

# THE 1996 FEDERAL ANTI-DILUTION STATUTE

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## I. AN ANALYSIS OF THE STATUTE

### A. *History and Background*

Why is the 1996 Federal Anti-Dilution Act<sup>1</sup> ("1996 Act") so important to intellectual property law that I chose it as the subject of my Tenzer Lecture? I think it is important because this law represents a radical and fundamental break with prior federal trademark law. While twenty-six states have had for some years their own, local anti-dilution laws, they were, while much discussed, very seldomly useful or effective. Only a very few trademark cases were ever won solely on the basis of a state anti-dilution act. By enacting the controversial anti-dilution theory into a nationwide law, Congress significantly changed the way trademarks are selected and the scope of exclusivity that trademarks possess. This law has the potential to change in a meaningful way the basic rules of free and fair competition under which the American business community must operate. In addition, a number of foreign countries are closely observing the U.S. experience with this new law to see if they should also enact an anti-dilution law. Thus, this new statute has global implications.

The 1988 Trademark Law Revision Act, as enacted and signed into law effective in 1989, did *not* contain any provisions relating to dilution of famous marks.<sup>2</sup> A federal anti-dilution law was contained in the *Trademark Review Commission Report* as well as in a bill introduced in the Senate. A modified version of an anti-dilution law was passed by the Senate in May of 1988, and would have appeared as Lanham Act section 43(c). However, in 1988, the House of Representatives was not receptive, and no anti-dilution provision

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This article expands on the Herbert Tenzer Distinguished Lecture in Intellectual Property Law, given at the Benjamin N. Cardozo School of Law, October 28, 1997.

<sup>1</sup> Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1995) (codified as amended at 15 U.S.C. §§ 1125, 1127 (West 1996)).

<sup>2</sup> See discussion of the background and history of the 1996 legislation at 3 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION §§ 24:85-24:87 (4th ed. 1997).

was contained in the bill as it finally emerged from House and Senate negotiations in the fall of 1988.<sup>3</sup>

In one sense, the 1996 Act, passed in 1995 and effective in 1996, cleaned up "unfinished business" left over from the 1989 revision of the Lanham Act. Therefore, to the extent that the language is the same, two sources provide useful legislative history for interpreting the 1996 Act: (1) the *Trademark Review Commission* report of 1987;<sup>4</sup> and (2) the Senate Judiciary Committee report of 1988.<sup>5</sup> The 1996 Act directly descended from these two sources. This is important because the 1996 Act passed rapidly through Congress with minimal hearings in the House and no hearings in the Senate. The 1996 Act thus has very little legislative history and these two prior sources are helpful to shed light on the sometimes ambiguous language of the 1996 Act.

The International Trademark Association ("INTA") was the prime mover in promoting the enactment of the law that is almost the same as the provision that failed enactment in Congress eight years earlier. The legislation was supported by the American Bar Association ("ABA"), American Intellectual Property Law Association ("AIPPLA"), Patent and Trademark Office ("PTO"), and industry groups. The statute became effective on January 16, 1996.

#### B. *The Elements of a Prima Facie Case for an Injunction*<sup>6</sup>

The elements of a prima facie case for an injunction under the Lanham Act section 43(a)<sup>7</sup> can be summarized as follows. Under section 43(c), plaintiff must plead and prove that:

(1) the plaintiff is the owner of a mark which is a "famous" mark as measured by the totality of the eight factors listed in section 43(c)(1);

(2) the defendant is making commercial use;

(3) in interstate commerce;<sup>8</sup>

(4) of a mark or trade name;

(5) and defendant's use began after the plaintiff's mark became famous;

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<sup>3</sup> *Id.*

<sup>4</sup> *The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors*, 77 TRADEMARK REP. 375 (1987) [hereinafter *Commission Report*]. See *Babson Bros. Co. v. Surge Power Corp.*, 39 U.S.P.Q.2d (BNA) 1953, 1954 n.5 (T.T.A.B. 1996) (the 1987 Trademark Review Commission Report is relevant legislative history in interpreting the 1996 Anti-Dilution statute).

<sup>5</sup> S. REP. NO. 100-515, at 41-43 (1988).

<sup>6</sup> 3 MCCARTHY, *supra* note 2, § 24:89.

<sup>7</sup> 15 U.S.C. § 1125(a) (1994).

<sup>8</sup> Or in U.S. import or export trade that can be regulated by Congress.

(6) and defendant's use causes dilution by lessening the capacity of the plaintiff's mark to identify and distinguish goods or services.<sup>9</sup>

C. *Significant Points about the Federal Anti-Dilution Statute*

*A Famous Mark Can be Diluted Without any Likelihood of Confusion.* The 1996 Act enacts into a national law the principle of anti-dilution law that no one can make a diluting use of a famous mark, even though there is no likelihood of customer confusion of source, sponsorship, or approval under traditional trademark infringement law. While traditional trademark (or passing off) law rests primarily on a policy of protection of customers from mistake and deception, anti-dilution law more closely resembles an absolute property right in a trademark. Anti-dilution law has a strong resemblance, not to the law of consumer protection, but to the law of trespass.

