Dial One of the Mid-South, Inc. v. BellSouth Telecommunication, Inc.: The Fifth Circuit Rejects Incorporation of Actual Malice into the Lanham Act

I. INTRODUCTION

U.A. Durr was a franchisee of the franchise holder, Dial One of the Mid-South (Dial One), but lost his franchise when Dial One terminated the relationship in January 1998.[1] Subsequently, Durr was inaccurately listed as a Dial One franchisee in the May Yellow and October White Pages of 1998, despite the fact that Durr had lost his franchise earlier in the year.[2] BellSouth Telecommunications, Inc., Advertising & Publishing Corporation, and L.M. Berry and Company (the parties responsible for parts of the production and publication of the southeastern Louisiana Yellow Pages and White Pages) had notice of the termination of the franchise agreement yet failed to remove the listing in the telephone directory.[3]

Dial One and two franchisees of Dial One, Help Service Company, Inc. (Help) and Campbell's Plumbing and Heating (Campbell's), brought suit under the Lanham Act in the United States District Court for the Eastern District of Louisiana for damages, treble damages, and fees.[4] The district court awarded $10,000 in lost franchise fees to Dial One, $45,000 in lost profits to Campbell's, and $100,000 in lost profits to Help.[5] Both parties appealed the judgment.[6] Defendants challenged the interpretation of the innocent infringer defense, the correctness of the damage awards, and the adequacy of the evidence supporting them.[7] Plaintiffs cross appealed the district court's refusal to award goodwill

1. Dial One of Mid-South, Inc. v. Bellsouth Telecomm., No. 00-30537, 2001 U.S. App. LEXIS 22481, at *1 (5th Cir. Oct. 18, 2001).
2. *Id.* at *1-*2.
3. *Id.* at *1, *3.
4. *Id.* at *1-*2.
5. *Id.* at *2.
6. *Id.*
7. *Id.*

damages.[8] The United States Court of Appeals for the Fifth Circuit affirmed the decision of the district court and *held* that (1) the proper standard for evaluating whether an infringer is innocent is objective reasonableness, (2) there was no clear error in the award of damages, and (3) goodwill damages were not warranted due to the lack of evidence that goodwill was damaged. *Dial One of the Mid-South, Inc. v. BellSouth Telecommunication, Inc.*, No. 00-30537, U.S. App. LEXIS 22481, at *8, *10-*11 (5th Cir. Oct. 18, 2001).

II. BACKGROUND

Section 1114 of the Lanham Act provides the trademark registrant a remedy for trademark infringement.[9] Under § 1114(1), to recover profits or damages, the acts must have been committed with knowledge.[10] According to § 1114(2), persons bringing actions under § 1114(1) will be limited to injunctive relief if the defendant is considered an "innocent infringer."[11]

Congress amended § 1114(2) of the Lanham Act in 1989.[12] It extended the limitation on remedies to include both registered and unregistered trademarks and expanded the category of innocent printers and publishers to include electronic media broadcasters.[13] Although the amendment does not define or expound on the phrase "innocent infringer," courts have turned to the legislative history of the 1989 amendment to the Lanham Act for guidance.[14] House cosponsor Robert Kastenmeier explained that "[t]he word 'innocent' is intended to encompass the constitutional standards set forth in *New York Times v. Sullivan*, 376 U.S. 254 (1964) and its progeny."[15]

Prior to the amendment of § 1114 of the Lanham Act, courts determined the proper standard for evaluation of an innocent infringer

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8. *Id.*

9. *See* 15 U.S.C. § 1114 (1989).

10. *Id.*

11. *Id.*

12. NBA Props. v. Untertainment Records, No. 99 Civ. 2933 (HB), 1999 U.S. Dist. LEXIS 7780, at *34 (S.D.N.Y. May 25, 1999).

13. *Id.* at *35-*36.

14. *See id.* at *36; World Wrestling Fed'n, Inc. v. Posters, Inc., No. 99 C 1806, 2000 U.S. Dist. LEXIS 20357, at *8 (N.D. Ill. Sept. 25, 2000).

