

**Paul D. Supnik**  
Attorney at Law

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*Domestic and International Copyright and Trademark Law;  
Motion Picture, Television, Publishing, Media and General Entertainment Law;  
New Media and Internet Law; Licensing;  
Related Litigation*

[Return to Home Page](#)

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# **Mark of Distinction -- A New Federal Law Protects Distinctive Trademarks Against Dilution Through Unauthorized Use**

by Paul D. Supnik

[An edited version of this article was published in the May 1997 issue of the Los Angeles Lawyer magazine.]

Dilution is the blurring or tarnishing of the image or persona of a well known trademark by use of a similar mark typically on unrelated goods, or in a manner that tends to reduce its distinctiveness. The dilution doctrine grew out of common law principles dating back to 1898. It has now become part of the federal trademark law and provides protection to trademarks even where claims of trademark infringement are not viable.

The basic concept of trademark infringement and related claims is the complainant must have a distinctive or protectable symbol and the defendant's purportedly infringing use must have created a likelihood of consumer confusion. The application of the dilution law in connection with distinctive and famous marks can provide a cause of action even without there being a likelihood of confusion.

A classic case example of the dilution doctrine was the use of the mark KODAK in connection with the sale of bicycles during last century, which founded the common law basis for an early dilution claim.<sup>(1)</sup> No significant segment of the consuming public was likely to think that bicycles were made by, endorsed or sponsored by a film manufacturer. In short, there was no likelihood of confusion. Nonetheless, the court, finding for the film manufacturer, held that the mark KODAK should be protected against dilution. Since then, a number of states adopted dilution statutes, including California. Prior to the enactment of the federal dilution statute, about half the states had some form of dilution statutes.

In a more modern context, the federal dilution statute is likely to be helpful in stopping the use of domain names on the Internet which trade on famous marks. The proprietor of the mark

CANDYLAND for use in connection with a board game was able to preliminarily enjoy the use of the same mark in connection with an "adult" Internet domain name, candyland.com.<sup>(2)</sup>

Justification for the dilution doctrine is that somehow the public benefits from protection against diluting the distinctiveness of a famous mark and that it simply is not right to reduce the importance or value of a very valuable mark for the free ride of the newcomer, even if the public is not confused. Irrespective of the justification for its enforcement, it is now fully ingrained as part of the Lanham Act, the Federal trademark law.

There were problems with the existing state dilution statutes. Not every statute was the same and courts interpreted similar provisions differently. Yet products had a tendency to be marketed nationwide. States applied the law in a manner that was inconsistent. Some courts paid attention to the requirements that developed under common law, for example, requiring that a mark be famous. Others did not. Because statutes varied from state to state, uniformity has not been achieved.

The new statute amends the Lanham Act to provide a federal remedy for dilution.<sup>(3)</sup>

Dilution is specifically defined in the new law.<sup>(4)</sup> State law is not preempted. In fact, the laws of many states, including California, go farther in granting more protection than that provided in the federal statute. For example, California's statute does not explicitly require that marks be distinctive or famous, nor does it have its built in defenses which are set out in the federal statute.<sup>(5)</sup>

The justification for enacting the dilution statute is not as strong as the original basis underlying trademark enforcement. The basis for the trademark law, at least at its inception, was for protection of the public from fraud and deception. Thus, if the infringing mark created public confusion the public, courts would protect the owners of the mark against consumer confusion. The public benefited as this had a tendency to limit deception in the marketplace; only secondly, the trademark owner received a benefit. Later, it became acknowledged that the justification of the trademark laws was also to provide the trademark owner with a benefit, irrespective of the public policy of preventing deception to the consumer. Despite this fact, the *sine quo non* of trademark infringement and analogous rights was that of likelihood of consumer confusion as to source, origin or sponsorship of a symbol. Also, courts would not grant relief until such time as there was actual competition.<sup>(6)</sup>

But dilution does not require a likelihood of confusion.<sup>(7)</sup> When the dilution law is available, the dilution doctrine in some instances simply swallows up entire law of trademarks.<sup>(8)</sup> This is almost analogous to a peace officer seeking to conduct a search without a warrant, but with a hypothetical new law which does away with the basic requirements. Even if there was no warrant or no probable cause, because of the hypothetical new law eliminating the basic probable cause requirement, the officer could still go on with the search.<sup>(9)</sup>

Is there a real public policy in the perpetuation and protection of trademarks without likelihood of confusion? Over the years there has been a tendency to protect marks from those who would trade on the good will engendered by the marks without any harm to the public in some circumstances. This, perhaps is an extension of that concept. There have been academics in the past who have postulated that trademarks are inherently good for society, as they encourage goods bearing a mark to be of uniform quality. Others, as exemplified during the 1970's, by way of the then constituted Federal Trade Commission, seemingly tended to disagree with that assumption.<sup>(10)</sup>

From a public policy perspective, it may take some time to determine whether there is a general public policy benefit, rather than merely a benefit to large corporations which are generally the only holders of marks which are both distinctive and famous.

