's Farm's desire to use the domain name, based on the existence of the dog Spotty, is more amusing than credible. Given these facts and the district court's grant of an equitable injunction under the FTDA, there is ample and overwhelming evidence that, as a matter of law, Sporty's Farm's acted with a "bad faith intent to profit" from the domain name sportys.com as those terms are used in the ACPA.¹⁸ *See Luciano v. Olsten Corp.*, 110 F.3d 210, 214 (2d Cir.1997) (stating that, as a matter of law, judgment may be granted where "the evidence in favor of the movant is so overwhelming that 'reasonable and fair minded [persons] could not arrive at a verdict against [it].' "

¹⁸ We expressly note that "bad faith intent to profit" are terms of art in the ACPA and hence should not necessarily be equated with "bad faith" in other contexts.

(quoting *Cruz v. Local Union No. 3*, 34 F.3d 1148, 1154 (2d Cir.1994) (alteration in original))).

E. Remedy

[31] Based on the foregoing, we hold that under § 1125(d)(1)(A), Sporty's Farm violated Sportsman's statutory rights by its use of the sportys.com domain name. The question that remains is what remedy is Sportsman's entitled to. The Act permits a court to "order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark," § 1125(d)(1)(C) for any "domain name [] registered before, on, or after the date of the enactment of [the] Act," Pub.L. No. 106-113, § 3010. That is precisely what the district court did here, albeit under the pre-existing law, when it directed a) Omega and Sporty's Farm to release their interest in sportys.com and to transfer the name to Sportsman's, and b) permanently enjoined those entities from taking any action to prevent and/or hinder Sportsman's from obtaining the domain name. That relief remains appropriate under the ACPA. We therefore affirm the district court's grant of injunctive relief.

[The court then determined that Sportsman's was not entitled to damages under the ACPA because the Act states that damages are not "available with respect to the registration, trafficking, or use of a domain name that occurs before the date of the enactment of this Act." The court also affirmed as not clearly in error the district court's determination that Sporty's Farm had not sought willfully to dilute Sportsman's mark and thus that Sportsman's was not entitled to damages under the antidilution provisions of Lanham Act § 43(c).]

Lamparello v. Falwell
420 F.3d 309 (4th Cir. 2005)

DIANA GRIBBON MOTZ, Circuit Judge.

[1] Christopher Lamparello appeals the district court's order enjoining him from maintaining a gripe website critical of Reverend Jerry Falwell. For the reasons stated below, we reverse.

I.

[2] Reverend Falwell is “a nationally known minister who has been active as a commentator on politics and public affairs.” *Hustler Magazine v. Falwell*, 485 U.S. 46, 47, 108 S.Ct. 876, 99 L.Ed.2d 41 (1988). He holds the common law trademarks “Jerry Falwell” and “Falwell,” and the registered trademark “Listen America with Jerry Falwell.” Jerry Falwell Ministries can be found online at “www.falwell.com,” a website which receives 9,000 hits (or visits) per day.

[3] Lamparello registered the domain name “www.fallwell.com” on February 11, 1999, after hearing Reverend Falwell give an interview “in which he expressed opinions about gay people and homosexuality that [Lamparello] considered ... offensive.” Lamparello created a website at that domain name to respond to what he believed were “untruths about gay people.” Lamparello's website included headlines such as “Bible verses that Dr. Falwell chooses to ignore” and “Jerry Falwell has been bearing false witness (Exodus 20:16) against his gay and lesbian neighbors for a long time.” The site also contained in-depth criticism of Reverend Falwell's views. For example, the website stated:

Dr. Falwell says that he is on the side of truth. He says that he will preach that homosexuality is a sin until the day he dies. But we believe that if the reverend were to take another thoughtful look at the scriptures, he would discover that they have been twisted around to support an anti-gay political agenda ... at the expense of the gospel.

[4] Although the interior pages of Lamparello's website did not contain a disclaimer, the homepage prominently stated, “This website is NOT affiliated with Jerry Falwell or his ministry”; advised, “If you would like to visit Rev. Falwell's website, you may click here”; and provided a hyperlink to Reverend Falwell's website.

[5] At one point, Lamparello's website included a link to the Amazon.com webpage for a book that offered interpretations of the Bible that Lamparello favored, but the parties agree that Lamparello has never sold goods or services on his website. The parties also agree that “Lamparello's domain name and web site at

www.fallwell.com,” which received only 200 hits per day, “had no measurable impact on the quantity of visits to [Reverend Falwell's] web site at www.falwell.com.”

[6] Nonetheless, Reverend Falwell sent Lamparello letters in October 2001 and June 2003 demanding that he cease and desist from using www.fallwell.com or any variation of Reverend Falwell's name as a domain name. Ultimately, Lamparello filed this action against Reverend Falwell and his ministries (collectively referred to hereinafter as “Reverend Falwell”), seeking a declaratory judgment of noninfringement. Reverend Falwell counter-claimed, alleging trademark infringement under 15 U.S.C. § 1114 (2000), false designation of origin under 15 U.S.C. § 1125(a), unfair competition under 15 U.S.C. § 1126 and the common law of Virginia,¹ and cybersquatting under 15 U.S.C. § 1125(d).

[7] The parties stipulated to all relevant facts and filed cross-motions for summary judgment. The district court granted summary judgment to Reverend Falwell, enjoined Lamparello from using Reverend Falwell's mark at www.fallwell.com, and required Lamparello to transfer the domain name to Reverend Falwell. *Lamparello*, 360 F.Supp.2d at 773, 775. However, the court denied Reverend Falwell's request for statutory damages or attorney fees, reasoning that the “primary motive” of Lamparello's website was “to put forth opinions on issues that were contrary to those of [Reverend Falwell]” and “not to take away monies or to profit.” *Id.* at 775.

[8] Lamparello appeals the district court's order; Reverend Falwell cross-appeals the denial of statutory damages and attorney fees. We review *de novo* a

¹ As the district court noted, although Reverend Falwell “assert [s] a claim under 15 U.S.C. [§] 1126 for a violation of federal unfair competition law, no such cause of action exists. False Designation of Origin is commonly referred to as unfair competition law....” *Lamparello v. Falwell*, 360 F.Supp.2d 768, 773 n. 2 (E.D.Va.2004). Accordingly, the district court “construed any claim by [Falwell] for violation of federal unfair competition law as a claim for violation of 15 U.S.C. [§] 1125.” *Id.* We will do the same. Furthermore, because “[t]he test for trademark infringement and unfair competition under the Lanham Act is essentially the same as that for common law unfair competition under Virginia law because both address the likelihood of confusion as to the source of the goods or services involved,” *Lone Star Steakhouse & Saloon, Inc. v. Alpha of Va., Inc.*, 43 F.3d 922, 930 n. 10 (4th Cir.1995), Reverend Falwell's state-law unfair competition claim rises or falls with his federal claims of infringement and false designation of origin. Therefore, we will not analyze his state-law claim separately.

district court's ruling on cross-motions for summary judgment. *See People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 364 (4th Cir.2001) [hereinafter "*PETA*"].

II.

[9] We first consider Reverend Falwell's claims of trademark infringement and false designation of origin.

A.

[10] Section 32 of the Lanham Act creates a cause of action against:

[a]ny person who shall, without the consent of the registrant-(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

15 U.S.C. § 1114(1). Similarly, Section 43(a) creates a cause of action against:

[a]ny person who, on or in connection with any goods or services, ... uses in commerce any word ... [or] name ..., or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which-(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person.

15 U.S.C. § 1125(a)(1)(A).

[11] Both infringement and false designation of origin have five elements. To prevail under either cause of action, the trademark holder must prove:

(1) that it possesses a mark; (2) that the [opposing party] used the mark; (3) that the [opposing party's] use of the mark occurred "in commerce"; (4) that the [opposing party] used the mark "in connection with the sale, offering for sale, distribution, or advertising" of goods or services; and (5) that the [opposing party] used the mark in a manner likely to confuse consumers.

PETA, 263 F.3d at 364 (citing 15 U.S.C. §§ 1114, 1125, and *Lone Star Steakhouse & Saloon*, 43 F.3d at 930).

[12] Trademark law serves the important functions of protecting product identification, providing consumer information, and encouraging the production of

quality goods and services. *See Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164, 115 S.Ct. 1300, 131 L.Ed.2d 248 (1995). But protections “‘against unfair competition’” cannot be transformed into “‘rights to control language.’” *CPC Int’l, Inc. v. Skippy Inc.*, 214 F.3d 456, 462 (4th Cir.2000) (quoting Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 Yale L.J. 1687, 1710-11 (1999)). “Such a transformation” would raise serious First Amendment concerns because it would limit the

ability to discuss the products or criticize the conduct of companies that may be of widespread public concern and importance. Much useful social and commercial discourse would be all but impossible if speakers were under threat of an infringement lawsuit every time they made reference to a person, company or product by using its trademark.

Id. (internal quotation marks and citations omitted).

[13] Lamparello and his amici argue at length that application of the Lanham Act must be restricted to “commercial speech” to assure that trademark law does not become a tool for unconstitutional censorship. The Sixth Circuit has endorsed this view, *see Taubman Co. v. Webfeats*, 319 F.3d 770, 774 (6th Cir.2003), and the Ninth Circuit recently has done so as well, *see Bosley Med. Inst., Inc. v. Kremer*, 403 F.3d 672, 674 (9th Cir.2005).

[14] In its two most significant recent amendments to the Lanham Act, the Federal Trademark Dilution Act of 1995 (“FTDA”) and the Anticybersquatting Consumer Protection Act of 1999 (“ACPA”), Congress left little doubt that it did not intend for trademark laws to impinge the First Amendment rights of critics and commentators. The dilution statute applies to only a “commercial use in commerce of a mark,” 15 U.S.C. § 1125(c)(1), and explicitly states that the “[n]oncommercial use of a mark” is not actionable. *Id.* § 1125(c)(4). Congress explained that this language was added to “adequately address [] legitimate First Amendment concerns,” H.R.Rep. No. 104-374, at 4 (1995), *reprinted in* 1995 U.S.C.C.A.N. 1029, 1031, and “incorporate[d] the concept of ‘commercial’ speech from the ‘commercial speech’ doctrine.” *Id.* at 8, *reprinted in* 1995 U.S.C.C.A.N. at 1035; *cf. Lorillard Tobacco Co. v. Reilly*, 533 U.S. 525, 554, 121 S.Ct. 2404, 150 L.Ed.2d 532 (2001) (defining commercial speech as “speech proposing a commercial transaction”) (internal quotation marks and citation omitted). Similarly, Congress directed that in determining whether an individual has engaged in cybersquatting, the courts may consider whether the person's use of the mark is a “bona fide noncommercial or fair use.” 15 U.S.C. § 1125(d)(1)(B)(i)(IV). The legislature believed this provision necessary to “protect[] the rights of Internet users and the interests of all Americans in free speech and protected uses of trademarked names for such things

as parody, comment, criticism, comparative advertising, news reporting, etc.” S.Rep. No. 106-140 (1999), 1999 WL 594571, at *8.

[15] In contrast, the trademark infringement and false designation of origin provisions of the Lanham Act (Sections 32 and 43(a), respectively) do not employ the term “noncommercial.” They do state, however, that they pertain only to the use of a mark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services,” 15 U.S.C. § 1114(1)(a), or “in connection with any goods or services,” *id.* § 1125(a)(1). But courts have been reluctant to define those terms narrowly.² Rather, as the Second Circuit has explained, “[t]he term ‘services’ has been interpreted broadly” and so “[t]he Lanham Act has ... been applied to defendants furnishing a wide variety of non-commercial public and civic benefits.” *United We Stand Am., Inc. v. United We Stand, Am. N.Y., Inc.*, 128 F.3d 86, 89-90 (2d Cir.1997). Similarly, in *PETA* we noted that a website need not actually sell goods or services for the use of a mark in that site’s domain name to constitute a use “ ‘in connection with’ goods or services.” *PETA*, 263 F.3d at 365; *see also Taubman Co.*, 319 F.3d at 775 (concluding that website with *two* links to websites of for-profit entities violated the Lanham Act).

[16] Thus, even if we accepted Lamparello’s contention that Sections 32 and 43(a) of the Lanham Act apply only to commercial speech, we would still face the difficult question of what constitutes such speech under those provisions. In the case at hand, we need not resolve that question or determine whether Sections 32 and 43(a) apply exclusively to commercial speech because Reverend Falwell’s claims of trademark infringement and false designation fail for a more obvious reason. The hallmark of such claims is a likelihood of confusion—and there is no likelihood of confusion here.

B.

1.

[17] “[T]he use of a competitor’s mark that does not cause confusion as to source is permissible.” *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 380 (7th Cir.1996). Accordingly, Lamparello can only be liable for infringement and false designation if his use of Reverend Falwell’s mark would be likely to cause confusion as to the source of the website found at www.fallwell.com. This likelihood-of-confusion test “generally strikes a comfortable balance” between the First

² Indeed, Lamparello agreed at oral argument that the Lanham Act’s prohibitions on infringement and false designation apply to more than just commercial speech as defined by the Supreme Court.

Amendment and the rights of markholders. *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir.2002).

[18] We have identified seven factors helpful in determining whether a likelihood of confusion exists as to the source of a work, but “not all these factors are always relevant or equally emphasized in each case.” *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir.1984) (internal quotation marks, citations, and brackets omitted). The factors are: “(a) the strength or distinctiveness of the mark; (b) the similarity of the two marks; (c) the similarity of the goods/services the marks identify; (d) the similarity of the facilities the two parties use in their businesses; (e) the similarity of the advertising used by the two parties; (f) the defendant's intent; (g) actual confusion.” *Id.* (citation omitted).

[19] Reverend Falwell's mark is distinctive, and the domain name of Lamparello's website, www.fallwell.com, closely resembles it. But, although Lamparello and Reverend Falwell employ similar marks online, Lamparello's website looks nothing like Reverend Falwell's; indeed, Lamparello has made no attempt to imitate Reverend Falwell's website. Moreover, Reverend Falwell does not even argue that Lamparello's website constitutes advertising or a facility for business, let alone a facility or advertising similar to that of Reverend Falwell. Furthermore, Lamparello clearly created his website intending only to provide a forum to criticize ideas, not to steal customers.

[20] Most importantly, Reverend Falwell and Lamparello do not offer similar goods or services. Rather they offer opposing ideas and commentary. Reverend Falwell's mark identifies his spiritual and political views; the website at www.fallwell.com criticizes those very views. After even a quick glance at the content of the website at www.fallwell.com, no one seeking Reverend Falwell's guidance would be misled by the domain name-www.fallwell.com-into believing Reverend Falwell authorized the content of that website. No one would believe that Reverend Falwell sponsored a site criticizing himself, his positions, and his interpretations of the Bible. See *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308-09 (9th Cir.1992) (stating that use of a mark to solicit criticism of the markholder implies the markholder is not the sponsor of the use).³

³ If Lamparello had neither criticized Reverend Falwell by name nor expressly rejected Reverend Falwell's teachings, but instead simply had quoted Bible passages and offered interpretations of them subtly different from those of Reverend Falwell, this would be a different case. For, while a gripe site, or a website dedicated to criticism of the markholder, will seldom create a likelihood of confusion, a website purporting to be the official site of the markholder and, for example, articulating

[21] Finally, the fact that people contacted Reverend Falwell's ministry to report that they found the content at www.fallwell.com antithetical to Reverend Falwell's views does not illustrate, as Reverend Falwell claims, that the website engendered actual confusion. To the contrary, the anecdotal evidence Reverend Falwell submitted shows that those searching for Reverend Falwell's site and arriving instead at Lamparello's site quickly realized that Reverend Falwell was *not* the source of the content therein.

[22] For all of these reasons, it is clear that the undisputed record evidences no likelihood of confusion. In fact, Reverend Falwell even conceded at oral argument that those viewing the content of Lamparello's website probably were unlikely to confuse Reverend Falwell with the source of that material.

2.

[23] Nevertheless, Reverend Falwell argues that he is entitled to prevail under the "initial interest confusion" doctrine. This relatively new and sporadically applied doctrine holds that "the Lanham Act forbids a competitor from luring potential customers away from a producer by initially passing off its goods as those of the producer's, even if confusion as to the source of the goods is dispelled by the time any sales are consummated." *Dorr-Oliver*, 94 F.3d at 382. According to Reverend Falwell, this doctrine requires us to compare his mark with Lamparello's website domain name, www.fallwell.com, *without* considering the content of Lamparello's website. Reverend Falwell argues that some people who misspell his name may go to www.fallwell.com assuming it is his site, thus giving Lamparello an unearned audience-albeit one that quickly disappears when it realizes it has not reached Reverend Falwell's site. This argument fails for two reasons.

[24] First, we have never adopted the initial interest confusion theory; rather, we have followed a very different mode of analysis, requiring courts to determine whether a likelihood of confusion exists by "examin[ing] the allegedly infringing use *in the context in which it is seen by the ordinary consumer*." *Anheuser-Busch, Inc. v. L & L Wings, Inc.*, 962 F.2d 316, 319 (4th Cir.1992) (emphasis added) (citing cases); *see also What-A-Burger of Va., Inc. v. Whataburger, Inc.*, 357 F.3d 441, 450 (4th Cir.2004).

[25] Contrary to Reverend Falwell's arguments, we did not abandon this approach in *PETA*. Our inquiry in *PETA* was limited to whether Doughney's use of the domain name "www.peta.org" constituted a successful enough parody of People

positions that could plausibly have come from the markholder may well create a likelihood of confusion.

for the Ethical Treatment of Animals that no one was likely to believe www.peta.org was sponsored or endorsed by that organization. For a parody to be successful, it “must convey two simultaneous—and contradictory—messages: that it is the original, but also that it is *not* the original and is instead a parody.” *PETA*, 263 F.3d at 366 (internal quotation marks and citation omitted). Doughney argued that his domain name conveyed the first message (that it was PETA's website) and that the content of his website conveyed the requisite second message (that it was not PETA's site). *Id.* Although “[t]he website's content ma[de] it clear that it [wa]s not related to PETA,” *id.*, we concluded that the website's content could not convey the requisite second message because the site's content “[wa]s not conveyed *simultaneously* with the first message, [i.e., the domain name itself,] as required to be considered a parody.” *Id.* at 366. Accordingly, we found the “district court properly rejected Doughney's parody defense.” *Id.* at 367.

[26] *PETA* simply outlines the parameters of the parody defense; it does not adopt the initial interest confusion theory or otherwise diminish the necessity of examining context when determining whether a likelihood of confusion exists. Indeed, in *PETA* itself, rather than embracing a new approach, we reiterated that “[t]o determine whether a likelihood of confusion exists, a court should not consider how closely a *fragment* of a given use duplicates the trademark, but must instead consider *whether the use in its entirety creates a likelihood of confusion*.” *Id.* at 366 (internal quotation marks and citation omitted) (emphasis added). When dealing with domain names, this means a court must evaluate an allegedly infringing domain name in conjunction with the content of the website identified by the domain name.⁴

[27] Moreover, even if we did endorse the initial interest confusion theory, that theory would not assist Reverend Falwell here because it provides no basis for

⁴ Contrary to Reverend Falwell's suggestions, this rule does not change depending on how similar the domain name or title is to the mark. Hence, Reverend Falwell's assertion that he objects only to Lamparello using the domain name www.falwell.com and has no objection to Lamparello posting his criticisms at “www.falwelliswrong.com,” or a similar domain name, does not entitle him to a different evaluation rule. Rather it has long been established that even when alleged infringers use the *very marks at issue* in titles, courts look to the underlying *content* to determine whether the titles create a likelihood of confusion as to source. *See, e.g., Parks v. LaFace Records*, 329 F.3d 437, 452-54 (6th Cir.2003); *Mattel*, 296 F.3d at 901-02; *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 667-68 (5th Cir.2000); *Rogers v. Grimaldi*, 875 F.2d 994, 1000-01 (2d Cir.1989).

liability in circumstances such as these. The few appellate courts that have followed the Ninth Circuit and imposed liability under this theory for using marks on the Internet have done so only in cases involving a factor utterly absent here—one business's use of another's mark for its own financial gain. *See, e.g., PACCAR Inc. v. TeleScan Techs., L.L.C.*, 319 F.3d 243, 253 (6th Cir.2003); *Promatek Indus., Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812 (7th Cir.2002); *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1055-56 (9th Cir.1999).