15. 134 CONG. REC. H10420 (daily ed. Oct. 19, 1988) (statement of Subcommittee Chairman Robert Kastenmeier). In *New York Times Co. v. Sullivan*, the Supreme Court held that in order to recover damages for a defamatory falsehood, one must prove that the statement was made with "actual malice." The Court defined actual malice as "with knowledge that it was false or with reckless disregard of whether it was false or not." N.Y. Times Co. v. Sullivan, 376 U.S. 254, 280 (1964).

was objective reasonableness.[16] In *Polo Fashions, Inc. v. Ontario Printers, Inc.*, the United States District Court for the Northern District of Ohio stated that "[t]here must be objective standards imposed on businessmen in determining whether they are infringing on a trademark."[17] The court further stated that whether or not there was a violation with the requisite knowledge should be determined by the objective, reasonable business person test.[18]

Following the reasoning set forth in *Polo Fashions*, the United States District Court for the Northern District of Illinois also applied the objective standard in *Century 21 Real Estate Corp. v. R.M. Post, Inc.*, which contained facts quite similar to the noted case.[19] Defendant Post was a former franchisee of the plaintiff.[20] Despite the termination of the franchise agreement, the parties responsible for publishing advertisements continued to list Post as a franchisee.[21] Since the directories were published with the knowledge that Post was not a franchisee authorized to use the Century 21 trademark, the court inferred that the publishers were not innocent infringers.[22]

Since the 1989 amendment, courts have applied the "actual malice" standard that Congressman Kastenmeier thought appropriate with one exception.[23] In *NBA Properties v. Untertainment Records*, the Southern District of New York examined the Lanham Act amendment legislative history for guidance on the issue of innocent infringement.[24] After examining the cases prior to the amendment along with the statement made by Congressman Kastenmeier, the court stated that the "more

16. *See* Polo Fashions, Inc. v. Ontario Printers, Inc., 601 F. Supp. 402 (N.D. Ohio 1984); Century 21 Real Estate Corp. of N. Ill. v. R.M. Post, Inc., No. 88 C 0077, 1988 U.S. Dist. LEXIS 8739 (N.D. Ill. Aug. 8, 1988).

17. *Polo Fashions, Inc.*, 601 F. Supp. at 403.

18. *Id.*

19. *R.M. Post, Inc.*, No. 88 C 0077, 1988 U.S. Dist. LEXIS 8739.

20. *Id.* at *1-*2.

21. *Id.* at *2.

22. *Id.* at *10. The court never explicitly applied the objective reasonableness standard, but no mention is made of the actual malice standard.

23. *See* NBA Props. v. Untertainment Records, No. 99 Civ. 2933 (HB), 1999 U.S. Dist. LEXIS 7780, at *42 (S.D.N.Y. May 25, 1999); World Wrestling Fed'n, Inc. v. Posters, Inc., No. 99 C 1806, 2000 U.S. Dist. LEXIS 20357, at *9 (N.D. Ill. Sept. 25, 2000); Gucci Am., Inc. v. Hall & Assoc., 135 F. Supp. 2d. 409, 420 (S.D.N.Y. 2001). The United States District Court for the Northern District of Illinois agreed with the reasoning of the *Polo Fashions* court that the objective standard is appropriate. Conopco, Inc. v. Rosa Distrib., 967 F. Supp. 1068, 1071 (N.D. Ill. 1997).

24. *NBA Props.*, No. 99 Civ. 2933 (HB), 1999 U.S. Dist. LEXIS 7780, at *42.

stringent and seemingly appropriate standard for interpreting the statute" was that of actual malice.[25]

Subsequently, the Northern District of Illinois strayed from its own precedent of *Conopco* and also applied the actual malice standard.[26] In *World Wrestling Federation, Inc. v. Posters Inc.*, the court utilized the same tools of statutory interpretation and reached the same conclusion as the *NBA Properties* court.[27] The court expressly disagreed with and refused to follow the reasoning in the *Polo* and *Conopco* cases.[28] Ultimately, the court applied the actual malice standard based on legislative history of the 1989 amendment to the Lanham Act.[29] In supporting its reliance on the Congressman's statements, the court stated that although the statements of a bill's sponsor are not dispositive, they are given substantial weight in statutory interpretation.[30]

Although the courts have been willing to apply the actual malice standard in interpreting § 1114, there appears to be no need for constitutional protection in this particular context.[31] In *Ibanez v. Florida Department of Business & Professional Regulation*, the Supreme Court held that commercial speech that is false, deceptive or misleading does not receive First Amendment protection.[32] Moreover, it is uncertain whether the actual malice standard applies to commercial speech at all.[33] In *Bose Corp. v. Consumers Union of the United States, Inc.*, the Supreme Court had the opportunity to rule on whether the *New York Times* standard should be applied to a product disparagement claim premised on a critical review of a loudspeaker system, but instead declined to determine whether that standard was appropriate.[34]

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25. *Id.* The Southern District of New York reaffirmed this holding in the their recent decision, *Gucci America, Inc. v. Hall & Assoc.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).

26. *See* World Wrestling Fed'n, Inc., No. 99 C 1806, 2000 U.S. Dist. LEXIS 20357.

27. *Id.* at *9.

28. *Id. Conopco* was decided by another judge in the same district as *World Wrestling Federation, Inc. v. Posters, Inc.* The *WWF* court stated that there was no indication that the *Conopco* court was made aware of House cosponsor Kastenmeier's statement.