Although new law goes some distance to help those with famous marks enforce them even when they cannot show likelihood of confusion, not all would-be dilution claims are actionable. The court is given guidelines to examine the overall situation and make a determination on equitable principles as to whether a claim for dilution is viable. Those factors focus on the strength of the mark by the trademark owner, and essentially highlight whether the mark was a distinctive and famous.<sup>(11)</sup>

In a significant way, this codifies much of the common law which has recently developed under the dilution doctrine. The result of this is that only strong marks should be entitled to protection under the statute. A mark which has only recently first been used, and has just been registered, may not find protection under this statute.

Although preliminary injunctive relief is available under the statute, because of the number of factors included in determining whether dilution exists, summary judgment will rarely be granted. The issue of dilution is one likely to be decided by the judge, particularly since the primary remedy of injunctive relief is equitable in nature.

The advantage of having a federal law is that a body of law and written decisions at the district and appellate court level is likely to be built up on the dilution statute. More importantly, the federal statute adopts some of the concepts which have been built up in the body of common law which in some cases appear to have been ignored by courts, both state and federal. Those include a series of guidelines or factors to consider in determining whether dilution has occurred<sup>(12)</sup>. The list of factors are suggestions, not mandatory and not exclusive.<sup>(13)</sup> In addition, the statute sets out three specific situations where dilution is not to be applied.<sup>(14)</sup> Concerns still exist in relationship to First Amendment issues.

Conceivably, greater acknowledgment of the dilution concept will make the selection of new marks for new products, services and businesses possibly more difficult. In addition to considering confusing similarity in rejecting potential marks, looking for potential dilution in trademark searches takes on greater importance. The lawyer advising on the availability of a mark will have to be more conscious of marks which may not show up in trademark search reports, and give greater consideration to those marks showing up in trademark search reports which are applied to dissimilar goods and services. However, since dilution focuses on famous marks, this often means that either the attorney or the client will recognize the similarity of a proposed mark to a famous mark. But there are likely to be instances where that will not occur. Consider a proposed mark which is in one field and a registered mark which is only famous in a specialized unrelated field. The client or its attorney may be unaware of the use as a famous mark.

It may be more difficult to search for dilution as a practical matter. This may require more subjective criteria for searching. Although dilution has existed for many years, what is significant is that by elevating dilution to a higher status in the law, lawyers and businesspeople alike might be expected to be more conscious of the law in the selection process.

While the mark KODAK or TIFFANY might be considered famous marks, what about a mark for shampoo which has been recently advertised on television for only a year which a considerable segment of the consuming public would recognize. Is that a famous mark? What about marks that are

well known to a limited segment of the public, such as those in the medical field? There have been a number of cases under common law and state law that did not appear to take into account the degree of notoriety of the mark for the court to find only truly famous marks are entitled to make use of this statute.

Trademark searches are generally recommended to clients before they begin to commercialize a mark. The question now arises as to what steps should be taken to search for dilution. That may have a tendency to increase the cost of searches, since this could warrant searches being done in more classes of unrelated goods and services and additional analysis may be required. In effect, that already occurs, as trademark search firms have a tendency to find identical marks in classes of goods and services other than those intended for the proposed mark. Searches for dilution were at least in theory somewhat important even prior to the federal statute because of the existence of state dilution law. The federal statute brings the concept to a higher level of consciousness.

One practical way to begin a search with dilution in mind is to ask the client the question as to whether they are aware use the use of the proposed name in connection with unrelated goods or services. Not everyone is familiar with famous marks in other areas. And the fact that a mark is not known does not necessarily mean that dilution will not exist. However, commercial search firms usually include searches of identical marks in all classes of goods and services, so that the primary concern might be lessened.