[28] Profiting financially from initial interest confusion is thus a key element for imposition of liability under this theory. When an alleged infringer does not compete with the markholder for sales, “some initial confusion will not likely facilitate free riding on the goodwill of another mark, or otherwise harm the user claiming infringement. Where confusion has little or no meaningful effect in the marketplace, it is of little or no consequence in our analysis.” *Checkpoint Sys.*, 269 F.3d at 296-97. For this reason, even the Ninth Circuit has stated that a firm is not liable for using another's mark in its domain name if it “could not financially capitalize on [a] misdirected consumer [looking for the markholder's site] even if it so desired.” *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 946 (9th Cir.2002).

[29] This critical element—use of another firm's mark to capture the markholder's customers and profits—simply does not exist when the alleged infringer establishes a gripe site that criticizes the markholder. *See Hannibal Travis, The Battle For Mindshare: The Emerging Consensus that the First Amendment Protects Corporate Criticism and Parody on the Internet*, 10 Va. J.L. & Tech. 3, 85 (Winter 2005) (“The premise of the ‘initial interest’ confusion cases is that by using the plaintiff's trademark to divert its customers, the defendant is engaging in the old ‘bait and switch.’ But because ... Internet users who find [gripe sites] are not sold anything, the mark may be the ‘bait,’ but there is simply no ‘switch.’”) (citations omitted).⁵ Applying the initial interest confusion theory to gripe sites like

⁵ Although the appellate courts that have adopted the initial interest confusion theory have only applied it to profit-seeking uses of another's mark, the district courts have not so limited the application of the theory. Without expressly referring to this theory, two frequently-discussed district court cases have held that using another's domain name to post content antithetical to the markholder constitutes infringement. *See Planned Parenthood Fed'n of Am., Inc. v. Bucci*, No. 97 Civ. 0629, 1997 WL 133313 (S.D.N.Y. March 24, 1997), *aff'd*, 152 F.3d 920 (2d Cir.1998) (table) (finding use of domain name “www.plannedparenthood.com” to provide links to passages of anti-abortion book constituted infringement); *Jews for Jesus v. Brodsky*,

Lamparello's would enable the markholder to insulate himself from criticism—or at least to minimize access to it. We have already condemned such uses of the Lanham Act, stating that a markholder cannot “ ‘shield itself from criticism by forbidding the use of its name in commentaries critical of its conduct.’ ” *CPC Int'l*, 214 F.3d at 462 (quoting *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 33 (1st Cir.1987)). “[J]ust because speech is critical of a corporation and its business practices is not a sufficient reason to enjoin the speech.” *Id.*

[30] In sum, even if we were to accept the initial interest confusion theory, that theory would not apply in the case at hand. Rather, to determine whether a likelihood of confusion exists as to the source of a gripe site like that at issue in this case, a court must look not only to the allegedly infringing domain name, but also to the underlying content of the website. When we do so here, it is clear, as explained above, that no likelihood of confusion exists. Therefore, the district court erred in granting Reverend Falwell summary judgment on his infringement, false designation, and unfair competition claims.

III.

[31] We evaluate Reverend Falwell's cybersquatting claim separately because the elements of a cybersquatting violation differ from those of traditional Lanham Act violations. To prevail on a cybersquatting claim, Reverend Falwell must show that Lamparello: (1) “had a bad faith intent to profit from using the [www.falwell.com] domain name,” and (2) the domain name www.falwell.com “is identical or confusingly similar to, or dilutive of, the distinctive and famous [Falwell] mark.” *PETA*, 263 F.3d at 367 (citing 15 U.S.C. § 1125(d)(1)(A)).

[32] “The paradigmatic harm that the ACPA was enacted to eradicate” is “the practice of cybersquatters registering several hundred domain names in an effort to sell them to the legitimate owners of the mark.” *Lucas Nursery & Landscaping, Inc. v. Grosse*, 359 F.3d 806, 810 (6th Cir.2004). The Act was also intended to stop the registration of multiple marks with the hope of selling them to the highest bidder, “distinctive marks to defraud consumers” or “to engage in counterfeiting activities,”

993 F.Supp. 282 (D.N.J.1998), *aff'd*, 159 F.3d 1351 (3d Cir.1998) (table) (finding use of “www.jewsforjesus.org” to criticize religious group constituted infringement). We think both cases were wrongly decided to the extent that in determining whether the domain names were confusing, the courts did not consider whether the websites' content would dispel any confusion. In expanding the initial interest confusion theory of liability, these cases cut it off from its moorings to the detriment of the First Amendment.

and “well-known marks to prey on consumer confusion by misusing the domain name to divert customers from the mark owner's site to the cybersquatter's own site, many of which are pornography sites that derive advertising revenue based on the number of visits, or ‘hits,’ the site receives.” S.Rep. No. 106-140, 1999 WL 594571, at *5-6. The Act was not intended to prevent “noncommercial uses of a mark, such as for comment, criticism, parody, news reporting, etc.,” and thus they “are beyond the scope” of the ACPA. *Id.* at *9.

[33] To distinguish abusive domain name registrations from legitimate ones, the ACPA directs courts to consider nine nonexhaustive factors:

- (I) the trademark or other intellectual property rights of the person, if any, in the domain name;
- (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
- (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
- (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
- (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
- (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;
- (VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;
- (VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of the registration of such domain names, or dilutive of famous marks of others that are famous at the time

of registration of such domain names, without regard to the goods or services of the parties; and

(IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c)(1) of this section.

15 U.S.C. § 1125(d)(1)(B)(i); *see also* H.R.Rep. No. 106-412 (1999), 1999 WL 970519, at *10.

[34] These factors attempt “to balance the property interests of trademark owners with the legitimate interests of Internet users and others who seek to make lawful uses of others' marks, including for purposes such as comparative advertising, *comment*, *criticism*, parody, news reporting, fair use, etc.” H.R. Rep. No. 106-412, 1999 WL 970519, at *10 (emphasis added). “The first four [factors] suggest circumstances that may tend to indicate an absence of bad-faith intent to profit from the goodwill of a mark, and the others suggest circumstances that may tend to indicate that such bad-faith intent exists.” *Id.* However, “[t]here is no simple formula for evaluating and weighing these factors. For example, courts do not simply count up which party has more factors in its favor after the evidence is in.” *Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214, 234 (4th Cir.2002). In fact, because use of these listed factors is permissive, “[w]e need not ... march through” them all in every case. *Virtual Works, Inc. v. Volkswagen of Am., Inc.*, 238 F.3d 264, 269 (4th Cir.2001). “The factors are given to courts as a guide, not as a substitute for careful thinking about whether the conduct at issue is motivated by a bad faith intent to profit.” *Lucas Nursery & Landscaping*, 359 F.3d at 811.

[35] After close examination of the undisputed facts involved in this case, we can only conclude that Reverend Falwell cannot demonstrate that Lamparello “had a bad faith intent to profit from using the [www.fallwell.com] domain name.” *PETA*, 263 F.3d at 367. Lamparello clearly employed www.fallwell.com simply to criticize Reverend Falwell's views. Factor IV of the ACPA, 15 U.S.C. § 1125(d)(1)(B)(i)(IV), counsels against finding a bad faith intent to profit in such circumstances because “use of a domain name for purposes of ... comment, [and] criticism,” H.R.Rep. No. 106-412, 1999 WL 970519, at *11, constitutes a “bona fide noncommercial or fair use” under the statute, 15 U.S.C. § 1125(d)(1)(B)(i)(IV).⁶ That Lamparello provided

⁶ We note that factor IV does not protect a faux noncommercial site, that is, a noncommercial site created by the registrant for the sole purpose of avoiding liability under the FTDA, which exempts noncommercial uses of marks, *see* 15 U.S.C. § 1125(c)(4)(B), or under the ACPA. As explained by the Senate Report discussing the ACPA, an individual cannot avoid liability for registering and attempting to sell a

a link to an Amazon.com webpage selling a book he favored does not diminish the communicative function of his website. The use of a domain name to engage in criticism or commentary “even where done for profit” does not alone evidence a bad faith intent to profit, H.R.Rep. No. 106-412, 1999 WL 970519, at *11, and Lamparello did not even stand to gain financially from sales of the book at Amazon.com. Thus factor IV weighs heavily in favor of finding Lamparello lacked a bad faith intent to profit from the use of the domain name.

[36] Equally important, Lamparello has not engaged in the type of conduct described in the statutory factors as typifying the bad faith intent to profit essential to a successful cybersquatting claim. First, we have already held, *supra* Part III.B, that Lamparello's domain name does not create a likelihood of confusion as to source or affiliation. Accordingly, Lamparello has not engaged in the type of conduct—“creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site,” 15 U.S.C. § 1125(d)(1)(B)(i)(V) —described as an indicator of a bad faith intent to profit in factor V of the statute.

[37] Factors VI and VIII also counsel against finding a bad faith intent to profit here. Lamparello has made no attempt—or even indicated a willingness—“to transfer, sell, or otherwise assign the domain name to [Reverend Falwell] or any third party for financial gain.” 15 U.S.C. § 1125(d)(1)(B)(i)(VI). Similarly, Lamparello has not registered “multiple domain names,” 15 U.S.C. § 1125(d)(1)(B)(i)(VIII); rather, the record indicates he has registered only one. Thus, Lamparello's conduct is not of the suspect variety described in factors VI and VIII of the Act.

[38] Notably, the case at hand differs markedly from those in which the courts have found a bad faith intent to profit from domain names used for websites engaged in political commentary or parody. For example, in *PETA* we found the registrant of www.peta.org engaged in cybersquatting because www.peta.org was one of *fifty to sixty* domain names Doughney had registered, *PETA*, 263 F.3d at 362, and because Doughney had evidenced a clear intent to sell www.peta.org to PETA, stating that PETA should try to “ ‘settle’ with him and ‘make him an offer.’ ” *Id.* at 368. *See also Virtual Works*, 238 F.3d at 269-70. Similarly, in *Coca-Cola Co. v. Purdy*, 382 F.3d 774 (8th Cir.2004), the Eighth Circuit found an anti-abortion activist who

hundred domain names incorporating famous marks by posting noncommercial content at those domain names. *See* S.Rep. No. 106-140, 1999 WL 594571, at *14 (citing *Panavision Int'l v. Toeppen*, 141 F.3d 1316 (9th Cir.1998)). But Lamparello's sole purpose for registering www.fallwell.com was to criticize Reverend Falwell, and this noncommercial use was not a ruse to avoid liability. Therefore, factor IV indicates that Lamparello did not have a bad faith intent to profit.

had registered domain names incorporating famous marks such as “Washington Post” liable for cybersquatting because he had registered almost *seventy* domain names, had offered to stop using the Washington Post mark if the newspaper published an opinion piece by him on its editorial page, and posted content that created a likelihood of confusion as to whether the famous markholders sponsored the anti-abortion sites and “ha[d] taken positions on hotly contested issues.” *Id.* at 786. In contrast, Lamparello did not register multiple domain names, he did not offer to transfer them for valuable consideration, and he did not create a likelihood of confusion.

[39] Instead, Lamparello, like the plaintiffs in two cases recently decided by the Fifth and Sixth Circuits, created a gripe site. Both courts expressly refused to find that gripe sites located at domain names nearly identical to the marks at issue violated the ACPA. In *TMI, Inc. v. Maxwell*, 368 F.3d 433, 434-35 (5th Cir.2004), Joseph Maxwell, a customer of homebuilder TMI, registered the domain name “www.trendmakerhome.com,” which differed by only one letter from TMI’s mark, TrendMaker Homes, and its domain name, “www.trendmakerhomes.com.” Maxwell used the site to complain about his experience with TMI and to list the name of a contractor whose work pleased him. After his registration expired, Maxwell registered “www.trendmakerhome.info.” TMI then sued, alleging cybersquatting. The Fifth Circuit reversed the district court’s finding that Maxwell violated the ACPA, reasoning that his site was noncommercial and designed only “to inform potential customers about a negative experience with the company.” *Id.* at 438-39.

[40] Similarly, in *Lucas Nursery & Landscaping*, a customer of Lucas Nursery registered the domain name “www.lucasnursery.com” and posted her dissatisfaction with the company’s landscaping services. Because the registrant, Grosse, like Lamparello, registered a single domain name, the Sixth Circuit concluded that her conduct did not constitute that which Congress intended to proscribe—i.e., the registration of multiple domain names. *Lucas Nursery & Landscaping*, 359 F.3d at 810. Noting that Grosse’s gripe site did not create any confusion as to sponsorship and that she had never attempted to sell the domain name to the markholder, the court found that Grosse’s conduct was not actionable under the ACPA. The court explained: “One of the ACPA’s main objectives is the protection of consumers from slick internet peddlers who trade on the names and reputations of established brands. The practice of informing fellow consumers of one’s experience with a particular service provider is surely not inconsistent with this ideal.” *Id.* at 811.

[41] Like Maxwell and Grosse before him, Lamparello has not evidenced a bad faith intent to profit under the ACPA. To the contrary, he has used www.fallwell.com

to engage in the type of “comment[][and] criticism” that Congress specifically stated militates against a finding of bad faith intent to profit. *See* S. Rep. No. 106-140, 1999 WL 594571, at *14. And he has neither registered multiple domain names nor attempted to transfer www.fallwell.com for valuable consideration. We agree with the Fifth and Sixth Circuits that, given these circumstances, the use of a mark in a domain name for a gripe site criticizing the markholder does not constitute cybersquatting.

IV.

[42] For the foregoing reasons, Lamparello, rather than Reverend Falwell, is entitled to summary judgment on all counts.⁷ Accordingly, the judgment of the district court is reversed and the case is remanded for entry of judgment for Lamparello.

REVERSED AND REMANDED.

2. The Uniform Dispute Resolution Policy and the Uniform Rapid Suspension System

a. The Uniform Dispute Resolution Policy

From the *WIPO Guide to the Uniform Domain Name Dispute Resolution Policy (UDRP)* (<http://www.wipo.int/amc/en/domains/guide/>)

⁷ Given our resolution of Lamparello's appeal, Reverend Falwell's cross-appeal with respect to statutory damages and attorney fees is moot.

What is the Uniform Domain Name Dispute Resolution Policy?

The Uniform Domain Name Dispute Resolution Policy (the UDRP Policy) sets out the legal framework for the resolution of disputes between a domain name registrant and a third party (i.e., a party other than the registrar) over the abusive registration and use of an Internet domain name in the generic top level domains or gTLDs (e.g., .biz, .com, .info, .mobi, .name, .net, .org), and those country code top level domains or ccTLDs that have adopted the UDRP Policy on a voluntary basis. At its meetings on August 25 and 26, 1999 in Santiago, Chile, the ICANN¹ Board of Directors adopted the UDRP Policy, based largely on the recommendations contained in the Report of the WIPO Internet Domain Name Process, as well as comments submitted by registrars and other interested parties. All ICANN-accredited registrars that are authorized to register names in the gTLDs and the ccTLDs that have adopted the Policy have agreed to abide by and implement it for those domains. Any person or entity wishing to register a domain name in the gTLDs and ccTLDs in question is required to consent to the terms and conditions of the UDRP Policy.

What are the advantages of the UDRP Administrative Procedure?

The main advantage of the UDRP Administrative Procedure is that it typically provides a faster and cheaper way to resolve a dispute regarding the registration and use of an Internet domain name than going to court. In addition, the procedures are considerably more informal than litigation and the decision-makers are experts in such areas as international trademark law, domain name issues, electronic commerce, the Internet and dispute resolution. It is also international in scope: it provides a single mechanism for resolving a domain name dispute regardless of where the registrar or the domain name holder or the complainant are located.

What are the WIPO Center's fees for a domain name dispute?

For a case involving between 1 and 5 domain names, the fee for a case that is to be decided by a single Panelist is USD1500 and USD4000 for a case that is to be decided by 3 Panelists.

¹ [The Internet Corporation for Assigned Names and Numbers (ICANN) is a non-profit, non-governmental organization that, among other things, administers the internet domain name system. ICANN accredits private companies and organizations that wish to provide domain name registration services.]

For a case involving between 6 and 10 domain names, the fee for a case that is to be decided by a single Panelist is USD2000 and USD5000 for a case that is to be decided by 3 Panelists.

The Complainant is responsible for paying the total fees. The only time the Respondent has to share in the fees is when the Respondent chooses to have the case decided by 3 Panelists and the Complainant had chosen a single Panelist.

In exceptional circumstances, either the Panel or the WIPO Center may ask the parties to make additional payments to defray the costs of the administrative procedure.

Uniform Domain Name Dispute Resolution Policy (As Approved by ICANN on October 24, 1999)

1. Purpose. This Uniform Domain Name Dispute Resolution Policy (the "Policy") has been adopted by the Internet Corporation for Assigned Names and Numbers ("ICANN"), is incorporated by reference into your Registration Agreement, and sets forth the terms and conditions in connection with a dispute between you and any party other than us (the registrar) over the registration and use of an Internet domain name registered by you. Proceedings under Paragraph 4 of this Policy will be conducted according to the Rules for Uniform Domain Name Dispute Resolution Policy (the "Rules of Procedure"), which are available at <http://www.icann.org/en/dndr/udrp/uniform-rules.htm>, and the selected administrative-dispute-resolution service provider's supplemental rules.

2. Your Representations. By applying to register a domain name, or by asking us to maintain or renew a domain name registration, you hereby represent and warrant to us that (a) the statements that you made in your Registration Agreement are complete and accurate; (b) to your knowledge, the registration of the domain name will not infringe upon or otherwise violate the rights of any third party; (c) you are not registering the domain name for an unlawful purpose; and (d) you will not knowingly use the domain name in violation of any applicable laws or regulations. It is your responsibility to determine whether your domain name registration infringes or violates someone else's rights.

3. Cancellations, Transfers, and Changes. We will cancel, transfer or otherwise make changes to domain name registrations under the following circumstances:

- a. subject to the provisions of Paragraph 8, our receipt of written or appropriate electronic instructions from you or your authorized agent to take such action;

- b. our receipt of an order from a court or arbitral tribunal, in each case of competent jurisdiction, requiring such action; and/or
- c. our receipt of a decision of an Administrative Panel requiring such action in any administrative proceeding to which you were a party and which was conducted under this Policy or a later version of this Policy adopted by ICANN. (See Paragraph 4(i) and (k) below.)

We may also cancel, transfer or otherwise make changes to a domain name registration in accordance with the terms of your Registration Agreement or other legal requirements.

4. Mandatory Administrative Proceeding.

This Paragraph sets forth the type of disputes for which you are required to submit to a mandatory administrative proceeding. These proceedings will be conducted before one of the administrative-dispute-resolution service providers listed at www.icann.org/en/dndr/udrp/approved-providers.htm (each, a "Provider").

a. Applicable Disputes. You are required to submit to a mandatory administrative proceeding in the event that a third party (a "complainant") asserts to the applicable Provider, in compliance with the Rules of Procedure, that

- (i) your domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; and
- (ii) you have no rights or legitimate interests in respect of the domain name; and
- (iii) your domain name has been registered and is being used in bad faith.