29. *Id.*

30. *Id.* The Supreme Court has stated that the explanation of one of the legislation's sponsors deserves to be given substantial weight in interpreting the statute. Fed. Energy Admin. v. Algonquin SNG, Inc., 426 U.S. 548, 564 (1976); *see also* Mattox v. Fed. Trade Comm'n, 752 F.2d 116, 120-21 (5th Cir. 1985).

31. *See* Ibanez v. Fla. Dep't of Bus. & Prof'l Regulation, 512 U.S. 136 (1994).

32. *Id.* at 142. The Fifth Circuit has also held that commercial speech that is false receives no protection. Proctor & Gamble Co. v. Amway Corp., 242 F.3d 539, 557 (5th Cir. 2001).

33. *See* Bose Corp. v. Consumers Union of the United States, Inc., 466 U.S. 485 (1984).

34. *Id.* at 513. This case was also cited by Congressman Kastenmeier in support of incorporating the actual malice standard into § 1114.

Although the Supreme Court has not held whether the actual malice standard applies to commercial speech, it has held that matters of purely private concern are judged under a standard less stringent than the actual malice standard.[35] In *Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc.*, the Court held that when there is no public issue, no special protection is warranted.[36] Due to the defendant's status as a private party, the Court held that the false and defamatory statements made were not matters of public concern.[37] Therefore, a showing of actual malice was not required to recover damages.[38]

III. COURT'S DECISION

In the noted case, the Fifth Circuit held that the proper standard for determining whether an infringer is innocent is objective reasonableness.[39] As a matter of first impression in the Fifth Circuit, the court relied on statutory language and Supreme Court precedent in affirming the district court's conclusion.[40] Following its own precedent, the court determined that the process of statutory interpretation is reviewed de novo.[41] The court stated that the first step in determining the meaning of the statute is the intent of Congress,[42] which is best evidenced by the language of the statute.[43] Having concluded that the legal significance of the term "innocent" is to be determined, the court addressed the defendants' claim that "innocent" in § 1114(2) is to mean "without constitutional actual malice."[44]

The defendants argued that the constitutional actual malice standard should be read into § 1114(2).[45] They based this argument on legislative history, specifically the remarks by Congressman Kastenmeier, the cosponsor of an amendment to the Lanham Act in 1988, articulating a desire for "innocent" to incorporate the "actual malice" standard from

35. Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc., 472 U.S. 749, 760 (1985).
36. *Id.* at 762.
37. *See id.*
38. *See id.*
39. Dial One of Mid-South, Inc. v. Bellsouth Telecomm., No. 00-30537, 2001 U.S. App. LEXIS 22481, at *8 (5th Cir. Oct. 18, 2001).
40. *Id.* at *3.
41. *Id.* (citing Kemp v. G.D. Searle & Co., 103 F.3d 405, 407 (5th Cir. 1997)).
42. *Id.* (citing Castillo v. Cameron County, 238 F.3d 339 (5th Cir. 2001)).
43. *Id.* (citing Negonsott v. Samuels, 507 U.S. 99, 104 (1993)).
44. *Id.* at *4.
45. *Id.*

N.Y. Times v. Sullivan.[46] The court analyzed the defendants' argument and rejected it for two main reasons.[47]

First, the court pointed out the problems with using legislative history to determine congressional intent.[48] The court noted that the legislation that Congressman Kastenmeier was cosponsoring was actually a bill extending the language of § 1114(2) to § 1125(a) of the Lanham Act and that no substantive change was made to the phrase "innocent infringer."[49] Furthermore, the court focused on the fact that this particular legislative history only articulated the intent of one congressman and that there is a danger in giving the statement of one member of Congress conclusive weight when there is a major difference between the common-sense definition of the word "innocent" and the requirements of constitutional actual malice.[50]

Second, the court stated that false commercial speech does not mandate First Amendment protection.[51] Therefore, the court stated that it refused to rely on one piece of legislative history to incorporate the constitutional actual malice standard into § 1114(2).[52] Furthermore, the court reasoned that the actual malice standard should not apply to the speech at issue.[53] Relying on *Bose Corp. v. Consumers Union of the United States, Inc.*, the court noted that the Supreme Court has not held that commercial speech is to be judged under the actual malice standard.[54] The court further stated that the Supreme Court has, however, held that the actual malice standard does not apply to matters not of public concern.[55] Noting that the improper listing of a service repair business is not a matter of public concern, the court held it should not receive First Amendment protection.[56] Based on these two reasons, the court concluded that the district court properly stated that the proper standard for evaluating the innocent infringer defense under the Lanham Act is objective reasonableness.[57]

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46. *Id.* (citing 134 CONG. REC. H10420 (daily ed. Oct. 19, 1988) (statement of Subcommittee Chairman Robert Kastenmeier)).