One murky question which may limit the benefit of simply searching identical marks in all classes is whether the mark needs to be identical in order to support a claim of dilution. In Mead Data Central, Inc. v. Toyota Motor Sales, Inc., the appellate court found that there was not identical similarity between LEXUS and LEXIS, and the marks need to be nearly the same before the dilution doctrine is applied.<sup>(15)</sup> In what may be the first decision to grant a permanent injunction based on dilution since the passage of the Federal Trademark Dilution Law of 1995, a District Court in Pennsylvania enjoined the use of the mark HAHA for a 24 hour convenience store based on the "famous" mark WAWA for a convenience store which had 516 stores in 5 eastern states. The last name of the defendants was Haaf. The court concluded that the defendant's use of the mark diluted through blurring and parody the strong and famous name WAWA.<sup>(16)</sup>

There are defenses which are held not to be a violation of the statute. That includes fair use, noncommercial use and news reporting. However, the fair use defense, can only be used "by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark."<sup>(17)</sup>

Three defenses are built into the statute: comparative advertising fair use<sup>(18)</sup>, noncommercial use<sup>(19)</sup> and news reporting and commentary<sup>(20)</sup>. These defenses are very significant and may have quelled some concerns over both First Amendment issues as well as concerns by major corporations over certain types of uses without facing liability under this section. These defenses may not be adequate to address First Amendment concerns.

Note that the term "Fair Use" is not an amorphous defense which allows use of a mark in every way imaginable. Fair Use is only applicable when used in connection with comparative advertising to identify competing goods or services. In many countries outside of the United States, comparative advertising is simply not allowed at all. Does this mean that it is fair use to use another's mark in a deprecative humorous way? Is it fair use if the mark is identified, in a bad but humorous light?

The noncommercial use defense also raises questions. Is it noncommercial to criticize a mark in a poster which is for sale? What if the poster has political content critical of the corporate owner of the mark.<sup>(21)</sup> Arguably in that situation, the poster's use may tarnish the mark (prohibited under the California dilution statute), but may not dilute its distinctiveness. Is it still non commercial use if instead of a poster, the mark is on a t-shirt and the t-shirt is sold?<sup>(22)</sup> What happens if that use tends to tarnish the mark? The term "tarnishment" is not used in the dilution statute.

While the new law is part of the Federal Trademark Law, the statute may be used in state court since there is usually concurrent jurisdiction for the federal trademark law in Federal and State Court. Neither a federal registration, nor any registration is an absolute requirement of the Act, though a federal registration is one of the factors in determining whether the mark as that indicia of being distinctive and famous. Note that the dilution act has been placed in Section 43 of the Lanham Act (15 U.S.C. 1125) which is the section providing protection for unregistered marks. As a practical matter, it is likely that the federal judges are more familiar with the Lanham Act and a plaintiff is likely to opt for federal jurisdiction if it is available. The statute is cumulative and the use of the federal dilution statute should not prevent use of a state dilution statute.<sup>(23)</sup>

There is a new advantage to registration of a mark both for the potential plaintiff and potential defendants. Now, if a mark has become federally registered, it is a complete defense to a claim under a state common law or state dilution statute.<sup>(24)</sup> For the plaintiff, Section 3(1)(H) identifies a federal registration on the principal register as one of the factors to consider to determine whether or not the mark is sufficiently distinctive and famous to warrant application of the dilution statute.

With little authority to the contrary, it appears that the only remedy for dilution prior to the federal statute was injunctive relief. The statute expressly implies that damages are available, as with trademark law but only where the act of dilution is wilful. One of the problems is how can damages be calculated. Under equitable principles, profits of the infringer have been allowed as a measure of damages, which amount can be trebled. Does wilfulness simply mean wilfully using a mark known to be a mark of others, or does it mean knowing that it is also diluting a famous mark under the definition of the act? This is potentially creating a greater risk to the company starting to use a new name or mark. How does someone know that they are intentionally diluting a mark? Now, one using a famous mark on an unrelated product other than for comparative advertising purposes cannot escape a claim for damages including its profits, just as if there had been trademark infringement with likelihood of confusion. One intending to trade off the good will of a well known brand, cannot escape simply on the basis that there is no likelihood of confusion. This essentially creates a claim in gross based on the assumption that well known marks are entitled to a monopoly on a symbol.

Why should such a monopoly should be warranted? One argument is that when a company spends perhaps millions of dollars to develop and maintain a mark, no other company should be able to cavalierly destroy that property right by use of the mark on an unrelated product. That argument might be enhanced by the changed circumstances in the marketplace. At one time, KODAK made cameras and film. Today, its mark is affixed to a digital cameras, photographic supplies and chemicals. The HERSHEY mark was affixed to chocolate bars, but recently, it has showed up on cartons of milk. And JEEP, traditionally a mark for a vehicle, has found its mark recently on a radio boom box. These uses, known as "brand extensions" take the trademark from the primary type of goods to new goods.