In the administrative proceeding, the complainant must prove that each of these three elements are present.

b. Evidence of Registration and Use in Bad Faith. For the purposes of Paragraph 4(a)(iii), the following circumstances, in particular but without limitation, if found by the Panel to be present, shall be evidence of the registration and use of a domain name in bad faith:

- (i) circumstances indicating that you have registered or you have acquired the domain name primarily for the purpose of selling, renting, or otherwise transferring the domain name registration to the complainant who is the owner of the trademark or service mark or to a competitor of that complainant, for valuable consideration in excess of your documented out-of-pocket costs directly related to the domain name; or

(ii) you have registered the domain name in order to prevent the owner of the trademark or service mark from reflecting the mark in a corresponding domain name, provided that you have engaged in a pattern of such conduct; or

(iii) you have registered the domain name primarily for the purpose of disrupting the business of a competitor; or

(iv) by using the domain name, you have intentionally attempted to attract, for commercial gain, Internet users to your web site or other on-line location, by creating a likelihood of confusion with the complainant's mark as to the source, sponsorship, affiliation, or endorsement of your web site or location or of a product or service on your web site or location.

c. How to Demonstrate Your Rights to and Legitimate Interests in the Domain Name in Responding to a Complaint. When you receive a complaint, you should refer to Paragraph 5 of the Rules of Procedure in determining how your response should be prepared. Any of the following circumstances, in particular but without limitation, if found by the Panel to be proved based on its evaluation of all evidence presented, shall demonstrate your rights or legitimate interests to the domain name for purposes of Paragraph 4(a)(ii):

(i) before any notice to you of the dispute, your use of, or demonstrable preparations to use, the domain name or a name corresponding to the domain name in connection with a bona fide offering of goods or services; or

(ii) you (as an individual, business, or other organization) have been commonly known by the domain name, even if you have acquired no trademark or service mark rights; or

(iii) you are making a legitimate noncommercial or fair use of the domain name, without intent for commercial gain to misleadingly divert consumers or to tarnish the trademark or service mark at issue.

d. Selection of Provider. The complainant shall select the Provider from among those approved by ICANN by submitting the complaint to that Provider. The selected Provider will administer the proceeding, except in cases of consolidation as described in Paragraph 4(f).

e. Initiation of Proceeding and Process and Appointment of Administrative Panel. The Rules of Procedure state the process for initiating and conducting a proceeding and for appointing the panel that will decide the dispute (the "Administrative Panel").

f. Consolidation. In the event of multiple disputes between you and a complainant, either you or the complainant may petition to consolidate the

disputes before a single Administrative Panel. This petition shall be made to the first Administrative Panel appointed to hear a pending dispute between the parties. This Administrative Panel may consolidate before it any or all such disputes in its sole discretion, provided that the disputes being consolidated are governed by this Policy or a later version of this Policy adopted by ICANN.

g. Fees. All fees charged by a Provider in connection with any dispute before an Administrative Panel pursuant to this Policy shall be paid by the complainant, except in cases where you elect to expand the Administrative Panel from one to three panelists as provided in Paragraph 5(b)(iv) of the Rules of Procedure, in which case all fees will be split evenly by you and the complainant.

h. Our Involvement in Administrative Proceedings. We do not, and will not, participate in the administration or conduct of any proceeding before an Administrative Panel. In addition, we will not be liable as a result of any decisions rendered by the Administrative Panel.

i. Remedies. The remedies available to a complainant pursuant to any proceeding before an Administrative Panel shall be limited to requiring the cancellation of your domain name or the transfer of your domain name registration to the complainant.

j. Notification and Publication. The Provider shall notify us of any decision made by an Administrative Panel with respect to a domain name you have registered with us. All decisions under this Policy will be published in full over the Internet, except when an Administrative Panel determines in an exceptional case to redact portions of its decision.

k. Availability of Court Proceedings. The mandatory administrative proceeding requirements set forth in Paragraph 4 shall not prevent either you or the complainant from submitting the dispute to a court of competent jurisdiction for independent resolution before such mandatory administrative proceeding is commenced or after such proceeding is concluded. If an Administrative Panel decides that your domain name registration should be canceled or transferred, we will wait ten (10) business days (as observed in the location of our principal office) after we are informed by the applicable Provider of the Administrative Panel's decision before implementing that decision. We will then implement the decision unless we have received from you during that ten (10) business day period official documentation (such as a copy of a complaint, file-stamped by the clerk of the court) that you have commenced a lawsuit against the complainant in a jurisdiction to which the complainant has submitted under Paragraph 3(b)(xiii) of the Rules of Procedure. (In general, that jurisdiction is either the location of our principal

office or of your address as shown in our Whois database. See Paragraphs 1 and 3(b)(xiii) of the Rules of Procedure for details.) If we receive such documentation within the ten (10) business day period, we will not implement the Administrative Panel's decision, and we will take no further action, until we receive (i) evidence satisfactory to us of a resolution between the parties; (ii) evidence satisfactory to us that your lawsuit has been dismissed or withdrawn; or (iii) a copy of an order from such court dismissing your lawsuit or ordering that you do not have the right to continue to use your domain name.

5. All Other Disputes and Litigation. All other disputes between you and any party other than us regarding your domain name registration that are not brought pursuant to the mandatory administrative proceeding provisions of Paragraph 4 shall be resolved between you and such other party through any court, arbitration or other proceeding that may be available.

6. Our Involvement in Disputes. We will not participate in any way in any dispute between you and any party other than us regarding the registration and use of your domain name. You shall not name us as a party or otherwise include us in any such proceeding. In the event that we are named as a party in any such proceeding, we reserve the right to raise any and all defenses deemed appropriate, and to take any other action necessary to defend ourselves.

7. Maintaining the Status Quo. We will not cancel, transfer, activate, deactivate, or otherwise change the status of any domain name registration under this Policy except as provided in Paragraph 3 above.

8. Transfers During a Dispute.

a. Transfers of a Domain Name to a New Holder. You may not transfer your domain name registration to another holder (i) during a pending administrative proceeding brought pursuant to Paragraph 4 or for a period of fifteen (15) business days (as observed in the location of our principal place of business) after such proceeding is concluded; or (ii) during a pending court proceeding or arbitration commenced regarding your domain name unless the party to whom the domain name registration is being transferred agrees, in writing, to be bound by the decision of the court or arbitrator. We reserve the right to cancel any transfer of a domain name registration to another holder that is made in violation of this subparagraph.

b. Changing Registrars. You may not transfer your domain name registration to another registrar during a pending administrative proceeding brought pursuant to Paragraph 4 or for a period of fifteen (15) business days (as observed in the location of our principal place of business) after such proceeding is concluded. You may transfer administration of your domain name

registration to another registrar during a pending court action or arbitration, provided that the domain name you have registered with us shall continue to be subject to the proceedings commenced against you in accordance with the terms of this Policy. In the event that you transfer a domain name registration to us during the pendency of a court action or arbitration, such dispute shall remain subject to the domain name dispute policy of the registrar from which the domain name registration was transferred.

9. Policy Modifications. We reserve the right to modify this Policy at any time with the permission of ICANN. We will post our revised Policy at <URL> at least thirty (30) calendar days before it becomes effective. Unless this Policy has already been invoked by the submission of a complaint to a Provider, in which event the version of the Policy in effect at the time it was invoked will apply to you until the dispute is over, all such changes will be binding upon you with respect to any domain name registration dispute, whether the dispute arose before, on or after the effective date of our change. In the event that you object to a change in this Policy, your sole remedy is to cancel your domain name registration with us, provided that you will not be entitled to a refund of any fees you paid to us. The revised Policy will apply to you until you cancel your domain name registration

Comments and Questions

1. *Appealing a UDRP decision.* As paragraph 4(k) of the UDRP makes clear, litigants unsatisfied with the outcome of the UDRP process may “submit[] the dispute to a court of competent jurisdiction for independent resolution.” U.S. courts afford no deference to UDRP decisions. *See, e.g., Barcelona.com, Inc. v. Excelentísimo Ayuntamiento De Barcelona*, 330 F.3d 617, 626 (4th Cir. 2003) (“[A]ny decision made by a panel under the UDRP is no more than an agreed-upon administration that is *not* given any deference under the ACPA.” (emphasis in original)).

The following UDRP decision, *Eastman Sporto Group LLC v. Jim and Kenny*, Case No. D2009-1688 (WIPO Mar. 1, 2010), remains highly controversial. UDRP panelists are divided on its treatment of Paragraph 4(a)(iii) of the UDRP, which requires the complainant to show that the respondent’s “domain name has been registered *and* is being used in bad faith” (emphasis added). Consider the following question:

- Do you believe that the UDRP Panelist in *Eastman Sporto* reached the right result and by the right reasoning?

Eastman Sporto Group LLC v. Jim and Kenny

Case No. D2009-1688 (WIPO Mar. 1, 2010)

1. The Parties

[1] Complainant is Eastman Sporto Group LLC, of New York, New York, United States of America, represented by the law firm Kenyon & Kenyon, United States of America.

[2] Respondent is Jim and Kenny of Portland, Oregon, United States of America, represented by Jim Leissner, United States of America.

2. The Domain Name and Registrar

[3] The disputed domain name <sporto.com> is registered with GoDaddy.com, Inc.

3. Procedural History

[4] The Complaint was filed with the WIPO Arbitration and Mediation Center (the “Center”) on December 9, 2009. On December 10, and 11 2009, the Center transmitted by email to GoDaddy.com, Inc. a request for registrar verification in connection with the disputed domain name. On December 11, 2009, GoDaddy.com, Inc. transmitted by email to the Center its verification response confirming that Respondent is listed as the registrant and providing the contact details

The Center verified that the Complaint satisfied the formal requirements of the Uniform Domain Name Dispute Resolution Policy (the “Policy” or “UDRP”), the Rules for Uniform Domain Name Dispute Resolution Policy (the “Rules”), and the WIPO Supplemental Rules for Uniform Domain Name Dispute Resolution Policy (the “Supplemental Rules”).

[5] In accordance with the Rules, paragraphs 2(a) and 4(a), the Center formally notified Respondent of the Complaint, and the proceedings commenced on December 15, 2009. In accordance with the Rules, paragraph 5(a), the due date for Response was January 4, 2010; by agreement of the parties this was extended to January 11, 2010. The Response was filed with the Center on January 12, 2010.

[6] The Center appointed Richard G. Lyon as the sole panelist in this matter on January 29, 2010. The Panel finds that it was properly constituted and has jurisdiction over this administrative proceeding. The Panel has submitted his Statement of Acceptance and Declaration of Impartiality and Independence, as required by the Center to ensure compliance with the Rules, paragraph 7.

[7] On February 10, 2010, the Panel issued Procedural Order No. 1, requesting Respondent to confirm the most recent date on which it renewed the disputed domain name. Respondent notified the Center on February 14, 2010 that its most recent renewal occurred on October 23, 2009.

4. Factual Background

[8] Complainant makes and sells many products, including footwear for athletic and outdoor use, under the brand SPORTO. Complainant holds many trademarks for SPORTO registered with the United States Patent and Trademark Office (USPTO). Several of these date back to the 1960s and claim use in commerce since 1951.

[9] Respondent registered the disputed domain name in 1997. According to the archives at “www.archive.org” the site was first used in 1998, at which time it was used in connection with training classes offered by Respondent. Content changed in 2001, when the site contained statistical data on stream flow conditions obtained from a governmental agency. In 2004 the site's entire content read: “THIS DOMAIN HAS JUST BEEN REGISTERED FOR ONE OF OUR CUSTOMERS! DOMAIN REGISTRATION AND WEBHOSTING AT MOST COMPETITIVE PRICES! [signed] 1&1 Internet Inc.”¹ The site owner has blocked the archives from revealing content from November 2006 through September 2007; after that date no content is displayed. At some times during this time period the disputed domain name resolved to a generic pay-per-click site offering links to shoes and footwear. When the Panel accessed the disputed domain name he was automatically re-directed to <planetshoes.com> at which a site apparently operated by that company offered for sale seven pictured models of shoes and boots. Each such merchandise was identified as a Sporto product and Complainant's name and logo (including a distinctive graphic design that is part of some of Complainant's trademarks) is displayed prominently.²

[10] Complainant has never licensed Respondent to sell its products or otherwise to use its trademarks.

¹ Respondent claims another use for the disputed domain name, as noted in Section 5-B.

² The Exception in paragraph 3.1 is consistent with treating bad faith at registration and in use separately: bad faith may be found “when the respondent is *clearly aware of the complainant, and it is clear that the aim of the registration was to take advantage of the confusion between the domain name and any potential complainant rights.*” (Emphasis supplied).

[11] On August 21, 2009, Respondent offered to sell the disputed domain name to a third party for USD100,800. This third party was apparently acting on Complainant's behalf.

5. Parties' Contentions

A. Complainant

[12] The Panel summarizes Complainant's contentions as follows:

1. Complainant holds valid trademark rights in SPORTO by reason of its many USPTO-registered marks. Except for the top-level domain .com the disputed domain name is identical to these marks.

2. Complainant has never authorized Respondent to use its marks. Respondent has never been known by the disputed domain name. Respondent's current use of the disputed domain name, to resolve to a site selling competitive products, is not legitimate under the Policy. Respondent had constructive notice, and probably actual notice as well, of Complainant's marks. These marks have been used continuously in commerce for more than fifty years and have achieved widespread fame.

3. Four factual bases illustrate Respondent's bad faith in registration and use: (a) use of Complainant's "clearly distinctive trademarks;" (b) Respondent's offer to sell the disputed domain name for an amount far in excess of its costs of registration; (c) Respondent's use of the disputed domain name for a pay-per-click site with links related to Complainant's mark and products; and (d) Respondent "can make no reasonable argument that its use is sports related or related to any creative or commercial endeavor."

B. Respondent

[13] The Panel summarizes Respondent's contentions as follows:

1. While Respondent does not (and perforce cannot) directly contest identity of the disputed domain name and Complainant's marks, it does deny any confusion and notes that it has operated an active website at the disputed domain name for thirteen years without complaint. Respondent also questions Complainant's right to trademark protection for a "dictionary word."

2. Respondent cites several legitimate uses in the thirteen years he has owned the disputed domain name. In addition to the uses listed in Section 4, Respondent claims to have operated a sports information service called Online Sports, and offers what he describes as a business plan for this business dated September 1997.

3. All of Respondent's uses of the disputed domain name have been undertaken in good faith and do not compete or interfere with Complainant. Respondent had no

knowledge of Complainant or its marks in 1997 when it registered the disputed domain name. “Sporto” is a dictionary word in certain foreign languages and a common colloquial word in English and Respondent chose it for that reason.

6. Discussion and Findings

[14] This is a difficult case to resolve for several reasons, including a recent spate of UDRP panel opinions under a modified approach to determining bad faith under paragraph 4(a)(iii) of the Policy.

A. Identical or Confusingly Similar

[15] Complainant has demonstrated longstanding trademark rights in the word SPORTO, and the disputed domain name is identical to this term. When the two are identical no showing of confusion is required. Complainant has carried its burden of proof under this Policy head.

B. Rights or Legitimate Interests

[16] The evidence shows that Respondent has used the disputed domain name sporadically between 1997 and 2008 for businesses that do not compete with Complainant and that such use in no way can be said to have played off any goodwill attaching to Complainant's marks. Such use in the Panel's opinion does not establish that Respondent is now or was ever “commonly known” by SPORTO (see Policy, paragraph 4(c)(ii)), but was under Policy precedent adequate to bring Respondent within the safe harbor of paragraph 4(c)(i).

[17] So far as the record reflects, however, all use since 2008 has not been legitimate; on the contrary, it has been activity routinely found to be cybersquatting: a standard pay-per-click page with hyperlinks based upon the mark owner's (Complainant's) name and industry, followed by a site that purports to sell Complainant's products or products directly competitive with Complainant's products.

[18] As discussed more fully in subsection C below, until last year Respondent's pre-2008 use of the disputed domain name may have established a defense to the charge of no rights or legitimate interest (although the absence of such *bona fide* use today might nullify such defense for the purpose of the second element of the Policy). Furthermore, recent cases that advance a different approach to determination of bad faith under paragraph 4(a)(iii) of the Policy may also undercut that defense on the present facts. Because those cases address Policy language regarding bad faith, the Panel will consider them under that Policy head.

C. Registered and Used in Bad Faith

[19] Paragraph 4(a)(iii) of the Policy reads as follows:

“You are required to submit to a mandatory administrative proceeding in the event that a third party (a "complainant") asserts to the applicable Provider, in compliance with the Rules of Procedure, that:

....

(iii) your domain name has been registered and is being used in bad faith.”

The Traditional Approach

[20] Until last year's decision in *City Views Limited v. Moniker Privacy Services / Xander, Jeduyu, ALGEBRALIVE*, WIPO Case No. D2009-0643 (“Mummygold”), panels had considered the requirements of “registration and use” to be conjunctive, requiring a panel to consider both bad faith first at the date of registration, and to examine whether the respondent's use was in bad faith. To establish registration in bad faith the complainant ordinarily must have proven that the respondent, *at the time of registration*, knew of the complainant and its mark *and* selected the mark to take advantage of whatever renown attached to that mark. These cases generally (although not always) involved separate analyses of facts pertaining to different points in time. Cases in which clear bad faith use was shown absent a showing of bad faith registration still resulted in a denial of the complaint because there was no evidence of (or sufficient grounds from which to infer) knowledge and targeting at the time of registration. This two-pronged approach became well-settled precedent. While not expressly included in the WIPO Overview of WIPO Panel Views on Selected UDRP Questions (“WIPO Overview”), paragraph 3.1 impliedly adopts it:

“3.1 Can bad faith be found if the disputed domain name was registered before the trademark was registered/common law trademark rights were acquired?

Consensus view: Normally speaking, when a domain name is registered before a trademark right is established, the registration of the domain name was not in bad faith because the registrant could not have contemplated the complainant's non-existent right.” (Citations and Exception omitted)⁴

[21] Bad faith in registration, under the traditional approach, may be proven inferentially.³ The most cited example of this is *Telstra Corporation Limited v. Nuclear Marshmallows*, WIPO Case No. D2000-0003, in which bad faith in registration was inferred from a combination of the respondent's selection of a famous and distinctive mark and lengthy non-use of the domain name. Some of the other bases for an inference of bad faith are set out in *Net2phone Inc v. Delta Three Inc.*, WIPO Case No. D2007-0644, fn. 5-11 and accompanying text. All of these cases, however, turned on Respondent's state of mind *at the time of registration*.⁴

The *Mummygold* approach

[22] The panels who decided *Mummygold* and its progeny, however, advance a different view of paragraph 4(a)(iii), and treat “registered and used the domain name in bad faith” as a “unified concept”. Under this method of analysis (the “*Mummygold* approach”) a panel may determine that registration in bad faith under paragraph 4(a)(iii) may be established “retroactively” by subsequent bad faith use. (*Mummygold*; *Octogen*)

[23] The *Mummygold* cases cite two Policy provisions in support of this approach. The first is a registrant's representation and warranty in paragraph 2:

“2. Your Representations. By applying to register a domain name, or by asking us to maintain or renew a domain name registration, you hereby represent and warrant to us that (a) the statements that you made in your Registration Agreement are complete and accurate; (b) to

³ The inference may not be based strictly upon the United States trademark law doctrine of constructive notice, under which the public is presumed to have knowledge of USPTO-registered trademarks. See WIPO Overview, paragraph 3.4; *Kellwood Company v. Onesies Corporation*, WIPO Case No. D2008-1172.