47. *Id.* at *5-*8.

48. *Id.* at *5.

49. *Id.*

50. *Id.*

51. *Id.* at *6.

52. *Id.*

53. *Id.* at *7.

54. *Id.* (citing Bose Corp. v. Consumers Union of the United States, Inc., 466 U.S. 485, 515 (1984)).

55. *Id.* (citing Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc., 472 U.S. 749, 760 (1989)).

56. *Id.*

57. *Id.* at *8.

The court concluded its analysis on the issues of the damage award and damage to the goodwill of the Dial One trademark.[58] Relying on the language of § 1117, the court deferred to the district court's evaluation in awarding damages.[59] The court then concluded there was no abuse of discretion in the district court's finding that the goodwill of Dial One's mark suffered as a result of the erroneous listing.[60]

IV. ANALYSIS

In the noted case, the Fifth Circuit followed Supreme Court precedent to conclude correctly that the actual malice standard was not appropriate in the context of trademark infringement. In applying the objective reasonableness standard, the court ignored a number of recent decisions holding that the actual malice standard desired by Congressman Kastenmeier was proper. The court underwent an independent First Amendment analysis to abandon the incorporation of the actual malice standard into the Lanham Act.[61] A careful examination of a number of Supreme Court decisions demonstrates that the court was correct in its conclusion.[62]

Although Congressman Kastenmeier stated that the *New York Times* standard was to be incorporated into the innocent infringer defense, the court properly applied the less stringent standard of objective reasonableness. The inappropriateness of the actual malice standard is due to the difficulty in reconciling the constitutional principles of the actual malice standard with "innocent" trademark infringement. In *New York Times Co. v. Sullivan*, the Supreme Court promulgated the actual malice standard to bolster the proposition that "debate on public issues should uninhibited, robust and wide-open."[63] Furthermore, the Court created the stringent standard of actual malice because an "erroneous statement is inevitable in free debate."[64] The concerns voiced by the *New York Times* Court are absent in the context

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58. *Id.* at *8-*11.

59. *Id.* at *8-*9 (citing 15 U.S.C. § 1117 (1989)).

60. *Id.* at *11.

61. *See* NBA Props. v. Untertainment Records, No. 99 Civ. 2933 (HB), 1999 U.S. Dist. LEXIS 7780 (S.D.N.Y. May 25, 1999); World Wrestling Fed'n, Inc. v. Posters, Inc., No. 99 C 1806, 2000 U.S. Dist. LEXIS 20357 (N.D. Ill. Sept. 25, 2000); Gucci Am., Inc. v. Hall & Assoc., 135 F. Supp. 2d. 409 (S.D.N.Y. 2001).

62. *See* N.Y. Times Co. v. Sullivan, 376 U.S. 254 (1964); *Dun & Bradstreet, Inc.*, 472 U.S. 749; Ibanez v. Fla. Dep't of Bus. & Prof'l Regulation, 512 U.S. 136 (1994).

63. *N.Y. Times Co.*, 376 U.S. at 270.

64. *Id.* at 271.

of the noted case. It is doubtful that the Supreme Court intended to give an erroneous listing in a telephone directory First Amendment protection.

The Fifth Circuit, through an examination of Supreme Court decisions, appropriately rejected Congressman Kastenmeier's statement and the case law adhering to it. In *Dun & Bradstreet, Inc.*, the Supreme Court clearly stated that matters of purely private concern are not to be given First Amendment protection.[65] Although the public may be affected by an erroneous listing, the listing of a business in the White and Yellow Pages is a matter of private concern. Furthermore, the Supreme Court has expressly held that false commercial speech receives no constitutional protection.[66] Therefore, the situation presented by the noted case does not mandate the stringent constitutional standard of actual malice.

Ignoring decisions since the 1989 amendment that have willingly incorporated the actual malice standard into the definition of innocent infringer based solely on the statement of one member of Congress, the court appropriately underwent an independent analysis to determine whether applying the *New York Times* standard in the context of trademark infringement was consistent with the purpose and scope of constitutional protection. Upon doing so, it was obvious that the actual malice standard is too stringent of a standard in this particular context. The court correctly concluded that the less stringent objective reasonableness standard that had been applied by courts prior to the 1989 amendment is more suitable. It will be interesting to see whether courts faced with the same issue will follow the lead of the Fifth Circuit or continue to blindly follow the isolated statement of Congressman Kastenmeier.

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65. *Dun & Bradstreet, Inc.*, 472 U.S. at 760.
66. *Ibanez*, 512 U.S. at 142.