*There is no Federal Preemption.* The 1996 Act adds to and does not replace existing state anti-dilution laws.<sup>10</sup>

*Federal Registration is not Needed.* To invoke the 1996 Act, the plaintiff does not need a federal registration. However, one of the statutory factors to weigh in considering whether a mark is "famous" is whether it is registered.<sup>11</sup>

*Only Defendant's Use Need be in Interstate Commerce.* The use in interstate commerce requirement is linked to defendant's activity, not to the famous mark owner's activity. However, one of the statutory factors to weigh in considering whether a mark is "famous" is the geographic extent of the plaintiff's trading area.<sup>12</sup>

*The Anti-Dilution Statute is not Relevant to Ex Parte or Inter Parte Application Matters in the PTO.* Trademark examiners in the PTO will not cite the federal dilution doctrine in ex parte examination under Lanham Act section 2(d), nor can it be a ground of opposition or petition to cancel.<sup>13</sup>

*There is no Register of "Famous" Marks.* There is no place to go to find out if a particular mark is "famous." There is no special register for famous marks. Fame must be determined on a case by case

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<sup>9</sup> 15 U.S.C. § 1125(c).

<sup>10</sup> This was one of the aspects of the bill that I personally opposed. I could not see the point of imposing a federal layer of law *on top of*, rather than in place of, the 26 state statutes. I had thought that one of the goals of the federal legislation was to make the selection and adoption of new marks *less* risky and *more* predictable. It has achieved just the opposite result.

<sup>11</sup> *Factor H.* See *infra* Part I.E.2.

<sup>12</sup> *Factor D.* See *infra* Part I.E.2.

<sup>13</sup> *Babson Bros. Co. v. Surge Power Corp.*, 39 U.S.P.Q.2d (BNA) 1953 (T.T.A.B. 1996).

basis in litigation. This uncertainty introduces the major source of unpredictability applying the law and giving legal advice and counseling.

*The Federal Act Applies as Between Competitors.* The 1996 Act is not limited to the traditional non-competitive setting in which the concept of "dilution" was first envisioned by its creators.<sup>14</sup>

*Retroactivity of the 1996 Legislation.* Consider this hypothetical: UNITED AUTO REPAIR opened in San Jose, California in 1994. It receives in 1997, a cease-and-desist letter from UNITED AIR LINES, accusing it of dilution by blurring, in violation of the federal anti-dilution law. Does first use of the accused mark before the January 16, 1996 date of the 1996 Act mean that the Act does not apply? The cases hold that the 1996 Act does *not* apply, for to do so would be to improperly give retroactive effect to the statute. In the leading *Officemax* decision,<sup>15</sup> the court held that the 1996 Act does *not* apply to defendant's marks first used before January 16, 1996, because there can be no retroactive application of the federal anti-dilution statute.<sup>16</sup> The court held that the senior user, OFFICEMAX, could not sustain a federal anti-dilution claim against the junior user, CARMAX, who first began use of the mark in 1993, two and one-half years before Lanham Act section 43(c) became law: "Relying on the law as it existed in 1993, CarMax selected and, for over two years, advertised and promoted a valid legal mark. Enforcing the Dilution Act under these circumstances would be tantamount to 'reaching back' to deny CarMax the substantial benefits its past legal conduct has reaped."<sup>17</sup> Other cases agree,<sup>18</sup> but one does not.<sup>19</sup>

<sup>14</sup> Because the statutory definition of the word "dilution" includes situations where the parties are in competition, this, I think, opens up the federal statute for application in cases that do not fit into the traditional "blurring" mode of the same mark being used on non-competing and widely different goods. Inventive attorneys will use the new law in ways that INTA did not envision.

<sup>15</sup> *Circuit City Stores, Inc. v. Officemax, Inc.*, 949 F. Supp. 409, 42 U.S.P.Q.2d (BNA) 1194 (E.D. Va. 1996).

<sup>16</sup> *Id.*

<sup>17</sup> *Circuit City*, 949 F. Supp. at 418, 42 U.S.P.Q.2d (BNA) at 1203.

<sup>18</sup> *See, e.g., Viacom, Inc. v. Ingram Enters., Inc.*, 965 F. Supp. 1278, 1281, 43 U.S.P.Q.2d (BNA) 1148, 1151 (W.D. Mo. 1997) ("The Court believes the analysis used by the *Circuit City* court was correct in all respects." The section 43(c) claim was dismissed because defendant's mark pre-dated enactment of section 43(c)); *Resorts of Pinehurst, Inc. v. Pinehurst Nat'l Dev. Corp.*, 973 F. Supp. 552, 557, 43 U.S.P.Q.2d (BNA) 1746, 1750 (M.D.N.C. 1997) ("This Court is persuaded that the *Circuit City Stores* court's analysis of the Landgraf principles in the context of the Dilution Act is an appropriate standard to use.").