⁴ In this case there is little evidence of seeking a free ride on Complainant's marks at the time of registration or indeed for more than a decade thereafter. Respondent was not until 2008 engaged in any business related to sport footwear, and in 1997 (pre-Policy, early days of Internet commerce) short, pithy domain names were eagerly sought (as indeed they continue to be). As Respondent notes, the disputed domain name consists of a common slang word in English and a dictionary word in other languages; this is not a case in which the only reasonable inference is that Respondent chose it to target Complainant. Respondent has provided evidence, albeit skimpy and not always internally consistent, of actual use of the disputed domain name for a sports-related business that had nothing to do with Complainant or Complainant's industry.

your knowledge, the registration of the domain name will not infringe upon or otherwise violate the rights of any third party; (c) you are not registering the domain name for an unlawful purpose; and (d) you will not knowingly use the domain name in violation of any applicable laws or regulations. It is your responsibility to determine whether your domain name registration infringes or violates someone else's rights."

[24] The *Octogen* panel interpreted this paragraph as follows: "this provision not only imposes a duty on the part of the registrant to conduct an investigation at the time of registration, but also includes a representation and warranty by the registrant that it will not now *or in the future* use the domain name in violation of any laws or regulations. This effectively imposes on the registrant a continuing duty to ensure that the domain name is not used in violation of another's rights and clearly covers intellectual property rights and the laws protecting them, including copyright and trademark. This representation and warranty is not limited to the moment at which the registrant registers the domain name; rather, it extends to any use of the domain name in the future." (Emphasis in original)

[25] The second Policy underpinning is the set of non-exclusive examples of "evidence of registration and use in bad faith" set out in paragraph 4(b) of the Policy. The first three of these refer only to registration; the fourth refers only to use. Again quoting from *Octogen*, "Under paragraph 4(b)(iv) of the Policy a respondent that uses the domain name to attract Internet users to its website or online location by creating a likelihood of confusion with the complainant's mark and its sponsorship of the website is acting in bad faith, without reference to the respondent's state of mind at the time that the registrant registered the domain name. Clearly, as under the *Telstra* analysis, in this Panel's view bad faith registration can be deemed to have occurred even without regard to the state of mind of the registrant at the time of registration, if the domain name is subsequently used to trade on the goodwill of the mark holder, just as bad faith use can occur without regard to the fact that the domain name at issue has not been (or has been 'passively') used."

[26] The *Mummygold* approach has not to date been universally accepted. The panel in *Validas, LLC v. SMVS Consultancy Private Limited*, WIPO Case No. D2009-1413, ably critiques, and declines to follow, the *Mummygold* approach. This Panel views *Mummygold*'s unified concept notion with skepticism. As this Panel sees it, the argument that paragraph 2 places upon a registrant a continuous obligation to avoid "infringing" use is to some extent inconsistent with ordinary principles of contract law. Representations and warranties are usually one-off statements, made as of a particular date. They may be repeated, to be sure, and they may impose upon their

make a continuing obligation. In this Panel's view, however, extending paragraph 2 to impose upon a registrant an affirmative duty continuously to monitor (for example) subsequently issued trademarks and modify website content accordingly would run counter to several principles that underscore the UDRP system, most notably simplicity and limiting use of the Policy to a narrow class of cases in which cybersquatting has been proven. To this Panel it seems that, taken to an extreme the *Mummygold* approach might without any action by the registrant render illegitimate (for purposes of the Policy) an activity at a website that had been in use for years without grounds for complaint – a result that would go farther than United States trademark law. More importantly, that result might clash with other express Policy provisions, such as certain of the safe-harbor provisions of paragraph 4(a)(ii) and 4(c).

[27] In this Panel's assessment, the most formidable obstacle to the *Mummygold* approach is the language of paragraph 4(a)(iii) itself. The operative verbs in that provision are clearly conjunctive – registered *and* used. The Internet Corporation for Assigned Names and Numbers (ICANN), when it adopted the Policy and the Rules, apparently made a conscious decision at the time of adoption to require two distinct “infringing” acts. (To be sure, that decision was taken at a time when the Policy was a new instrument, and without the benefit of hindsight of ten years of its subsequent operation.) The two distinct inquiries required under the UDRP have been criticized as a shortcoming that can countenance unscrupulous conduct, and has led in a few cases to a respondent that engaged in abusive use getting away with it because of insufficient proof of abusive registration. Several subsequently adopted Policy counterparts have declined to require bad faith in both registration and use for transfer.⁵

[28] Equally formidable an obstacle, in this Panel's opinion, is the (until recently) unbroken line of precedent, starting with some of the earliest cases decided under the Policy and followed regularly to the present, that has interpreted paragraph 4(a)(iii) as clearly and unequivocally requiring a showing of both registration and use. Development of a body of Policy panel “jurisprudence” has been a commendable objective in which much effort has and continues to be invested; see, e.g., WIPO Overview, paragraph 4.1 (emphasis supplied):

⁵ For example, “paragraph 4(a)(iii) of the auDRP requires only that a Complainant prove that the disputed domain name “has been registered or subsequently used in bad faith,” and the Working Group responsible for drafting it apparently did so to avoid the consequences of proving separately bad faith in registration and use. See <www.auda.org.au/pdf/drwg-audrp-final.pdf>, n4.

“Consensus view: The UDRP does not operate on a strict doctrine of precedent. However panels consider it desirable that their decisions are consistent with prior panel decisions dealing with similar fact situations. This ensures that the UDRP system operates in a fair, effective and predictable manner for all parties.”

[29] As this Panel sees it, whether intended or not, the *Mummygold* approach could impact an otherwise settled rule of decision on which “all parties” have relied for a decade. That rule of decision moreover defines a fundamental element of the Policy, and departing from our precedent in this matter could modify substantially Complainant's burden of proof especially under the third element of the Policy. That change in some cases could be the equivalent of an amendment to the Policy, in effect comparable to substitution of “or” for “and” in paragraph 4(a)(iii), that would result in changes in some subsequent cases.⁶ As noted, if fully extended (assuming a complainant had proven the other elements of the Policy) it might result in transfer of a domain name without any action by its owner, simply because someone subsequently acquired or registered a trademark. It could encourage mark owners to overreach in Policy proceedings, something the traditional approach discourages. It could cause substantial changes to those who have built businesses in buying and selling domain names relying upon our precedent. They are among the “all parties” entitled to “a fair, effective and predictable manner” of resolution of Policy disputes. Substantially for the reasons expressed by the *Validas* panel, and those listed above, this Panel for now declines to adopt the “unified concept” approach of the *Mummygold* case.

[30] This Panel stated of the *Mummygold* approach in *Hertz System, Inc. v. Kwan-ming Lee*, WIPO Case No. D2009-1165: “This Panel is not presently prepared to read the few unified concept approach cases to say that *any* use in bad faith, even occasional conduct that fits squarely within one of the examples of bad faith in paragraph 4(b) of the Policy, as automatically establishing bad faith for purposes of paragraph 4(a)(iii). If it did, the clearly conjunctive language of paragraph 4(a)(iii) could be too easily circumvented.” I shall go farther here: unless bad faith use subsequently to registration forms a basis for an inference of Respondent's bad faith *at the time of registration*, it cannot alone satisfy the complainant's burden of proof under paragraph 4(a)(iii) of the Policy.

⁶ It bears repeating that the number of cases is likely to be small. See, e.g., *Octogen, supra*. In this Panel's opinion some of the *Mummygold* cases in which transfer was ordered, especially *Denver Post* and *Country Inns, supra*, included a factual basis for inferring bad faith at the time of registration.

Renewal of a Domain Name Registration

[31] The conjunctive language of paragraph 4(a)(iii) is plain. Equally clear, on this Panel's reading, is the introductory clause of paragraph 2 that sets its applicability as a matter of contract. A registrant provides his undertaking "By applying to register a domain name, or by asking [a registrar] to maintain or renew a domain name registration." This, unlike the covenant-type interpretation necessary for the *Mummygold* approach, is a typical one-time representation as of a discrete date, or rather successive discrete dates. Paragraph 2 does not distinguish among the initial date of registration and subsequent requests for renewal – the undertaking by its terms applies as of all such dates.

[32] This reading may conflict with another line of precedent dating back to the Policy's early days, one that also finds its place as a Consensus View in the WIPO Overview, paragraph 3.7:

"Does the renewal of the registration of a domain name amount to a registration for the purposes of determining whether the domain name was registered in bad faith?

Consensus view: While the transfer of a domain name to a third party does amount to a new registration, a mere renewal of a domain name does not amount to registration for the purposes of determining bad faith. Registration in bad faith must occur at the time the current registrant took possession of the domain name."

[33] The first case setting out this view is *Teradyne, Inc. Teradyne, Inc. [sic] v. 4Tel Technology*, WIPO Case No. D2000-0026. The panel in *Teradyne* held that the conjunctive nature of paragraph 4(a)(iii) trumped the introductory clause of paragraph 2. Unlike separate analyses of registration and use, there have been comparatively few subsequent cases expressly addressing this question. All this Panel has found have followed the *Teradyne* rule, usually without much further analysis. See *Smart Design Llc v. Carolyn Hughes*, WIPO Case No. D2000-0993; *Substance Abuse Management, Inc. v. Screen Actors Modesl [sic] International, Inc. (SAMI)*, WIPO Case No. D2001-0782; *Gamer.tv Limited v. Bestinfo*, WIPO Case No. D2004-0320; *PAA Laboratories GmbH v. Printing Arts America*, WIPO Case No. D2004-0338. The Panel in *PAA Laboratories* did so however only in deference to Policy precedent:

"In making its finding, the Panel wishes to clarify that its decision under this element is based on the need for consistency and comity in domain name dispute 'jurisprudence'. Were it not for the persuasive force of the cited decisions, this Panel would have expressed the view

that paragraph 2 of the Policy demonstrates that references to 'registration' in the Policy were probably intended to be references to 'registration' or 'renewal of registration.' Absent the consistency of approach which has found favour with numerous earlier panels, this Panel would have seen no good reason for a renewal not to be considered as equivalent to 'registration' in the context of the objectives of the Policy. If the renewal had not been effected the disputed domain name would have lapsed and been available to others. The abusive refreshing of the original registration is an act which this Panel considers should be an act of a kind encompassed by paragraph 4(a)(iii) of the Policy. The benefit of an original good faith registration should not be perpetual to the point where it can cloak successors in title and successors in 'possession' long after the original registration would have expired."

[34] This Panel shares those reservations. For the reasons given in the last sentence of the quotation from *PAA Laboratories*, I doubt that ICANN intended that all renewals could be made without regard to a registrant's paragraph 2 undertaking. It is for that reason that panels (including this one) have in some cases found a transfer of ownership even among related entities to be a new or fresh registration for Policy purposes, see *ehotel AG v. Network Technologies Polska Jasinski Lutoborski Sp.J.*, WIPO Case No. D2009-0785 ("It might be argued that the conclusion in this case is unfair to Mr. Lutoborski or the Respondent. If a respondent has registered a domain name for a legitimate business purpose, and another business comes along that chooses to use the same name, should he not be allowed to take advantage of that fact? The answer to that question depends upon how exactly the domain name is used. If he merely intends to continue to do what he has always legitimately done, then it is difficult to see how that continued use could be characterised as use in bad faith. The problem is that the Mr. Lutoborski did not do this. Instead, he effectively abandoned his own prior use and actively sought to associate the Domain Name with the Complainant's business. This combined with the subsequent transfer of the Domain Name proved fatal to his case."); *BMEzine.com, LLC. v. Gregory Ricks / Gee Whiz Domains Privacy Service*, WIPO Case No. D2008-0882. And treating a renewal the same as a registration comports with the language – very plain and direct language – of paragraph 2.

[35] In this Panel's view, the facts and circumstances of the present case provide a more compelling scenario than *PAA Laboratories* for revisiting the *Teradyne* rule. There the respondent's use of the domain name changed because of changed business circumstances (insolvency) not related to the domain name, and it

could have been argued that respondent's subsequent offer to sell it (the act found to be use in bad faith) was part of the ordinary course of winding up the earlier business. Here, at the time of its most recent renewal last year Respondent's use of the disputed domain name had become prototypical cybersquatting and in no way related to any of Respondent's businesses. The change came about not through intervening circumstances unrelated to Respondent's prior good faith use but by Respondent's conscious choice to change website content. If Respondent's paragraph 2 representation and warranty were given in October 2009 it would have been knowingly false. To summarize, in this Panel's assessment:

- Respondent intentionally changed its use of the disputed domain name.
- The new use is unrelated to Respondent's earlier business.
- The new use is textbook cybersquatting.
- The new use occurred prior to the renewal held to be a registration subject to for purposes of paragraph 4(a)(iii).
- There has been no legitimate use since renewal.

[36] The present case illustrates the problem that can arise from adhering rotely to *Teradyne*: so long as a Respondent that originally registered a domain name in good faith retains ownership it is free continuously and flagrantly to exploit Complainant's trademark – license it to a competitor, perhaps – without fear of a Policy proceeding. These consequences could of course be said to flow in part from the conjunctive language of paragraph 4(a)(iii). Yet in this Panel's considered opinion it is not unreasonable to temper those consequences by giving the plain language of paragraph 2 equal standing with the plain language of paragraph 4(a)(iii).

[37] Even though included as a Consensus View in the WIPO Overview this Panel's assessment is that the *Teradyne* rule enjoys comparatively less precedential support than the traditional rule of interpreting paragraph 4(a)(iii). As noted, the cases are few and most simply endorse the *Teredyne* case without extended discussion, and the most thoughtful discussion, in *PAA Laboratories*, questions the original rationale for the rule. This Panel's qualifying its application in the stark circumstances of the present case should have considerably less impact on UDRP proceedings and participants' conduct than (for example) adopting the *Mummygold* approach.

[38] This may not be a “binary” choice – that a renewal will always be treated as a new registration. In other circumstances it might well be appropriate to continue to find otherwise “infringing” use still within the safe harbors of paragraphs 4(c)(i) or 4(c)(ii). The obvious case that comes to mind is when the respondent had nothing

to do with the intervening circumstances that changed things – a trademark is registered after initial registration but before renewal, and the use to which the respondent puts the domain name remains materially unchanged, for example. That is a matter for panels in future cases.

[39] Based upon the record in this proceeding, the Panel deems Respondent's 2009 renewal of the disputed domain name to be the date on which to measure whether the disputed domain name was registered and used in bad faith for purposes of paragraph 4(a)(iii), and finds that the Respondent registered and used the disputed domain name in bad faith. The Panel further finds that Respondent's use of it to redirect to a website that includes hyperlinks to Complainant's competitors not legitimate under paragraph 4(a)(ii).

7. Decision

[40] For all the foregoing reasons, in accordance with Paragraphs 4(i) of the Policy and 15 of the Rules, the Panel orders that the domain name, <sporto.com> be transferred to the Complainant.

Richard G. Lyon

Sole Panelist

Dated: March 1, 2010

b. The Uniform Rapid Suspension System

In 2011, ICANN's Board of Directors approved an enormous expansion of the generic top-level domain (gTLD) system beyond the 22 gTLDs¹ then operating. In January, 2012, ICANN began accepting applications from private companies or organizations that wished to administer new gTLDs consisting essentially of any string of characters, including non-Latin characters. In October, 2013, ICANN "delegated" the first new gTLDs: شبكة (Arabic for "web/network", International Domain Registry Pty. Ltd), онлайн (Cyrillic for "online", CORE Association), сайт (Cyrillic for "site", CORE Association) and 游戏 (Chinese for "game(s)", Spring Fields, LLC). From October 2013 through December 2014, ICANN delegated over 400 new gTLDs.²

¹ These were: .aero, .arpa, .asia, .biz, .cat, .com, .coop, .edu, .gov, .info, .int, .jobs, .mil, .mobi, .names, .net, .org, .post, .pro, .tel, .travel and .xxx. See Jacqueline Lipton & Mary Wong, *Trademark and Freedom of Expression in ICANN's New gTLD Process*, 38 MONASH U. L. REV. 188, 192 (2012).

² See <http://newgtlds.icann.org/en/program-status/delegated-strings>.

ICANN has established a sophisticated process very much akin to a national trademark registration process for the evaluation of new gTLD applications (which cost \$185,000 per gTLD). Objections can be raised against a new gTLD application on the ground, among others, that it conflicts with preexisting trademark rights. Students wishing to know more about this process should consult the [ICANN gTLD Applicant Guidebook](#).

Our focus here, however, is not on the implications for trademark owners of the ICANN new gTLD delegation process (though those implications can be profound), but rather on a new system by which trademark owners can oppose the registration of second-level domains *within* these new gTLDs. For example, if a third-party seeks to register the second-level domain “microsoft” within the شبكة gTLD, (thus microsoft.شبكة), Microsoft may avail itself of a new means of opposing the registration that is even faster and less expensive than the UDRP. This new process, which applies only to second-level domains within new gTLDs established since 2013, is the Uniform Rapid Suspension System (URS). Students wishing to read the URS Procedure may find the document at <http://newgtlds.icann.org/en/applicants/urs>.

The URS is designed for especially clear, essentially “slam-dunk” cases of bad faith second-level domain registration. The URS specifies that the complainant must show:

[1] that the registered domain name is identical or confusingly similar to a word mark: (i) for which the Complainant holds a valid national or regional registration and that is in current use; or (ii) that has been validated through court proceedings; or (iii) that is specifically protected by a statute or treaty in effect at the time the URS complaint is filed.

a. Use can be shown by demonstrating that evidence of use — which can be a declaration and one specimen of current use in commerce — was submitted to, and validated by, the Trademark Clearinghouse.

b. Proof of use may also be submitted directly with the URS Complaint.

and

[2] that the Registrant has no legitimate right or interest to the domain name; and

[3] that the domain was registered and is being used in bad faith.

URS, 1.2.6.1-1.2.6.3. Note that the URS Procedure explicitly states that “[t]he burden of proof shall be clear and convincing evidence.” *Id.* at 8.2

The URS process is very fast. The URS provider (such as the National Arbitration Forum) must review the complaint within two business days from the filing of the complaint. If the complaint complies with all filing requirements, the URS provider notifies the relevant registry operator, who must “lock” the targeted domain within 24 hours (locking a domain in this context merely means that the registrant cannot make any changes to registration data; the domain still resolves to a website). Within 24 hours of locking the domain, the registry operator must notify the registrant of the complaint. The registrant then has 14 days to file a response of no more than 2,500 words. If the registrant defaults on that 14 day period, the registrant still has six months from the date of a Notice of Default to reopen proceedings de novo.

The remedy available to the successful complainant is suspension of the domain name and resolution of the domain to an informational page stating that the domain name has been suspended after a URS proceeding. Unlike the UDRP, the successful complainant cannot win transfer of the domain.

The fee for a URS proceeding, which is conducted entirely electronically and only in English, is \$375 to \$500, depending on the number of domain names complained of. By comparison, UDRP filing fees start at \$1500.

Below is the first URS decision ever issued, with respect to the domain name facebook.pw.

Facebook Inc. v. Radoslav

Claim No. FA1308001515825 (Nat’l Arb. Forum, Sept. 27, 2013)

DOMAIN NAME

<facebook.pw>

PARTIES

Complainant: Facebook Inc. of Menlo Park, California, United States of America.

Complainant Representative:

Complainant Representative: Hogan Lovells (Paris) LLP of Paris, France.

Respondent: Radoslav of Presov, California, SK.

Respondent Representative:

REGISTRIES and REGISTRARS

Registries:

Registrars: Dynadot, LLC

EXAMINER

[1] The undersigned certifies that he has acted independently and impartially and to the best of his knowledge has no known conflict in serving as the Examiner in this proceeding.

Darryl C. Wilson, as Examiner.

PROCEDURAL HISTORY

Complainant submitted: August 21, 2013

Commencement: September 11, 2013

Default Date: September 26, 2013

[2] Having reviewed the communications records, the Examiner finds that the National Arbitration Forum has discharged its responsibility under URS Procedure Paragraphs 3 and 4 and Rule 4 of the Rules for the Uniform Rapid Suspension System (the "Rules").