Usually, section 43(a) of the Lanham Act adequately addresses these situations because confusion as to source or sponsorship is usually available to stop an infringer. But there has been another use of

marks which perhaps has less justification for being a subject to the dilution statute. That is in the merchandising area. Marks with their primary usage on vehicles are now found on coffee mugs, t-shirts, posters and other products, and sold just like celebrity merchandise. In analyzing public policy issues, one needs to examine the reason that these products are purchased by the public. While subject to conjecture, it is likely that many of these products are not purchased because the public cares that the mark is manufactured, endorsed, sponsored by the owner of the mark. The consumer may not care if it is the official mark of the company. Often, the consumer purchases the goods as a "status mark" to show their allegiance to the product. That a party likes or appreciates the mark does not mean that the public is necessarily deceived. Jewelry with the insignia of an organization sold to its members was not held not to be a violation of the Lanham Act.<sup>(25)</sup> On the contrary, exterior labels on garments have been held to be an infringement, even if the purchasing consumer is not deceived that the goods are infringing. These labels were considered a "walking advertisement".<sup>(26)</sup>

There are limitations on issues dealing with the media. An argument can be made that the new dilution statute is not likely to affect media and parody uses.<sup>(27)</sup> If this is enforced, application of the dilution statute can come into conflict with the First Amendment. However, the parody of a mark, albeit in a significantly commercial manner, was found to be dilution under the Eastern Pennsylvania decision granting a permanent injunction based on dilution.<sup>(28)</sup> What happens when a political group concerned about the public benefit associated with low wages being paid to foreign labor wishes to parody a famous mark? The likelihood of confusion issue is not likely to arise since no significant segment of the consuming public should believe that the parody was endorsed or sponsored by the target of the parody. What about use of famous marks on Saturday Night Live for purposes of parody? The use is not for comparative advertising purposes. It is also probably not a noncommercial use of the mark. Is it news reporting or news commentary? It would seem to be commentary, but it is not clear whether it is news commentary. Again, such use could "tarnish" the famous mark, but probably not dilute its distinctiveness. However, the distinctions in this area may be difficult to make and courts may have to grapple with these concepts, probably often without the benefit of knowledgeable defense counsel's arguments. With some of these concerns in mind, Congress, took a look at dilution a few years back during the passage of the Trademark Law Amendments Act of 1988, but specifically dropped the provision to avoid controversy and ensure the smooth passage of the Act. The path trademark dilution practice will take in the future will now be dictated by the new law being created in our federal courts.

One of the benefits the federal dilution statute will provide is likely positive -- a greater consciousness and sensitivity on part of the judiciary as to the requirements for dilution as the factors permitting dilution are specifically enumerated in the statute. Judges who have not otherwise understood or been taught these concepts previously, will have clearer precedents on which to decide new issues. Hopefully, in this process the judiciary will also become sensitive to the potential First Amendment concerns raised by the statute.

1. Eastman Photographic Materials Co. v. Kodak Cycle Co., 15 Rep. Pat. Cas. 105 (1898).
2. Hasbro, Inc. v. Internet Entertainment Group, Ltd., No. C96-130WD (W.D. Wash. Feb. 9, 1996).
3. Lanham Act, Section 43 (15 U.S.C. 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, and to obtain such other relief as is provided in this subsection. In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to--

(A) the degree of inherent or acquired distinctiveness of the mark;

(B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;

(C) the duration and extent of advertising and publicity of the mark;

(D) the geographical extent of the trading area in which the mark is used;

(E) the channels of trade for the goods or services with which the mark is used;

(F) 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;

(G) the nature and extent of use of the same or similar marks by third parties; and

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

(2) In an action brought under this subsection, the owner of the famous mark shall be entitled only to injunctive relief unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the remedies set forth in sections 35(a) and 36, subject to the discretion of the court and the principles of equity.

(3) The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register shall be a complete bar to an action against that person, with respect to that mark, that is brought by another person under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement.

(4) The following shall not be actionable under this section:

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

(B) Noncommercial use of a mark.

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

4. Section 45 (15 U.S.C. 1127)

...

"The term 'dilution' means the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of--

(1) competition between the owner of the famous mark and other parties, or

(2) likelihood of confusion, mistake, or deception. ..."