RELIEF SOUGHT

[3] Complainant requests that the domain name be suspended for the life of the registration.

STANDARD OF REVIEW

[4] Clear and convincing evidence.

FINDINGS and DISCUSSION

[5] Complainant is Facebook Inc. which lists its address as Menlo Park, CA, USA. Complainant states that since it began doing business in 2004 it has become the world's leading provider of online social networking services with more than 1.11 billion registered users around the world. Complainant also asserts that "it is ranked as the first most visited website in the world, and has the second highest traffic in Slovakia (where the Respondent is based)." Complainant owns numerous domestic and international registrations for its FACEBOOK mark including; FACEBOOK - Community Trade Mark No. 006455687 registered on 07 October 2008.

[6] Complainant contends that Respondent's domain name, <facebok.pw>, is confusingly similar to its FACEBOOK mark, and was registered and is being used in bad faith by the Respondent who has no rights or legitimate interests in the domain name.

[7] Respondent is Radoslav Stach whose address is listed as Presnov, Slovakia. Respondent registered the disputed domain name on or about March 26, 2013.

Respondent did not provide a response to the Complaint in accordance with the URS rules of procedure; however Respondent did provide correspondence which stated, "Im was offline, could you pleas tell me what I have doing ? I want removed this domain from my account!"

IDENTICAL OR CONFUSINGLY SIMILAR

[8] The only difference between the Domain Name, <facebok.pw>, and the Complainant's FACEBOOK mark is the absence of one letter ("o") in the Domain Name. In addition, it is well accepted that the top level domain is irrelevant in assessing identity or confusing similarity, thus the ".pw" is of no consequence here. The Examiner finds that the Domain Name is confusingly similar to Complainant's FACEBOOK mark.

NO RIGHTS OR LEGITIMATE INTERESTS

[9] To the best of the Complainant's knowledge, the Respondent does not have any rights in the name FACEBOOK or "facebok" nor is the Respondent commonly known by either name. Complainant has not authorized Respondent's use of its mark and has no affiliation with Respondent. The Domain Name points to a web page listing links for popular search topics which Respondent appears to use to generate click through fees for Respondent's personal financial gain. Such use does not constitute a bona fide offering of goods or services and wrongfully misappropriates Complainant's mark's goodwill. The Examiner finds that the Respondent has established no rights or legitimate interests in the Domain Name.

BAD FAITH REGISTRATION AND USE

[10] The Domain Name was registered and is being used in bad faith.

[11] The Domain Name was registered on or about March 26, 2013, nine years after the Complainant's FACEBOOK marks were first used and began gaining global notoriety.

[12] The Examiner finds that the Respondent has engaged in a pattern of illegitimate domain name registrations (See Complainant's exhibit URS Site Screenshot) whereby Respondent has either altered letters in, or added new letters to, well-known trademarks. Such behavior supports a conclusion of Respondent's bad faith registration and use. Furthermore, the Complainant submits that the Respondent is using the Domain Name in order to attract for commercial gain Internet users to its parking website by creating a likelihood of confusion as to the source, sponsorship or affiliation of the website. The Examiner finds such behavior to further evidence Respondent's bad faith registration and use.

DETERMINATION

[13] After reviewing the Complainant's submissions, the Examiner determines that the Complainant has demonstrated all three elements of the URS by a standard of clear and convincing evidence; the Examiner hereby Orders the following domain names be SUSPENDED for the duration of the registration.

<facebok.pw>

Darryl C. Wilson, Examiner

Dated: September 27, 2013

Questions and Comments

1. *The Trademark Clearinghouse.* To help trademark owners cope with the challenges presented by a greatly expanded domain name system, ICANN oversaw the development of the Trademark Clearinghouse, www.trademark-clearinghouse.com. Trademark owners that register their trademarks with the Clearinghouse (and pay the associated fees) may benefit from two main services. First, the Clearinghouse gives Clearinghouse registrants access to the "Sunrise period" for every new gTLD. During this period (which must last at least 30 days), Clearinghouse registrants enjoy priority registration of their marks as domain names within the new gTLD before that gTLD's domain name registration process is opened up to the general public. To qualify for the Sunrise Service, Clearinghouse registrants must submit proof that they are actually using the mark they have registered with the Clearinghouse. Second, the Clearinghouse will notify Clearinghouse registrants on an ongoing basis of any third-party attempt to register (or eventual success in registering) within a new gTLD a domain name that matches the Clearinghouse registrant's trademark. It is then left to the trademark owner to decide whether to pursue an infringement claim against the third-party domain name applicant or registrant.

E. Secondary Liability

The Lanham Act does not explicitly provide for secondary liability. Instead, as the court in *Tiffany (NJ) Inc. v. eBay Inc.* explains, secondary liability in trademark law is an entirely judge-made doctrine. *Tiffany v eBay* has become essentially the law of the land for online auction site liability for infringing conduct occurring on those sites. In reading through the opinion, consider the following question:

- As a policy matter, has the court chosen the most efficient result? Who can more efficiently bear the burden of policing eBay's website for counterfeit Tiffany merchandise?
- Are you persuaded that eBay was not willfully blind to the sale of counterfeits on its auction site?

***Tiffany (NJ) Inc. v. eBay Inc.* 600 F.3d 93 (2d Cir. 2010)**

Sack, Circuit Judge:

[1] eBay, Inc. ("eBay"), through its eponymous online marketplace, has revolutionized the online sale of goods, especially used goods. It has facilitated the buying and selling by hundreds of millions of people and entities, to their benefit and eBay's profit. But that marketplace is sometimes employed by users as a means to perpetrate fraud by selling counterfeit goods.

[2] Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company (together, "Tiffany") have created and cultivated a brand of jewelry bespeaking high-end quality and style. Based on Tiffany's concern that some use eBay's website to sell counterfeit Tiffany merchandise, Tiffany has instituted this action against eBay, asserting various causes of action—sounding in trademark infringement, trademark dilution and false advertising—arising from eBay's advertising and listing practices. For the reasons set forth below, we affirm the district court's judgment with respect to Tiffany's claims of trademark infringement and dilution but remand for further proceedings with respect to Tiffany's false advertising claim.

BACKGROUND

[3] By opinion dated July 14, 2008, following a week-long bench trial, the United States District Court for the Southern District of New York (Richard J. Sullivan, *Judge*) set forth its findings of fact and conclusions of law. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp.2d 463 (S.D.N.Y.2008) ("*Tiffany*"). When reviewing a judgment following a bench trial in the district court, we review the court's findings of fact for

clear error and its conclusions of law *de novo*. *Giordano v. Thomson*, 564 F.3d 163, 168 (2d Cir.2009). Except where noted otherwise, we conclude that the district court's findings of fact are not clearly erroneous. We therefore rely upon those non-erroneous findings in setting forth the facts of, and considering, this dispute.

eBay

[4] eBay¹ is the proprietor of www.ebay.com, an Internet-based marketplace that allows those who register with it to purchase goods from and sell goods to one another. It “connect[s] buyers and sellers and [] enable[s] transactions, which are carried out directly between eBay members.” *Tiffany*, 576 F.Supp.2d at 475.² In its auction and listing services, it “provides the venue for the sale [of goods] and support for the transaction[s], [but] it does not itself sell the items” listed for sale on the site, *id.* at 475, nor does it ever take physical possession of them, *id.* Thus, “eBay generally does not know whether or when an item is delivered to the buyer.” *Id.*

[5] eBay has been enormously successful. More than six million new listings are posted on its site daily. *Id.* At any given time it contains some 100 million listings. *Id.*

[6] eBay generates revenue by charging sellers to use its listing services. For any listing, it charges an “insertion fee” based on the auction's starting price for the goods being sold and ranges from \$0.20 to \$4.80. *Id.* For any completed sale, it charges a “final value fee” that ranges from 5.25% to 10% of the final sale price of the item. *Id.* Sellers have the option of purchasing, at additional cost, features “to differentiate their listings, such as a border or bold-faced type.” *Id.*

[7] eBay also generates revenue through a company named PayPal, which it owns and which allows users to process their purchases. PayPal deducts, as a fee for each transaction that it processes, 1.9% to 2.9% of the transaction amount, plus \$0.30. *Id.* This gives eBay an added incentive to increase both the volume and the price of the goods sold on its website. *Id.*

Tiffany

¹ eBay appears to be short for Echo Bay—the name of eBay's founder's consulting firm was Echo Bay Technology Group. The name “EchoBay” was already in use, so eBay was employed as the name for the website. See http://en.wikipedia.org/wiki/EBay#Origins_and_history (last visited Feb. 26, 2010); <http://news.softpedia.com/news/eBay-Turns-Ten-Happy-Birthday-7502.shtml> (last visited Feb. 26, 2010).

² In addition to providing auction-style and fixed-priced listings, eBay is also the proprietor of a traditional classified service. *Id.* at 474.

[8] Tiffany is a world-famous purveyor of, among other things, branded jewelry. *Id.* at 471-72. Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, and website, and through its Corporate Sales Department. *Id.* at 472-73. It does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices. *Id.* at 473. It does not—nor can it, for that matter—control the “legitimate secondary market in authentic Tiffany silvery jewelry,” i.e., the market for second-hand Tiffany wares. *Id.* at 473. The record developed at trial “offere[d] little basis from which to discern the actual availability of authentic Tiffany silver jewelry in the secondary market.” *Id.* at 474.

[9] Sometime before 2004, Tiffany became aware that counterfeit Tiffany merchandise was being sold on eBay's site. Prior to and during the course of this litigation, Tiffany conducted two surveys known as “Buying Programs,” one in 2004 and another in 2005, in an attempt to assess the extent of this practice. Under those programs, Tiffany bought various items on eBay and then inspected and evaluated them to determine how many were counterfeit. *Id.* at 485. Tiffany found that 73.1% of the purported Tiffany goods purchased in the 2004 Buying Program and 75.5% of those purchased in the 2005 Buying Program were counterfeit. *Id.* The district court concluded, however, that the Buying Programs were “methodologically flawed and of questionable value,” *id.* at 512, and “provide[d] limited evidence as to the total percentage of counterfeit goods available on eBay at any given time,” *id.* at 486. The court nonetheless decided that during the period in which the Buying Programs were in effect, a “significant portion of the ‘Tiffany’ sterling silver jewelry listed on the eBay website ... was counterfeit,” *id.*, and that eBay knew “that some portion of the Tiffany goods sold on its website might be counterfeit,” *id.* at 507. The court found, however, that “a substantial number of authentic Tiffany goods are [also] sold on eBay.” *Id.* at 509.

[10] Reducing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces, through eBay's website would benefit Tiffany in at least one sense: It would diminish the competition in the market for genuine Tiffany merchandise. *See id.* at 510 n. 36 (noting that “there is at least some basis in the record for eBay's assertion that one of Tiffany's goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods”). The immediate effect would be loss of revenue to eBay, even though there might be a countervailing gain by eBay resulting from increased consumer confidence about the bona fides of other goods sold through its website.

Anti-Counterfeiting Measures

[11] Because eBay facilitates many sales of Tiffany goods, genuine and otherwise, and obtains revenue on every transaction, it generates substantial revenues from the sale of purported Tiffany goods, some of which are counterfeit. “eBay’s Jewelry & Watches category manager estimated that, between April 2000 and June 2004, eBay earned \$4.1 million in revenue from completed listings with ‘Tiffany’ in the listing title in the Jewelry & Watches category.” *Id.* at 481. Although eBay was generating revenue from all sales of goods on its site, including counterfeit goods, the district court found eBay to have “an interest in eliminating counterfeit Tiffany merchandise from eBay ... to preserve the reputation of its website as a safe place to do business.” *Id.* at 469. The buyer of fake Tiffany goods might, if and when the forgery was detected, fault eBay. Indeed, the district court found that “buyers ... complain[ed] to eBay” about the sale of counterfeit Tiffany goods. *Id.* at 487. “[D]uring the last six weeks of 2004, 125 consumers complained to eBay about purchasing ‘Tiffany’ items through the eBay website that they believed to be counterfeit.” *Id.*

[12] Because eBay “never saw or inspected the merchandise in the listings,” its ability to determine whether a particular listing was for counterfeit goods was limited. *Id.* at 477-78. Even had it been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit. *Id.* at 472 n. 7 (“[I]n many instances, determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.”).

[13] Notwithstanding these limitations, eBay spent “as much as \$20 million each year on tools to promote trust and safety on its website.” *Id.* at 476. For example, eBay and PayPal set up “buyer protection programs,” under which, in certain circumstances, the buyer would be reimbursed for the cost of items purchased on eBay that were discovered not to be genuine. *Id.* at 479. eBay also established a “Trust and Safety” department, with some 4,000 employees “devoted to trust and safety” issues, including over 200 who “focus exclusively on combating infringement” and 70 who “work exclusively with law enforcement.” *Id.* at 476.

[14] By May 2002, eBay had implemented a “fraud engine,” “which is principally dedicated to ferreting out illegal listings, including counterfeit listings.” *Id.* at 477. eBay had theretofore employed manual searches for keywords in listings in an effort to “identify blatant instances of potentially infringing ... activity.” *Id.* “The fraud engine uses rules and complex models that automatically search for activity that violates eBay policies.” *Id.* In addition to identifying items actually advertised as counterfeit, the engine also incorporates various filters designed to screen out less-obvious instances of counterfeiting using “data elements designed to evaluate

listings based on, for example, the seller's Internet protocol address, any issues associated with the seller's account on eBay, and the feedback the seller has received from other eBay users.” *Id.* In addition to general filters, the fraud engine incorporates “Tiffany-specific filters,” including “approximately 90 different keywords” designed to help distinguish between genuine and counterfeit Tiffany goods. *Id.* at 491. During the period in dispute,³ eBay also “periodically conducted [manual] reviews of listings in an effort to remove those that might be selling counterfeit goods, including Tiffany goods.” *Id.*

[15] For nearly a decade, including the period at issue, eBay has also maintained and administered the “Verified Rights Owner (‘VeRO’) Program”—a “‘notice-and-takedown’ system” allowing owners of intellectual property rights, including Tiffany, to “report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings.” *Id.* at 478. Any such rights-holder with a “good-faith belief that [a particular listed] item infringed on a copyright or a trademark” could report the item to eBay, using a “Notice Of Claimed Infringement form or NOCI form.” *Id.* During the period under consideration, eBay's practice was to remove reported listings within twenty-four hours of receiving a NOCI, but eBay in fact deleted seventy to eighty percent of them within twelve hours of notification. *Id.*

[16] On receipt of a NOCI, if the auction or sale had not ended, eBay would, in addition to removing the listing, cancel the bids and inform the seller of the reason for the cancellation. If bidding had ended, eBay would retroactively cancel the transaction. *Id.* In the event of a cancelled auction, eBay would refund the fees it had been paid in connection with the auction. *Id.* at 478-79.

[17] In some circumstances, eBay would reimburse the buyer for the cost of a purchased item, provided the buyer presented evidence that the purchased item was counterfeit. *Id.* at 479.⁴ During the relevant time period, the district court found, eBay “never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany's NOCIs, and always provided Tiffany with the seller's contact information.” *Id.* at 488.

³ In its findings, the district court often used the past tense to describe eBay's anticounterfeiting efforts. We do not take this usage to suggest that eBay has discontinued these efforts, but only to emphasize that its findings are issued with respect to a particular period of time prior to the completion of trial and issuance of its decision.

⁴ We note, however, that, Tiffany's “About Me” page on the eBay website states that Tiffany does not authenticate merchandise. Pl.'s Ex. 290.

[18] Thus, it may be difficult for a purchaser to proffer evidence to eBay supporting a suspicion that the “Tiffany” merchandise he or she bought is counterfeit.

[19] In addition, eBay has allowed rights owners such as Tiffany to create an “About Me” webpage on eBay’s website “to inform eBay users about their products, intellectual property rights, and legal positions.” *Id.* at 479. eBay does not exercise control over the content of those pages in a manner material to the issues before us.

[20] Tiffany, not eBay, maintains the Tiffany “About Me” page. With the headline “**BUYER BEWARE,**” the page begins: “**Most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit.**” Pl.’s Ex. 290 (bold face type in original). It also says, *inter alia*:

The only way you can be certain that you are purchasing a genuine TIFFANY & CO. product is to purchase it from a Tiffany & Co. retail store, via our website (www. tiffany. com) or through a Tiffany & Co. catalogue. Tiffany & Co. stores do not authenticate merchandise. A good jeweler or appraiser may be able to do this for you.

Id.

[21] In 2003 or early 2004, eBay began to use “special warning messages when a seller attempted to list a Tiffany item.” *Tiffany*, 576 F.Supp.2d at 491. These messages “instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay ‘does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items’ and that violation of this policy ‘could result in suspension of [the seller’s] account.’ ” *Id.* (alteration in original). The messages also provided a link to Tiffany’s “About Me” page with its “buyer beware” disclaimer. *Id.* If the seller “continued to list an item despite the warning, the listing was flagged for review.” *Id.*

[22] In addition to cancelling particular suspicious transactions, eBay has also suspended from its website “ ‘hundreds of thousands of sellers every year,’ tens of thousands of whom were suspected [of] having engaged in infringing conduct.” *Id.* at 489. eBay primarily employed a “ ‘three strikes rule’ ” for suspensions, but would suspend sellers after the first violation if it was clear that “the seller ‘listed a number of infringing items,’ and ‘[selling counterfeit merchandise] appears to be the only thing they’ve come to eBay to do.’ ” *Id.* But if “a seller listed a potentially infringing item but appeared overall to be a legitimate seller, the ‘infringing items [were] taken down, and the seller [would] be sent a warning on the first offense and given the

educational information, [and] told that ... if they do this again, they will be suspended from eBay.' " *Id.* (alterations in original).⁵

[23] By late 2006, eBay had implemented additional anti-fraud measures: delaying the ability of buyers to view listings of certain brand names, including Tiffany's, for 6 to 12 hours so as to give rights-holders such as Tiffany more time to review those listings; developing the ability to assess the number of items listed in a given listing; and restricting one-day and three-day auctions and cross-border trading for some brand-name items. *Id.* at 492.

[24] The district court concluded that "eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available." *Id.* at 493.

eBay's Advertising

[25] At the same time that eBay was attempting to reduce the sale of counterfeit items on its website, it actively sought to promote sales of premium and branded jewelry, including Tiffany merchandise, on its site. *Id.* at 479-80. Among other things,

eBay "advised its sellers to take advantage of the demand for Tiffany merchandise as part of a broader effort to grow the Jewelry & Watches category." *Id.* at 479. And prior to 2003, eBay advertised the availability of Tiffany merchandise on its site. eBay's advertisements trumpeted "Mother's Day Gifts!," Pl.'s Exs. 392, 1064, a "Fall FASHION BRAND BLOWOUT," Pl.'s Ex. 392, "Jewelry Best Sellers," *id.*, "GREAT BRANDS, GREAT PRICES," Pl.'s Ex. 1064, or "Top Valentine's Deals," Pl.'s Ex. 392, among other promotions. It encouraged the viewer to "GET THE FINER THINGS." Pl.'s Ex. 392. These advertisements provided the reader with

⁵ According to the district court, "eBay took appropriate steps to warn and then to suspend sellers when eBay learned of potential trademark infringement under that seller's account." *Tiffany*, 576 F.Supp.2d at 489. The district court concluded that it was understandable that eBay did not have a "hard-and-fast, one-strike rule" of suspending sellers because a NOCI "did not constitute a definitive finding that the listed item was counterfeit" and because "suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods." *Id.* The district court ultimately found eBay's policy to be "appropriate and effective in preventing sellers from returning to eBay and re-listing potentially counterfeit merchandise." *Id.*

hyperlinks, at least one of each of which was related to Tiffany merchandise—“Tiffany,” “Tiffany & Co. under \$150,” “Tiffany & Co,” “Tiffany Rings,” or “Tiffany & Co. under \$50.” Pl.’s Exs. 392, 1064.

eBay also purchased sponsored-link advertisements on various search engines to promote the availability of Tiffany items on its website. *Tiffany*, 576 F.Supp.2d at 480. In one such case, in the form of a printout of the results list from a search on Yahoo! for “tiffany,” the second sponsored link read “**Tiffany** on eBay. Find **tiffany** items at low prices. With over 5 million items for sale every day, you’ll find all kinds of unique [unreadable] Marketplace. www. ebay. com.” Pl.’s Ex. 1065 (bold face type in original). Tiffany complained to eBay of the practice in 2003, and eBay told Tiffany that it had ceased buying sponsored links. *Tiffany*, 576 F.Supp.2d at 480. The district court found, however, that eBay continued to do so indirectly through a third party. *Id.*

Procedural History

[26] By amended complaint dated July 15, 2004, Tiffany initiated this action. It alleged, *inter alia*, that eBay’s conduct—i.e., facilitating and advertising the sale of “Tiffany” goods that turned out to be counterfeit—constituted direct and contributory trademark infringement, trademark dilution, and false advertising. On July 14, 2008, following a bench trial, the district court, in a thorough and thoughtful opinion, set forth its findings of fact and conclusions of law, deciding in favor of eBay on all claims.

[27] Tiffany appeals from the district court’s judgment for eBay.

DISCUSSION

[28] We review the district court’s findings of fact for clear error and its conclusions of law *de novo*. *Giordano v. Thomson*, 564 F.3d 163, 168 (2d Cir.2009).

I. Direct Trademark Infringement

[The court found that eBay did not directly infringe Tiffany’s trademark when it used the mark on its website and when it purchased sponsored links on Google and Yahoo! triggered by the Tiffany mark.]

II. Contributory Trademark Infringement

[29] The more difficult issue, and the one that the parties have properly focused our attention on, is whether eBay is liable for contributory trademark infringement—i.e., for culpably facilitating the infringing conduct of the counterfeiting vendors. Acknowledging the paucity of case law to guide us, we

conclude that the district court correctly granted judgment on this issue in favor of eBay.

A. Principles

[30] Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts. *See, e.g., Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir.1992); *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (“[T]hese doctrines of secondary liability emerged from common law principles and are well established in the law.”) (citations omitted). The Supreme Court most recently dealt with the subject in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). There, the plaintiff, Ives, asserted that several drug manufacturers had induced pharmacists to mislabel a drug the defendants produced to pass it off as Ives’. *See id.* at 847-50. According to the Court, “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.” *Id.* at 854.⁶ The Court ultimately decided to remand the case

⁶ The Supreme Court cited two cases in support of this proposition: *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924), and *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F.Supp. 980 (D.Mass.1946) (Wyzanski, J.), *aff’d*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947).

Like *Inwood*, *Eli Lilly* involved an allegation by a plaintiff drug manufacturer that a defendant drug manufacturer had intentionally induced distributors to pass off the defendant's drug to purchasers as the plaintiff's. 265 U.S. at 529-30. The Supreme Court granted the plaintiff's request for an injunction, stating that “[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.” *Id.* at 530-31.

In *Snow Crest*, the Coca-Cola Company claimed that a rival soft drink maker had infringed Coca-Cola's mark because bars purchasing the rival soft drink had substituted it for Coca-Cola when patrons requested a “rum (or whiskey) and Coca-Cola.” 64 F.Supp. at 982, 987. Judge Wyzanski entered judgment in favor of the defendant primarily because there was insufficient evidence of such illicit substitutions taking place. *Id.* at 990. In doing so, the court stated that “[b]efore he can himself be held as a wrongdoer o[r] contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to

to the Court of Appeals after concluding it had improperly rejected factual findings of the district court favoring the defendant manufacturers. *Id.* at 857-59.

[31] *Inwood's* test for contributory trademark infringement applies on its face to manufacturers and distributors of goods. Courts have, however, extended the test to providers of services.

[32] The Seventh Circuit applied *Inwood* to a lawsuit against the owner of a swap meet, or “flea market,” whose vendors were alleged to have sold infringing Hard Rock Café T-shirts. *See Hard Rock Café*, 955 F.2d at 1148-49. The court “treated trademark infringement as a species of tort,” *id.* at 1148, and analogized the swap meet owner to a landlord or licensor, on whom the common law “imposes the same duty ... [as *Inwood*] impose[s] on manufacturers and distributors,” *id.* at 1149; *see also Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir.1996) (adopting *Hard Rock Cafe's* reasoning and applying *Inwood* to a swap meet owner).

[33] Speaking more generally, the Ninth Circuit concluded that *Inwood's* test for contributory trademark infringement applies to a service provider if he or she exercises sufficient control over the infringing conduct. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir.1999); *see also id.* (“Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark permits the expansion of *Inwood Lab's* ‘supplies a product’ requirement for contributory infringement.”).

[34] We have apparently addressed contributory trademark infringement in only two related decisions, *see Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 64 (2d Cir.1992) (“*Polymer I* ”); *Polymer Tech. Corp. v. Mimran*, 37 F.3d 74, 81 (2d Cir.1994) (“*Polymer II* ”), and even then in little detail. Citing *Inwood*, we said that “[a] distributor who intentionally induces another to infringe a trademark, or continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, is contributorially liable for any injury.” *Polymer I*, 975 F.2d at 64.

[35] The limited case law leaves the law of contributory trademark infringement ill-defined. Although we are not the first court to consider the application of *Inwood* to the Internet, *see, e.g., Lockheed*, 194 F.3d 980, *supra* (Internet domain name registrar), we are apparently the first to consider its application to an online marketplace.⁷

have knowledge that the other will or can reasonably be expected to commit a tort with the supplied instrument.” *Id.* at 989.

⁷ European courts have done so. A Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website. *See Lancôme v. eBay*,

B. Discussion

1. Does *Inwood* Apply?

[36] In the district court, the parties disputed whether eBay was subject to the *Inwood* test. *See Tiffany*, 576 F.Supp.2d at 504. eBay argued that it was not because it supplies a service while *Inwood* governs only manufacturers and distributors of products. *Id.* The district court rejected that distinction. It adopted instead the reasoning of the Ninth Circuit in *Lockheed* to conclude that *Inwood* applies to a service provider who exercises sufficient control over the means of the infringing conduct. *Id.* at 505-06. Looking “to the extent of the control exercised by eBay over its sellers’ means of infringement,” the district court concluded that *Inwood* applied in light of the “significant control” eBay retained over the transactions and listings facilitated by and conducted through its website. *Id.* at 505-07.

[37] On appeal, eBay no longer maintains that it is not subject to *Inwood*.⁸ We therefore assume without deciding that *Inwood*’s test for contributory trademark infringement governs.

Brussels Commercial Court (Aug. 12, 2008), Docket No. A/07/06032. French courts, by contrast, have concluded that eBay violated applicable trademark laws. *See, e.g., S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris, Première Chambre B. (Paris Commercial Court), Case No. 200677799 (June 30, 2008); *Hermès v. eBay*, Troyes High Court (June 4, 2008), Docket No. 06/0264; *see also* Max Colchester, “eBay to Pay Damages To Unit of LVMH,” *The Wall Street Journal*, Feb. 12, 2010, http://online.wsj.com/article_email/SB10001424052748704337004575059523018541764-1MyQjAxMTAwMDEwMjExNDIyWj.html (last visited Mar. 1, 2010) (“A Paris court Thursday ordered eBay to pay Louis Vuitton Q200,000 (\$275,000) in damages and to stop paying search engines to direct certain key words to the eBay site.”); *see generally*, Valerie Walsh Johnson & Laura P. Merritt, *TIFFANY v. EBAY: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, 1 No. 2 Landslide 22 (2008) (surveying decisions by European courts in trademark infringement cases brought against eBay).

⁸ Amici do so claim. *See* Electronic Frontier Foundation et al. Amici Br. 6 (arguing that *Inwood* should “not govern where, as here, the alleged contributory infringer has no direct means to establish whether there is any act of direct infringement in the first place”). We decline to consider this argument. “Although an *amicus* brief can be helpful in elaborating issues properly presented by the parties, it is normally not a method for injecting new issues into an appeal, at least in cases

2. Is eBay Liable Under *Inwood*?

[38] The question that remains, then, is whether eBay is liable under the *Inwood* test on the basis of the services it provided to those who used its website to sell counterfeit Tiffany products. As noted, when applying *Inwood* to service providers, there are two ways in which a defendant may become contributorily liable for the infringing conduct of another: first, if the service provider “intentionally induces another to infringe a trademark,” and second, if the service provider “continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.” *Inwood*, 456 U.S. at 854. Tiffany does not argue that eBay induced the sale of counterfeit Tiffany goods on its website—the circumstances addressed by the first part of the *Inwood* test. It argues instead, under the second part of the *Inwood* test, that eBay continued to supply its services to the sellers of counterfeit Tiffany goods while knowing or having reason to know that such sellers were infringing Tiffany’s mark.

[39] The district court rejected this argument. First, it concluded that to the extent the NOCIs that Tiffany submitted gave eBay reason to know that particular listings were for counterfeit goods, eBay did not continue to carry those listings once it learned that they were specious. *Tiffany*, 576 F.Supp.2d at 515-16. The court found that eBay’s practice was promptly to remove the challenged listing from its website, warn sellers and buyers, cancel fees it earned from that listing, and direct buyers not to consummate the sale of the disputed item. *Id.* at 516. The court therefore declined to hold eBay contributorily liable for the infringing conduct of those sellers. *Id.* at 518. On appeal, Tiffany does not appear to challenge this conclusion. In any event, we agree with the district court that no liability arises with respect to those terminated listings.

[40] Tiffany disagrees vigorously, however, with the district court’s further determination that eBay lacked sufficient knowledge of trademark infringement by sellers behind other, non-terminated listings to provide a basis for *Inwood* liability. Tiffany argued in the district court that eBay knew, or at least had reason to know, that counterfeit Tiffany goods were being sold ubiquitously on its website. *Id.* at 507-08. As evidence, it pointed to, *inter alia*, the demand letters it sent to eBay in 2003 and 2004, the results of its Buying Programs that it shared with eBay, the thousands of NOCIs it filed with eBay alleging its good faith belief that certain listings were counterfeit, and the various complaints eBay received from buyers

where the parties are competently represented by counsel.” *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 445 (2d Cir.2001).

claiming that they had purchased one or more counterfeit Tiffany items through eBay's website. *Id.* at 507. Tiffany argued that taken together, this evidence established eBay's knowledge of the widespread sale of counterfeit Tiffany products on its website. Tiffany urged that eBay be held contributorially liable on the basis that despite that knowledge, it continued to make its services available to infringing sellers. *Id.* at 507-08.

[41] The district court rejected this argument. It acknowledged that “[t]he evidence produced at trial demonstrated that eBay had *generalized* notice that some portion of the Tiffany goods sold on its website might be counterfeit.” *Id.* at 507 (emphasis in original). The court characterized the issue before it as “whether eBay's *generalized* knowledge of trademark infringement on its website was sufficient to meet the ‘knowledge or reason to know’ prong of the *Inwood* test.” *Id.* at 508 (emphasis in original). eBay had argued that “such generalized knowledge is insufficient, and that the law demands more specific knowledge of individual instances of infringement and infringing sellers before imposing a burden upon eBay to remedy the problem.” *Id.*

[42] The district court concluded that “while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem.” *Id.* at 508. The court reasoned that *Inwood*'s language explicitly imposes contributory liability on a defendant who “continues to supply its product [—in eBay's case, its service—] to *one* whom it knows or has reason to know is engaging in trademark infringement.” *Id.* at 508 (emphasis in original). The court also noted that plaintiffs “bear a high burden in establishing ‘knowledge’ of contributory infringement,” and that courts have

been reluctant to extend contributory trademark liability to defendants where there is some uncertainty as to the extent or the nature of the infringement. In *Inwood*, Justice White emphasized in his concurring opinion that a defendant is not “require[d] ... to refuse to sell to dealers who merely *might* pass off its goods.”

Id. at 508-09 (quoting *Inwood*, 456 U.S. at 861, 102 S.Ct. 2182) (White, J., concurring) (emphasis and alteration in original).⁹

[43] Accordingly, the district court concluded that for Tiffany to establish eBay's contributory liability, Tiffany would have to show that eBay “knew or had

⁹ The district court found the cases Tiffany relied on for the proposition that general knowledge of counterfeiting suffices to trigger liability to be inapposite. *Id.* at 510.

reason to know of specific instances of actual infringement” beyond those that it addressed upon learning of them. *Id.* at 510. Tiffany failed to make such a showing.

[44] On appeal, Tiffany argues that the distinction drawn by the district court between eBay’s general knowledge of the sale of counterfeit Tiffany goods through its website, and its specific knowledge as to which particular sellers were making such sales, is a “false” one not required by the law. Appellants’ Br. 28. Tiffany posits that the only relevant question is “whether all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement. If so and if it fails to act, [eBay] is liable for contributory trademark infringement.” *Id.* at 29.

[45] We agree with the district court. For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.

[46] We are not persuaded by Tiffany’s proposed interpretation of *Inwood*. Tiffany understands the “lesson of *Inwood*” to be that an action for contributory trademark infringement lies where “the evidence [of infringing activity]—direct or circumstantial, taken as a whole—... provide[s] a basis for finding that the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity.” Appellants’ Br. 30. We think that Tiffany reads *Inwood* too broadly. Although the *Inwood* Court articulated a “knows or has reason to know” prong in setting out its contributory liability test, the Court explicitly declined to apply that prong to the facts then before it. *See Inwood*, 456 U.S. at 852 n. 12, 102 S.Ct. 2182 (“The District Court also found that the petitioners did not continue to provide drugs to retailers whom they knew or should have known were engaging in trademark infringement. The Court of Appeals did not discuss that finding, and we do not address it.”) (internal citation omitted). The Court applied only the inducement prong of the test. *See id.* at 852-59.

[47] We therefore do not think that *Inwood* establishes the contours of the “knows or has reason to know” prong. Insofar as it speaks to the issue, though, the particular phrasing that the Court used—that a defendant will be liable if it “continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement,” *id.* at 854, 102 S.Ct. 2182 (emphasis added)—supports the district court’s interpretation of *Inwood*, not Tiffany’s.

[48] We find helpful the Supreme Court’s discussion of *Inwood* in a subsequent copyright case, *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). There, defendant Sony manufactured and sold home video tape recorders.

Id. at 419. Plaintiffs Universal Studios and Walt Disney Productions held copyrights on various television programs that individual television-viewers had taped using the defendant's recorders. *Id.* at 419-20. The plaintiffs contended that this use of the recorders constituted copyright infringement for which the defendants should be held contributorily liable. *Id.* In ruling for the defendants, the Court discussed *Inwood* and the differences between contributory liability in trademark versus copyright law.

If *Inwood's* narrow standard for contributory trademark infringement governed here, [the plaintiffs'] claim of contributory infringement would merit little discussion. Sony certainly does not 'intentionally induce[]' its customers to make infringing uses of [the plaintiffs'] copyrights, nor does it supply its products to *identified individuals known by it* to be engaging in continuing infringement of [the plaintiffs'] copyrights.

Id. at 439 n. 19 (quoting *Inwood*, 456 U.S. at 855; emphases added).

[49] Thus, the Court suggested, had the *Inwood* standard applied in *Sony*, the fact that Sony might have known that some portion of the purchasers of its product used it to violate the copyrights of others would not have provided a sufficient basis for contributory liability. *Inwood's* "narrow standard" would have required knowledge by Sony of "identified individuals" engaging in infringing conduct. Tiffany's reading of *Inwood* is therefore contrary to the interpretation of that case set forth in *Sony*.

[50] Although the Supreme Court's observations in *Sony*, a copyright case, about the "knows or has reason to know" prong of the contributory trademark infringement test set forth in *Inwood* were dicta, they constitute the only discussion of that prong by the Supreme Court of which we are aware. We think them to be persuasive authority here.¹⁰

[51] Applying *Sony's* interpretation of *Inwood*, we agree with the district court that "Tiffany's general allegations of counterfeiting failed to provide eBay with the knowledge required under *Inwood*." *Tiffany*, 576 F.Supp.2d at 511. Tiffany's demand letters and Buying Programs did not identify particular sellers who Tiffany thought

¹⁰ In discussing *Inwood's* "knows or has reason to know" prong of the contributory infringement test, *Sony* refers to a defendant's knowledge, but not to its constructive knowledge, of a third party's infringing conduct. *Sony*, 464 U.S. at 439 n. 19, 104 S.Ct. 774. We do not take the omission as altering the test *Inwood* articulates.

were then offering or would offer counterfeit goods. *Id.* at 511-13.¹¹ And although the NOCIs and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers' listings were removed and repeat offenders were suspended from the eBay site. Thus Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.

[52] Accordingly, we affirm the judgment of the district court insofar as it holds that eBay is not contributorially liable for trademark infringement.

3. Willful Blindness.

[53] Tiffany and its amici express their concern that if eBay is not held liable except when specific counterfeit listings are brought to its attention, eBay will have no incentive to root out such listings from its website. They argue that this will effectively require Tiffany and similarly situated retailers to police eBay's website—and many others like it—“24 hours a day, and 365 days a year.” Council of Fashion Designers of America, Inc. Amicus Br. 5. They urge that this is a burden that most mark holders cannot afford to bear.

[54] First, and most obviously, we are interpreting the law and applying it to the facts of this case. We could not, even if we thought it wise, revise the existing law in order to better serve one party's interests at the expense of the other's.

[55] But we are also disposed to think, and the record suggests, that private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites. eBay received many complaints from users claiming to have been duped into buying counterfeit Tiffany products sold on eBay. *Tiffany*, 576 F.Supp.2d at 487. The risk of alienating these users gives eBay a reason to identify and remove counterfeit listings.¹² Indeed, it has spent millions of dollars in that effort.

[56] Moreover, we agree with the district court that if eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of

¹¹ The demand letters did say that eBay should presume that sellers offering five or more Tiffany goods were selling counterfeits, *id.* at 511, but we agree with the district court that this presumption was factually unfounded, *id.* at 511-12.

¹² At the same time, we appreciate the argument that insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue.

those sales sufficient to satisfy *Inwood's* “knows or has reason to know” prong. *Tiffany*, 576 F.Supp.2d at 513-14. A service provider is not, we think, permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way. *See, e.g., Hard Rock Café*, 955 F.2d at 1149 (“To be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate.”); *Fonovisa*, 76 F.3d at 265 (applying *Hard Rock Café's* reasoning to conclude that “a swap meet can not disregard its vendors’ blatant trademark infringements with impunity”).¹³ In the words of the Seventh Circuit, “willful blindness is equivalent to actual knowledge for purposes of the Lanham Act.” *Hard Rock Café*, 955 F.2d at 1149.¹⁴

¹³ To be clear, a service provider is not contributorially liable under *Inwood* merely for failing to anticipate that others would use its service to infringe a protected mark. *Inwood*, 456 U.S. at 854 n. 13, 102 S.Ct. 2182 (stating that for contributory liability to lie, a defendant must do more than “reasonably anticipate” a third party’s infringing conduct (internal quotation marks omitted)). But contributory liability may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact.