5. California Business and Professions Code 14330.

6. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 121 USPQ 330 (2d Cir. 1959).

7. While not consistent, case law has usually not required likelihood of confusion. See e.g. Hyatt Corp. v. Hyatt Legal Services, 736 F.2d 1153 (7th Cir. 1984)(dilution of name of hotel chain by letterhead used by law firm that advertised on television). Some courts have read into the dilution statute such a requirement. There is a tendency to tack onto complaints a claim for dilution so that if the trademark claim does not stick, the claim of dilution will still be a basis for injunctive relief. Generally courts have a tendency to grant claims of dilution where they have already granted relief under the pre-dilution enactment version of the Lanham Act. But, in McDonald's Corp. v. Arche Technologies, 17 U.S.P.Q. 2d 1557 (N.D. Cal. 1990), the court granted relief under the dilution theory without a finding that there was likelihood of confusion, finding that the use of arches in advertising for computers similar to that used by McDonald's for hamburgers was not likely to create confusion, but did constitute dilution under the Cal. Bus. & Prof. Code Section 14330.

8. Dan's, Inc. v. Coffee Don's Charcoal Broiler, 305 F. Supp. 1210, 1217, n. 13, 163 U.S.P.Q. 602 (N.D.Cal. 1969). "Until this statute is interpreted more fully by a California court, we feel constrained not to give it overly broad interpretation lest it swallow up all competition in the claim of protection of trade name infringement." Toho Co. v. Sears, Roebuck & Co., 645 F.2d 788, 210 U.S.P.Q. 547, 552 (9<sup>th</sup> Cir. 1981). See also the Restatement, (Third) of Unfair Competition, 25, comment b, expressing concern over the balance of private and public rights, pointing out that courts have confined the doctrine to where the protectable interests are clear and the threat of interference is substantial.

9. See Generally, McCarthy on Trademarks and Unfair Competition, Section 24.13 et seq.

10. In the late 1970's, the Federal Trade Commission petitioned the Patent and Trademark Office to cancel the FORMICA trademark on the grounds that it had become generic, and no longer benefitted the public, restraining competition. The argument by the FTC was that the public was likely to be misled as to the function of the word. The public would purchase the generic brand name without giving consideration to similar products of competitors because the competitors products might appear to be other than the real thing.

11. Thus, the statute states:

"(c)(1) ... In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to--

(A) the degree of inherent or acquired distinctiveness of the mark;

(B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;

- (C) the duration and extent of advertising and publicity of the mark;
- (D) the geographical extent of the trading area in which the mark is used;
- (E) the channels of trade for the goods or services with which the mark is used;
- (F) 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;
- (G) the nature and extent of use of the same or similar marks by third parties; and
- (H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register."

12. *Supra*, n. 10.

13. "... a court may consider factors such as, but not limited to ..." .

14. "(4) The following shall not be actionable under this section:

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

(B) Noncommercial use of a mark.

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

15. 702 F. Supp. 1309 (S.D.N.Y. 1988), rev'd 875 F.2d 1026 at 1028-29 (2d Cir. 1989).

16. \_\_ U.S.P.Q. \_\_ (E.D.Pa. 1996).

17. 15 U.S.C. 1125(c)(4)(a).

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

19. (B) Noncommercial use of a mark.

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

21. *E.g. Stop Olympic Prison v. United States Olympic Committee*, 489 F. Supp. 1112 (S.D.N.Y. 1980).

22. *Mutual of Omaha v. Novak*, 648 F. Supp. 905, (D.C. Neb. 1986), aff'd 836 F.2d 397 (8th Cir. 1987).

23. This will generally require some interstate usage (or usage affecting conduct which is regulable by Congress) and that the usage by the defendant have some effect on interstate commerce as well. The threshold requirements are not likely to be very high.

24. "(3) The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register shall be a complete bar to an action against that

person, with respect to that mark, that is brought by another person under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement."

25. *International Order of Jobs Daughters v. Lindeberg & Co.*, 633 F.2d 912, 208 USPQ 718 (9<sup>th</sup> Cir. 1980), cert. denied 452 U.S. 941, 69 L.Ed. 2d 956, 101 S.Ct. 3086, 213 U.S.P.Q. 1056 (1981).

26. *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F. 2d 817, 208 U.S.P.Q. 713, 648 (9<sup>th</sup> Cir. 1980).

27. See *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1<sup>st</sup> Cir. 1987).

28. *Supra*, n. 15.

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**Paul D. Supnik**  
**Attorney at Law**

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