¹⁴ The principle that willful blindness is tantamount to knowledge is hardly novel. *See, e.g. Harte-Hanks Commc’ns, Inc. v. Connaughton*, 491 U.S. 657, 659, 692, 109 S.Ct. 2678, 105 L.Ed.2d 562 (1989) (concluding in public-official libel case that “purposeful avoidance of the truth” is equivalent to “knowledge that [a statement] was false or [was made] with reckless disregard of whether it was false” (internal quotation marks omitted)); *United States v. Khorozian*, 333 F.3d 498, 504 (3d Cir.2003) (acting with willful blindness satisfies the intent requirement of the federal bank fraud statute); *Friedman v. Comm’r*, 53 F.3d 523, 525 (2d Cir.1995) (“The ‘innocent spouse’ exemption [from the rule that married couples who file a joint tax return are jointly and severally liable for any tax liability found] was not designed to protect willful blindness or to encourage the deliberate cultivation of ignorance.”); *Mattingly v. United States*, 924 F.2d 785, 792 (8th Cir.1991) (concluding in civil tax fraud case that “the element of knowledge may be inferred from deliberate acts amounting to willful blindness to the existence of fact or acts constituting conscious purpose to avoid enlightenment.”); *Morrow Shoe Mfg. Co. v. New England Shoe Co.*, 57 F. 685, 694 (7th Cir.1893) (“The mind cannot well avoid the conclusion that if they did not know of the fraudulent purposes of Davis it was because they were willfully blind. Such facility of belief, it has been well said, invites

[57] eBay appears to concede that it knew as a general matter that counterfeit Tiffany products were listed and sold through its website. *Tiffany*, 576 F.Supp.2d at 514. Without more, however, this knowledge is insufficient to trigger liability under *Inwood*. The district court found, after careful consideration, that eBay was not willfully blind to the counterfeit sales. *Id.* at 513. That finding is not clearly erroneous.¹⁵ eBay did not ignore the information it was given about counterfeit sales on its website.

[*The Court went on to find that eBay had not diluted Tiffany's marks and did not engage in false advertising.*]

Questions and Comments

1. The *Tiffany* court asserted that trademark law's contributory infringement doctrine "derives from the common law of torts." In *Probabilistic Knowledge of Third-Party Trademark Infringement*, 2011 STAN. TECH. L. REV. 10 (2011), Mark McKenna argues that trademark contributory liability doctrine varies substantially from standard tort doctrine:

the secondary liability standard the Supreme Court articulated in *Inwood v. Ives* is a higher one than tort law employs. This is not particularly surprising, both because the Supreme Court didn't actually engage tort cases in developing the *Inwood* standard, and because, even

fraud, and may justly be suspected of being its accomplice."); *State Street Trust Co. v. Ernst*, 278 N.Y. 104, 112, 15 N.E.2d 416, 419 (1938) ("[H]eedlessness and reckless disregard of consequence [by an accountant] may take the place of deliberate intention.").

¹⁵ Tiffany's reliance on the "flea market" cases, *Hard Rock Café* and *Fonovisa*, is unavailing. eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants in those cases. See *Hard Rock Café*, 955 F.2d at 1146 (defendant did not investigate any of the seizures of counterfeit products at its swap meet, even though it knew they had occurred); *Fonovisa*, 76 F.3d at 265 (concluding that plaintiff stated a claim for contributory trademark infringement based on allegation that swap meet "disregard[ed] its vendors' blatant trademark infringements with impunity"). Moreover, neither case concluded that the defendant was willfully blind. The court in *Hard Rock Café* remanded so that the district court could apply the correct definition of "willful blindness," 955 F.2d at 1149, and the court in *Fonovisa* merely sustained the plaintiff's complaint against a motion to dismiss, 76 F.3d at 260-61, 265.

if it had, the most analogous tort cases involve not secondary liability for the actions of third parties, but negligence claims for unreasonably exposing the plaintiff to harm. That is, if trademark secondary liability really derived from tort law, liability would exist in cases of probabilistic knowledge only when the defendant unreasonably failed to take precautions in the face of the known risk of infringement. Unreasonableness would be measured, as it generally is in tort cases, by evaluating the probability of harm to the plaintiff and the potential magnitude of that harm, and comparing the product to the cost of the foregone precautions.

Id. at 2. Who would benefit (for example, Tiffany or eBay?) if trademark law adopted the PL > B approach instead of the *Inwood v. Ives* approach to secondary liability?

In *Perfect 10, Inc. v. Visa Intern. Service Ass'n*, 494 F.3d 788 (9th Cir. 2007), the Ninth Circuit declined to hold credit card providers liable for providing payment services to websites that infringed the plaintiff's copyrights in pornographic images. Judge Kozinski dissented. *See id.* at 810 (Kozinski, J., "dissenting for the most part"). In the following opinion, the S.D.N.Y. had to decide whether to hold credit card providers liable for providing payment services to website operators that sold counterfeit merchandise.

Gucci America, Inc. v. Frontline Processing Corp.
721 F.Supp.2d 228 (S.D.N.Y. 2010)

HAROLD BAER, JR., District Judge:

[1] Gucci America, Inc. is a well-known manufacturer of luxury goods. The company holds a variety of trademarks in its products and designs, and invests substantial capital in ensuring that the marks maintain a reputation for quality. Seeking to capitalize on the popularity of Gucci products, certain internet merchants have sold "replica," counterfeit Gucci products that infringe Gucci marks at significantly lower prices and of lower quality. Gucci recently concluded a successful litigation against one such merchant that operated a website called TheBagAddiction.com. The owners of the website admitted that they sold counterfeit Gucci products to customers across the country through the website. In its continuing effort to root out and prevent infringement of its trademarks, Gucci

now brings suit against three entities, which while a step down in the “food chain,” allegedly ensured that TheBagAddiction.com was able to sell these counterfeit products. These defendants allegedly established the credit card processing services used to complete the online sales of fake Gucci items. The three defendants have jointly moved to dismiss the case for lack of personal jurisdiction and for failure to state a claim. For the reasons that follow, the defendants' motion to dismiss is DENIED.

I. BACKGROUND

[2] Gucci America, Inc. (“Plaintiff” or “Gucci”) is a New York company, with its principal place of business in New York City. Compl. ¶ 11. It is the sole, exclusive distributor in the United States of items labeled with the “Gucci Marks,” including leather goods, jewelry, home products, and clothing. *Id.* The Gucci Marks are a series of marks—the Gucci name, the Gucci crest, the “non-interlocking GG monogram,” the “repeating GG design,” etc.—registered by Gucci with the United States Patent and Trademark Office. *See* Compl. ¶¶ 24–25 (reproduction of marks), Ex. 1 (Patent Office registration certificates). According to Plaintiff, the marks are well-known and recognizable in the United States and around the world. Gucci promotes the marks widely, and relies on “strict quality control standards” for its products, and as a result has achieved and retains a reputation for quality. *Id.* ¶ 28. The company spends hundreds of millions of dollars to advertise and promote its products and marks, and enjoys billions in sales of the Gucci products. “Based on the extensive sales of the Gucci [p]roducts and such products' wide popularity,” claims Plaintiff, “the Gucci Marks have developed a secondary meaning and significance in the minds of the purchasing public, and the services and products utilizing and/or bearing such marks and names are immediately identified by the purchasing public with Plaintiff.” *Id.* ¶ 30.

[3] This case arises out of Plaintiff's attempts to eliminate online sales of counterfeit products and the unauthorized use of the Gucci Marks. In *Gucci America, Inc., et al. v. Laurette Company, Inc., et al.*, No. 08 Civ. 5065(LAK), Gucci brought suit in this District against certain defendants, collectively known as the “Laurette Counterfeiters” or “Laurette,” for the sale of counterfeit Gucci products on a website called “TheBagAddiction.com.”¹ Through this website, the Laurette Counterfeiters

¹ *See* TheBagAddiction.com, [http:// www. The Bag Addiction. com](http://www.TheBagAddiction.com). This site can no longer be accessed because it was shut down following Gucci's lawsuit, but archived versions of the website can be browsed at The Internet Archive Wayback Machine.

sold a variety of “replica” luxury products, and, in particular, sold replica Gucci products under the Gucci name, with the various Gucci registered trademarks, and at fractions of the retail price for an authentic version. *See* Compl. ¶¶ 33–36 (describing and providing images of counterfeit Gucci products sold on TheBagAddiction.com). The website itself was replete with the use of the Gucci name and trademarks. *See id.* ¶ 41 (image of TheBagAddiction.com website). According to Plaintiff, the Laurette Counterfeiters “openly boasted” about the sale of counterfeit products, because the website expressly noted that the products were not authentic but rather “mirror images” of Gucci products. *See id.* ¶ 32. Though they are inferior in quality and workmanship, they appear to the naked eye to be similar if not identical to Gucci products. Gucci claims that, as a result of the sale of these counterfeit products, customers were deceived and misled “into believing that the products sold by the Laurette Counterfeiters on TheBagAddiction.com were authorized or sponsored by the Plaintiff.” *Id.* ¶ 40. Eventually, Laurette consented to the entry of judgment and admitted liability for counterfeiting activities. According to Plaintiff, “the Laurette [c]ounterfeiters admitted ... that, without authorization or license ... they willfully and intentionally used, reproduced and/or copied the Gucci [m]arks in connection with their manufacturing, distributing, exporting, importing, advertising, marketing, selling and/or offering to sell their [c]ounterfeit [p]roducts.” *Id.* ¶ 31.

[4] Plaintiff now seeks to bring the present action against three companies, Durango Merchant Services, Frontline Processing Corporation, and Woodforest National Bank,² who allegedly assisted the Laurette Counterfeiters and other similar website operators. Durango Merchant Services (“Durango”) is a Wyoming corporation with its business address in Durango, Colorado. According to Defendants, Durango has only five employees, and has no offices, no employees, and no property located in New York. Durango’s business is predicated on assisting merchants in setting up credit card processing services with institutions that provide credit card merchant accounts. Durango does business with New York-based companies, but maintains that this accounts for less than one percent of its

See [http:// web. archive. org/ web/*/ http:// the bag addiction. com](http://web.archive.org/web/*/http://thebagaddiction.com) (last visited May 23, 2010).

² Gucci also brings suit against certain other “ABC Companies,” unknown companies who engaged with the known defendants “in the manufacture, distribution, sale, and advertisement of [c]ounterfeit [p]roducts,” Compl. ¶ 17, and “John Does,” unknown individuals who also participated with the named defendants in the infringement and counterfeiting of Gucci products. *Id.* ¶ 18.

revenue. Frontline Processing Corporation (“Frontline”) is a Nevada corporation with its principal place of business in Bozeman, Montana. Frontline is a “nationwide provider of credit card processing and electronic payment services for merchants, banks, and sales agents,” and is an “Independent Service Organization” and “Merchant Service Provider” with Visa and MasterCard, respectively. Compl. ¶ 58. Similar to Durango, Defendants claim that Frontline has no office, no employees, and no property in New York. A small minority of the businesses it has worked with maintain addresses in New York. Finally, Woodforest National Bank (“Woodforest”) is a bank organized under the laws of the United States, with its business address in The Woodlands, Texas. Similar to Frontline, Woodforest also “provides certain credit card processing services.” *Id.* ¶ 14. Like the other two defendants, Woodforest claims to have no New York offices or property in New York, while a small percentage of its business comes from New York-based clients. Gucci alleges that Woodforest provides some of its services through an affiliate with an office in New York, Merchants' Choice Card Services Corporation (“MCCS”), though Woodforest disputes the nature of the relationship.

[5] To understand the roles of the three defendants and their alleged liability, a summary explanation of the credit card transaction process is necessary. A customer will initiate the process when he or she purchases a product from the merchant with a credit card. Once the credit card information is “swiped” on a terminal, or entered on a website, the merchant terminal transmits an authorization request to the merchant's “acquiring bank,” who in this case was Frontline and Woodforest. The acquiring bank sends the credit card request through an electronic network to the cardholder's issuing bank. Based on the cardholder's credit limit or other factors, the issuing bank will send a message back through the network to the acquiring bank, who forwards it back to the merchant, which states that the merchant should either approve or decline the transaction. If approved, the merchant will complete the transaction and the acquiring bank will credit the merchant's account with the appropriate amount of funds. This entire process typically takes a matter of seconds. Some days to months after the sale is completed, the acquiring bank will submit the transaction information to the issuing bank, which will seek payment from the cardholder and settle with the acquiring bank.

[6] Gucci's overarching theory of the case is that Durango arranged for web companies that sold counterfeit Gucci products to establish credit card processing services with companies like Woodforest and Frontline. These processors then provided the credit card services necessary for the sale of the faux Gucci items. The complaint focuses largely on the allegedly representative conduct of Defendants with the Laurette Counterfeiters. According to Plaintiff, Durango acted as an agent

for the defendant credit card processing companies³ to locate potential customers, including the Laurette Counterfeiters and other similar infringing online operations. Durango collected a referral fee for bringing together these online merchants with banks and companies like Frontline and Woodforest. Durango's website billed the company as specializing in services for "High Risk Merchant Accounts," including those who sell "Replica Products." Compl. ¶ 48. *239 Gucci alleges that the Laurette Counterfeiters entered into a "Merchant Service Agreement" with Durango through one of its sales representatives, Nathan Counley and, through this relationship, "procur[ed] merchant accounts with credit card processing agencies, including Defendants Frontline and Woodforest." *Id.* ¶ 51. Gucci asserts that, through email and other documents, Durango was aware that TheBagAddiction.com sold counterfeit "replica" Gucci products and nevertheless chose to do business with them.

[7] Frontline began to provide credit card processing services to TheBagAddiction.com in September 2006. The relationship was precipitated by an application completed by the Laurette Counterfeiters through the assistance of Durango; Counley was listed as a sales agent for Frontline on the application. *See* Compl. ¶ 55. Once the service was established, Frontline processed Visa, MasterCard, Discover, and American Express credit card transactions for goods sold by the Laurette Counterfeiters. Frontline deducted a fee, or discount rate, based on the transactions it processed. As part of its services, Frontline would investigate "chargebacks"—a credit card charge that is disputed by a customer—made in connection with orders from the website. When faced with a chargeback, Laurette allegedly gave detailed documentation to Frontline, including a description of the item purchased and the price that was paid. Since Frontline credited Laurette's account after a credit card transaction was authorized, but before it received any final payment from the issuing bank, it required Laurette to keep a "reserve account" for chargebacks. The account allegedly totaled in excess \$40,000 by the time it was shut down in June 2008. Allegedly funded "solely through the proceeds from counterfeit goods sold on" the website, Frontline supposedly took possession of these funds when TheBagAddiction.com was shut down. Gucci also alleges that Frontline charged a higher transaction fee, or discount rate, for processing credit cards for high risk merchants, such as "replica" merchants like the Laurette

³ Neither party has provided sufficiently clear terminology to describe Woodforest or Frontline. For the purposes of this opinion, terms like "acquiring bank" and "credit card processors" are intended to have the same meaning and do not imply anything about their services beyond what is alleged in the complaint.

Counterfeiters. Frontline was the only credit card processor used by the Laurette Counterfeiters for TheBagAddiction.com from September 2006 to November 2006, and Laurette continued to use Frontline until they were shut down in June 2008. According to Plaintiff, Laurette's sales of counterfeit Gucci products from September 2006 to June 2008 totaled in excess of \$500,000.

[8] Laurette allegedly sought to do business with Woodforest because of the high discount rate it was charged by Frontline. The Laurette Counterfeiters applied for an account with Woodforest in November 2006; again Counley from Durango was listed on the application, this time as Woodforest's sales agent. *See* Compl. ¶ 72. As part of the process, Woodforest employees reviewed the application and completed an "Internet Merchant Review Checklist." The checklist required the employee to review the website and confirm that it contained a "complete description" of the goods offered, and pages of the website were printed in support of this review. Gucci alleges that Woodforest, through its employee, printed a number of pages from TheBagAddiction.com that displayed the Gucci Marks and counterfeit Gucci products. A second-level review of the website was allegedly performed after Woodforest accepted the application. An employee or agent would complete a purchase on the website and request a refund; this process was repeated regularly over the relationship with the online merchant. Woodforest began processing credit card transactions—Visa, MasterCard and American Express—for the Laurette Counterfeiters in November 2006, and continued to provide these services until June 2008 when the website was shut down. Like Frontline, Woodforest also investigated chargebacks and received relevant documentation from Laurette, though Gucci claims that MCCS was responsible for processing the chargeback requests. Also akin to Frontline, Woodforest charged a higher discount rate for replica merchants like Laurette. Woodforest allegedly processed over \$1 million in transactions for counterfeit items, and made over \$30,000 from the fees on these transactions.

[9] Gucci maintains that the credit card processing services established by these three defendants was essential to the Laurette Counterfeiters' sale of counterfeit Gucci products. These services "facilitated the Laurette Counterfeiters ability to quickly and efficiently transact sales for [c]ounterfeit [p]roducts through their website by enabling customers to use personal credit cards to pay for purchases on TheBagAddiction.com." Compl. ¶ 87. Without credit card processing, Plaintiff claims, websites like TheBagAddiction.com could not operate or functionally exist. As such, Gucci believes that Durango, Frontline, and Woodforest are equally responsible for the infringement and counterfeiting engaged in by Laurette through their website. Based on these allegations, Plaintiff brings causes of

action for (1) trademark infringement and counterfeiting under the Lanham Act, 15 U.S.C. §§ 1114, 1125, 1116, 1117; (2) contributory trademark infringement and counterfeiting pursuant to the Lanham Act; (3) vicarious liability for trademark infringement and counterfeiting under the Lanham Act; and (4) trademark infringement and unfair competition under New York state law, *see* N.Y. Gen. Bus. Law §§ 360–k, 360–o. Defendants jointly moved to dismiss these claims based on a purported lack of personal jurisdiction, and because Plaintiff has failed to state a claim, pursuant to Rule 12(b)(2) and (6) of the Federal Rules of Civil Procedure.

II. DISCUSSION

A. Personal Jurisdiction

[The court found personal jurisdiction over the defendants.]

B. Trademark Infringement Liability

1. Standard of review

[10] To survive a motion to dismiss, a plaintiff must “plead enough facts to state a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007). A facially plausible claim is one where “the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, – U.S. ----, 129 S.Ct. 1937, 1949 (2009). Where the court finds well-pleaded factual allegations, it should assume their veracity and determine whether they “plausibly give rise to an entitlement to relief.” *Id.* at 1950. To decide the motion to dismiss, a court may consider “any written instrument attached to [the complaint] as an exhibit, materials incorporated in it by reference, and documents that, although not incorporated by reference, are ‘integral’ to the complaint.” *Sira v. Morton*, 380 F.3d 57, 67 (2d Cir.2004) (internal citations omitted); *see also NewMarkets Partners LLC v. Oppenheim*, 638 F.Supp.2d 394, 404 (S.D.N.Y.2009). “[W]here the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct,” however, dismissal is appropriate. *Starr v. Sony BMG Music Entm’t*, 592 F.3d 314, 321 (2d Cir.2010) (quoting *Iqbal*, 129 S.Ct. at 1950.).

[11] Pursuant to Section 32 of the Lanham Act, “the owner of a mark registered with the Patent and Trademark Office can bring a civil action against a person alleged to have used the mark without the owner's consent.” *Tiffany, Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir.2010) (quoting *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 145–46 (2d Cir.2007)); *see also* 15 U.S.C. § 1114(1)(a). Gucci offers three theories of

liability to hold Defendants accountable for the infringing sales of counterfeit products by others: direct, vicarious, and contributory liability.⁴

2. Direct and Vicarious Liability

[12] Gucci has not put forth sufficient factual allegations to support trademark infringement claims based on either direct or vicarious theories of liability. Direct liability for trademark infringement requires a valid mark entitled to protection under the Lanham Act, and that the defendant used the mark in commerce in connection with the sale or advertising of goods or services, without the plaintiff's consent. *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400, 406–07 (2d Cir.2005) (internal quotations and citations omitted). In addition, Plaintiff must show that the Defendant's use of the mark is likely to cause confusion. *Id.* The problem for Gucci is that there is no indication that any of the defendants actually “used the mark in commerce.” Knowledge alone of another party's sale of counterfeit or infringing items is insufficient to support direct liability, *see eBay*, 600 F.3d at 103, and there are otherwise no factual allegations that Durango, Woodforest, or Frontline themselves advertised or sold infringing goods.

[13] Gucci's allegations are also unable to support a claim for vicarious liability. Vicarious trademark infringement, a theory of liability considered elsewhere but not yet the subject of a decision by this Circuit, “requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.” *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir.1992); *Perfect 10, Inc. v. Visa Intern. Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir.2007); *see also Banff Ltd. v. Limited, Inc.*, 869 F.Supp. 1103, 1111 (S.D.N.Y.1994) (noting lack of consideration in Second Circuit). Though Gucci has raised a number of factual allegations that indicate that Defendants' services were crucial to a website like TheBagAddiction.com's sale of infringing goods, there is insufficient evidence to plausibly infer an actual or apparent partnership. The vague, puffery-like references to a “partnership” between these companies and website merchants are not enough to support vicarious liability. *See Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F.Supp.2d 1098, 1113 (N.D.Cal.2008) (“off-hand references to customers as ‘partners’ is insufficient to exhibit the type of behavior and relationship that can be considered an actual or apparent partnership.”). While Defendants may have sufficient control over the sale of

⁴ Federal law and state common law infringement claims are analyzed identically. *See, e.g., eBay*, 600 F.3d at 102 n. 6.

counterfeit goods to support contributory liability, *see infra*, the facts alleged do not support an inference that they had the type of control over a company like Laurette as a whole, i.e. akin to joint ownership, necessary for vicarious liability.

3. Contributory Liability

[14] Gucci's only plausible theory of liability here is contributory trademark infringement. The Supreme Court has determined that liability can extend "beyond those who actually mislabel goods with the mark of another." *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 853 (1982). There, a drug manufacturer sold generic versions of a certain brand-name drug in identically colored pill capsules, with the knowledge that pharmacists would place the pills in brand-name packaging. In this context, the Court held: "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit." *Id.* at 853–54; *see also eBay*, 600 F.3d at 104. As the Seventh Circuit noted, however, the Supreme Court's test for contributory liability is not as easily applied to service providers as it is to a manufacturer. *See Hard Rock*, 955 F.2d at 1148 ("it is not clear how the doctrine applies to people who do not actually manufacture or distribute the good that is ultimately palmed off as made by someone else"); *see also Tiffany Inc. v. eBay, Inc.*, 576 F.Supp.2d 463, 504 (S.D.N.Y.2008) (reversed on other grounds). While the "intentional inducement" prong of the *Inwood* test still applies, *see eBay*, 600 F.3d at 106, courts have crafted a slightly different test for service providers that "continue [] to supply its [services] to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 853. To avoid imputing liability on truly ancillary figures like a "temporary help service" that may set up a flea market stand for a counterfeiting merchant, *see Hard Rock*, 955 F.2d at 1148, courts in other circuits have determined that a plaintiff must also show "direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." *See, e.g., Perfect 10*, 494 F.3d at 807; *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir.1999). While the Second Circuit has yet to directly contemplate the validity of this modified part of the *Inwood* test, I concur with Judge Sullivan that this is a "persuasive synthesis." *See eBay*, 576 F.Supp.2d at 505–06. As such, Gucci can proceed with its action against Defendants if it can show that they (1) intentionally induced the website to infringe through the sale of counterfeit goods or (2) knowingly supplied services to websites and had sufficient control over infringing activity to merit liability.

(a) *Intentional Inducement*

[15] A party can be held liable for trademark infringement if it intentionally induces another to engage in trademark infringement. With regards to the role played by Durango, Plaintiff's inducement theory is supported by sufficient factual allegations. Durango's website reaches out to "high risk merchant accounts," including those who sell "replica products." *Id.* ¶ 48. The website further boasts that 95% of merchant accounts are approved and that Durango "specialize[s] in hard to acquire accounts." *See* Coyle Decl., Ex. 10 (printed copies of Durango website pages). Similar to the companies that promise the extension of credit or loans to those who are rejected by traditional lending institutions for having bad credit, Gucci's complaint suggests that Durango bills itself as a company that sets up a certain quality of business with credit card processing services that accept these "high risk" clients. These allegations can fairly be construed as Durango's attempt to induce less savory businesses, like those who sell counterfeit "replicas" of luxury goods. Moreover, Gucci alleges that Durango's sales representative, Nathan Counley, specifically discussed Laurette's difficulty in finding a credit card processor because they were "replica" merchants, which Gucci argues was synonymous on the internet for a counterfeiter.⁵ Durango "communicated an inducing message to [its] ... users," and while there is of yet no evidence that they expressly sought out counterfeiters, Gucci has pled sufficient facts to infer that Durango crafted "advertisement[s] or solicitation[s] that broadcast[] a message designed to stimulate others to commit violations." *Perfect 10*, 494 F.3d at 801 (discussing contributory copyright infringement, but suggesting later that the analysis applies to trademark infringement as well). Finally, Gucci alleges that Counley and Durango helped the Laurette Counterfeiters set up a system to avoid chargebacks, which required

⁵ Defendants challenge the meaning of both "replica" and "high risk," and claim that both are much more innocuous terms than Gucci suggests. First, "replica" is in fact often used in conjunction, or interchangeably, with the term "counterfeit" in case law on trademark infringement. *See, e.g., Hermes Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 106 (2d Cir.2000) ("Appellees Lederer and Artbag sell replicas of various Hermès products"); *eBay*, 600 F.3d at 100 (Defendant internet auction house has disclaimer that it "does not tolerate" replicas); *Akanoc*, 591 F.Supp.2d at 1103 ("Plaintiff believes that each of them is a counterfeit replica of Plaintiff's products which infringe Plaintiff's copyrights and trademarks."). Second, the precise meaning of the term is a fact-specific issue that can be dealt with through discovery, and I may rely on Gucci's pleadings at this stage of the litigation.

customers to check a box that said “I understand these are replicas.” This suggests “affirmative steps taken to foster infringement” or “that Defendants promoted their payment system as a means to infringe.” *Id.* at 800–01.

[16] On the other hand, Gucci has failed to plausibly support a claim that either Woodforest or Frontline intentionally induced Laurette to sell counterfeit products. Durango, not Woodforest or Frontline, helped set up the Laurette Counterfeiters with credit card processing services. Though both companies allegedly advertised for high risk merchants, they did not bring Laurette to the table the way Durango allegedly did. Gucci notes that they both charged higher fees for processing high risk merchants, and that Frontline reviewed the language of the aforementioned acknowledgement of receipt of a replica product. These claims, however, are not enough to suggest that either Woodforest or Frontline took the affirmative steps necessary to foster infringement. *See Perfect 10*, 494 F.3d at 801.

(b) *Control and knowledge*

[17] Even if a defendant does not seek out and intentionally induce a third-party to commit trademark infringement, it may still be held liable for the infringement if it supplied services with knowledge or by willfully shutting its eyes to the infringing conduct, while it had sufficient control over the instrumentality used to infringe. *See eBay*, 576 F.Supp.2d at 505–06; *Perfect 10*, 494 F.3d at 807. Knowledge in this context means that “a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods ... [s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.” *eBay*, 600 F.3d at 107. A showing of willful blindness to this information is also sufficient. *Id.* at 109–10 (“When [a service provider] has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.”).

[18] Here, Gucci has made substantial factual allegations about the knowledge of all three defendants. These allegations at the very least provide a strong inference that each knew that Laurette traded in counterfeit products, or were willfully blind to that fact. As described previously, Durango allegedly held itself out to high risk replica merchants. Its sales agent, Counley, traded emails with the Laurette Counterfeiters who expressly told him that they were unable to get credit card services because they sold “replica” items. Counley later wrote back to say he had found a U.S. bank that “can do replica accounts now.” Compl. ¶ 54. Surely, a connection between an inability to get the services needed to transact goods online and the sale of replicas should have attracted Durango's attention.

[19] Frontline likewise is alleged to have sufficient knowledge of trademark infringement by the Laurette Counterfeiters. According to Gucci, Laurette completed an application to obtain Frontline's services, and Nathan Counley, though a Durango employee, is listed as Frontline's sales agent. Counley "acted as Frontline's agent in soliciting and directing credit card processing business from replica merchants like the Laurette Counterfeiters" and therefore Frontline may be charged with his knowledge, including his understanding of Laurette's difficulty to obtain services for selling replicas. Compl. ¶ 56. Gucci alleges that the "replica acknowledgment" described above that was created for the Laurette website with Counley's assistance was also reviewed by Frontline, who made suggestions as to where they should place this warning on the website. Even more significantly, Frontline allegedly performed its own investigation of products sold through TheBagAddiction.com as part of Frontline's chargeback reviews. When faced with a chargeback, Gucci claims that Frontline received supporting documentation from Laurette that included information about the specific item ordered, including a description of the item purchased. Not only did Frontline allegedly review the specific item description, Plaintiff also claims that the relatively small price tag for the item, as well as specific complaints from customers who made chargebacks about not receiving what the website purported to sell, e.g. a product made of genuine leather, should have alerted Frontline that these were infringing products. These fact-specific claims are enough to at least infer that Frontline knew or consciously avoided knowing that the counterfeit products were sold on TheBagAddiction.com

[20] Gucci claims that Woodforest's situation is similar to Frontline. As was the case with Frontline, Counley represented himself on Laurette's application as Woodforest's sales agent. *See* Compl. ¶ 72. The application itself said that Laurette was a "wholesale/retail designer [of] handbags," and listed the supplier as a Chinese bag manufacturer rather than Gucci. *See* Compl., Ex. 6. Gucci also claims that Woodforest specifically reviewed the website and the products listed on it as part of its initial decision to do business with Laurette. A Woodforest employee allegedly completed an "Internet Merchant Review Checklist," which required him or her to review the website and confirm whether it contained a complete description of the goods offered. *See* Compl. ¶ 75. Based on these claims and the website images provided by Plaintiff, even a cursory review of the TheBagAddiction.com would indicate that they claimed to sell replica Gucci products. Indeed, Plaintiff alleges that Woodforest printed out a number of pages that displayed goods that were for sale, including counterfeit Gucci products, and maintained these pages as part of their business records. Woodforest would also perform a second-level review, performed repeatedly after it accepted the business, where an employee would complete a

purchase and request a refund. Finally, like Frontline, Woodforest investigated chargeback disputes and received supporting documentation that allegedly should have tipped them off to the infringing conduct. These claims are more than sufficient to suggest, at this stage of the litigation, that Woodforest knew or shielded themselves from the knowledge that Laurette was selling counterfeit Gucci products with their credit card processing system.

[21] The most significant dispute between the parties with regard to contributory liability is whether any or all of the Defendants had sufficient control over Laurette and TheBagAddiction.com website to render them liable for the web merchant's counterfeiting practices. As noted above, the control element was incorporated by the Seventh Circuit to establish a limiting principle that would exclude those service providers that do not really contribute to the infringing conduct; this Circuit has yet to directly consider the merits or contours of this modified form of the *Inwood* test. See *eBay*, 600 F.3d at 105–06 (noting control element but “assum[ing] without deciding that *Inwood* 's test for contributory trademark infringement governs”). Although the concept of control arose out of the flea market context and is based on common law landlord-tenant tort principles, see *Hard Rock*, 955 F.2d at 1149–50, the concept of control is not limited to that context. *Inwood* “laid down no limiting principle that would require defendant to be a manufacturer or distributor,” and “whether the venue is online or in brick and mortar is immaterial.” *eBay*, 576 F.Supp.2d at 505; see also *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir.1996); *Lockheed Martin*, 194 F.3d at 984. The only relevant inquiry is the “extent of control ... over the third party's means of infringement,” *eBay*, 576 F.Supp.2d at 505; *Lockheed Martin*, 194 F.3d at 984, and courts have found sufficient control in an array of service contexts. See, e.g., *eBay*, 576 F.Supp.2d at 505 (online auction house); *Cartier Intern. B.V. v. Liu*, No. 02 Civ. 7926, 2003 WL 1900852, at *3 (S.D.N.Y.2003) (company that shipped goods for counterfeiter); *Akanoc*, 591 F.Supp.2d at 1112 (internet service provider).

[22] Here, Plaintiff provides sufficient factual allegations to establish a claim that Woodforest and Frontline had some control over the directly infringing third-party, but fails to provide enough facts to show control on the part of Durango. Though Gucci has made an adequate showing of intentional inducement by Durango, there is little indication that they had much control over the website's sales process. Durango appears to be the veritable middleman in this case. Though there allegedly was an ongoing relationship between Durango and the Laurette Counterfeiters, Gucci provides little indication that once Laurette received services from Frontline and Woodforest, Durango had any particular ability to stop or prohibit sales. Plaintiff's allegations suggest both inducement and knowledge, but

“procuring merchant accounts with credit card processing agencies,” Compl. ¶ 51, does not demonstrate that Durango could thereafter prevent the sale of any or all of the counterfeit products.

[23] In contrast, Gucci's complaint indicates that Frontline and Woodforest's credit card processing services are a necessary element for the transaction of counterfeit goods online, and were essential to sales from TheBagAddiction.com. Although other methods of online payment exist, such as online escrow-type services like PayPal,⁶ generally speaking “credit cards serve as the primary engine of electronic commerce.” *Perfect 10*, 494 F.3d at 794. Indeed, Gucci points out that Durango's website claims that “9 out of 10 people use a credit card for their online orders.” Compl. ¶ 3. As such, without the credit card processing operation set up by these two defendants, Gucci alleges that TheBagAddiction.com would largely have been unable to sell its counterfeit Gucci products. They further support this claim with an affidavit by one of the website owners, who states that “[a]pproximately 99% of payments from my customers were made using credit cards.” Kirk Decl. ¶ 1. Both Frontline and Woodforest processed transactions for cardholders with major credit card institutions—Visa, MasterCard, and so forth—and, according to Gucci, Laurette sold over \$500,000 in counterfeit products “during the time they utilized Defendants' merchant bankcard services.” Compl. ¶ 44. By processing these transactions, both companies allegedly earned significant revenue from the transaction fees they charged. Put another way, “[t]hey knowingly provide a financial bridge between buyers and sellers of [counterfeit products], enabling them to consummate infringing transactions, while making a profit on every sale.” *Perfect 10*, 494 F.3d at 810–11 (Kozinski, J., dissenting).⁷ Though both Frontline and Woodforest insist they are middlemen with no ability to prevent a transaction, they do not dispute that they could have simply refused to do business with “replica” internet merchants, just like the flea market purveyor who refuses to provide a booth to a counterfeiter. *See* Compl. ¶¶ 87–89 (Woodforest and Frontline “facilitated the Laurette Counterfeiters ability to quickly and efficiently transact sales for Counterfeit Products through their website by enabling customers to use personal credit cards to pay for purchases on TheBagAddiction.com”). According to one of the website operators, “[i]f I did not receive an approval for a credit card charge, I

⁶ *See* PayPal, <https://www.paypal.com> (last visited May 26, 2010).

⁷ Judge Kozinski's analysis, like that of the majority in *Perfect 10*, is largely set in the context of copyright infringement. However, he later states that his dissent on trademark infringement is based on “precisely the same reasons.” *Perfect 10*, 494 F.3d at 822.

would not ship the customer's order.” Kirk Decl. ¶ 2. These allegations indicate that the infringing products “are delivered to the buyer only after defendants approve the transaction ... This is not just an economic incentive for infringement; it's an essential step in the infringement process.” *Perfect 10*, 494 F.3d at 811–12 (Kozinski, J., dissenting).

[24] Frontline and Woodforest insist that these allegations are insufficient because they do not allege direct or complete control over the website itself. However, the ability to literally shut down the website is not needed given the facts of this case. The circuits that have considered this issue look for control and monitoring over the “instrumentality used ... to infringe the plaintiff's mark.” *Perfect 10*, 494 F.3d at 807. Based on Gucci's claims, the instrumentality in this case is the combination of the website and the credit card network, since both are allegedly necessary elements for the infringing act—the sale and distribution of the counterfeit good.⁸ Defendants' rely on the fact that, in *Perfect 10*, the Ninth Circuit declined to hold certain credit card processors liable for a website's trademark infringement. There, however, the infringing conduct was the publication *on the website* of trademarked images of nude models, and the distribution occurred via individuals viewing and taking the image directly from the website. *See Perfect 10*, 494 F.3d at 796 (“the infringement rests on the reproduction, alteration, display and distribution of Perfect 10's images over the internet”); *Perfect 10, Inc. v. Visa Inter. Serv. Assoc.*, No. C 04–00371, 2004 WL 3217732 (N.D.Cal. Dec. 3, 2004) (“Plaintiff alleges that a number of websites routinely and illicitly publish Plaintiff's images—and thereby infringe.”). Plaintiff in that case failed or perhaps was unable to allege that the credit card service providers had the “power to remove infringing material” or “directly stop their distribution” because the infringement occurred on the website itself and a credit card transaction was not needed for the website to continue to infringe. *See Perfect 10*, 494 F.3d at 807. This is not the case here.

[25] Rather, Gucci's allegations indicate that they are concerned primarily with the sale of tangible counterfeit goods to customers around the country, which allegedly could not be accomplished without Woodforest and Frontline's ability to process the credit card-based purchases. In the words of the Supreme Court, these defendants “furnish[ed] the means of consummating” the trademark infringement. *See eBay*, 600 F.3d at 104 (quoting *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530, 44 S.Ct. 615, 68 L.Ed. 1161 (1924)). While in *Perfect 10* the credit card

⁸ Indeed, Frontline and Woodforest's credit card processing system were likely integrated to some degree, since some sort of credit card “portal” necessarily had to be embedded in the website for a customer to make a purchase.

services may not have been needed for a website to display infringing photographs, the infringement here occurred through the sale of the counterfeit products. “It’s not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process.” *Perfect 10*, 494 F.3d at 814 (Kozinski, J., dissenting). This action resembles cases with defendants who helped consummate infringing transactions by delivering the counterfeit or infringing goods to the customer. In *Getty Petroleum Corp. v. Aris Getty, Inc.*, the First Circuit found a defendant common carrier contributorily liable because it delivered unbranded gasoline to gas stations it knew would re-sell the gasoline under the Getty brand name. *See* 55 F.3d 718, 719 (1st Cir.1995). Lack of title to the gasoline did not matter; the defendant “supplied[] an essential factor-physical possession of the property to which the trademark was to be attached.” *Id.* at 720. Similarly, these defendants allegedly provided an “essential factor” to the infringement because the goods could not be sold and shipped without their credit card services. “[I]t makes no difference that defendants control only the means of payment, not the mechanics of transferring the material ... In a commercial environment, distribution and payment are ... like love and marriage-you can’t have one without the other. If cards don’t process payments, pirates don’t deliver booty.” *Perfect 10*, 494 F.3d at 818 (Kozinski, J., dissenting). If, as Gucci alleges, the Laurette website was functionally dependent upon Woodforest and Frontline’s credit card processing services to sell counterfeit Gucci products, it would be sufficient to demonstrate the control needed for liability.

* * *

[26] Gucci has sufficiently alleged facts to support personal jurisdiction and its trademark claims against Durango, Woodforest, and Frontline. Although Plaintiff has not sufficiently pled facts to support either direct or vicarious theories of liability, claims against all three defendants may proceed based on a contributory liability theory. The factual allegations are sufficient to infer that Durango intentionally induced trademark infringement, and that Woodforest and Frontline exerted sufficient control over the infringing transactions and knowingly provided its services to a counterfeiter.

III. CONCLUSION

[27] For the foregoing reasons, Defendant’s motion to dismiss is DENIED.
SO ORDERED.