<sup>19</sup> *Fuente Cigar, Ltd. v. Opus One, Nos. Civ.96-2389-CIV-T-24(E), 97-346-CIV-T-24(E)*, 1997 WL 725962, at \*5 (M.D. Fla. Nov. 4, 1997) ("This Court declines to follow the *Circuit City* court in holding that prospective relief under the anti-dilution statute, premised on conduct or events occurring before its enactment, has a retroactive effect.").

*The Degree of Similarity of the Conflicting Marks is not Defined.* The 1996 Act is silent on the crucial question of how similar the conflicting marks must be to create the requisite "dilution." The familiar test of similarity used in the traditional likelihood of confusion test cannot be the guide, for likelihood of confusion is not the test of dilution. It has been held that identity of the marks is not required.<sup>20</sup> One should recall the famous 1989, *LEXIS v. LEXUS* case<sup>21</sup> where the challenged LEXUS was held not close enough to LEXIS to be diluted by blurring.<sup>22</sup> Applying the *Lexis* case "very" or "substantially" similar test, it was held that defendant's mark THE GREATEST BAR ON EARTH did not dilute by blurring plaintiff's famous circus slogan THE GREATEST SHOW ON EARTH because, among other reasons, the marks were not similar enough.<sup>23</sup>

*Federal Registration is a Complete Defense only to a Charge Under a State Anti-Dilution Law.* Section 43(c)(3)<sup>24</sup> states that ownership of a valid federal registration of a mark on the Principal Register is a complete defense to a claim that the registered mark is illegally diluting another's mark under *state* law. But this means that ownership of a federal registration is *not* a defense to a federal charge of diluting a famous mark.

#### D. *The Two Prongs of Dilution: Blurring and Tarnishment*

Section 45 of the Lanham Act<sup>25</sup> defines "dilution" as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of" competition and likelihood of confusion.

#### 1. Dilution by Blurring

Blurring is the classic, or "traditional," type of dilution theory as envisioned by its original proponents. Even though no confusion as to source, sponsorship, affiliation, or connection has occurred, the unique link between that designation and a single source has been "diluted" or "blurred." The dilution theory presumes *some kind of mental association* in the reasonable buyer's

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<sup>20</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 955 F. Supp 605, 42 U.S.P.Q.2d (BNA) 1161 (E.D.Va. 1997) (holding THE GREATEST SNOW ON EARTH does not dilute THE GREATEST SHOW ON EARTH).

<sup>21</sup> *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026 (2d Cir. 1989).

<sup>22</sup> *Id.*

<sup>23</sup> *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp.*, 937 F. Supp. 204, 40 U.S.P.Q.2d (BNA) 1010 (S.D.N.Y. 1996).

<sup>24</sup> Lanham Act 15 U.S.C. § 1125(c)(3) (1994).

<sup>25</sup> *Id.* § 1127.

mind between the two parties and the mark. Not that the mark links the two parties, but that it now links two distinct sources.

An example is something like the hypothetical "TOYOTA brand candy bars" made by a company having nothing to do with the Japanese Toyota car people. Customers or prospective customers will see the plaintiff's mark used on a plethora of different goods and services. If "TOYOTA brand candy" is permitted, then there will be others who will adopt Toyota brand for bread, Toyota brand cola, and Toyota shoes. The unique and singular significance of the mark to identify and distinguish only *one source* might be diluted and weakened. But there is no confusion as to source, sponsorship, affiliation, or connection.

The challenge to plaintiffs is how to muster evidence in court to prove that there has in fact been, in the words of the statute, a "lessening of the capacity of a famous mark to identify and distinguish goods or services."<sup>26</sup> Or will judges be willing to presume such a "lessening" merely by the defendant's usage of the same designation as its own mark?

The assumption is that the relevant public sees the junior user's use, and intuitively knows, because of the context of the junior user's use, that there is no connection between the owners of the respective marks. For example, if I believe that the company that makes ROLLS ROYCE autos is *not* operating or sponsoring the hypothetical ROLLS ROYCE bakery on upper Broadway in New York City, then there is no confusion of source—only the possibility of dilution. Thus, a given unauthorized use by a defendant can cause confusion in some people's minds and cause dilution by blurring in other people's minds. But in no *one* person's mind can both perceptions occur at the same time. Either a person thinks that the similarly branded goods or services come from a common source (or are connected or affiliated), or not. In that sense, they are inconsistent states of customer perception.

It is important to see that as legal theories, a traditional likelihood of confusion claim and a dilution claim look to separate and distinct harms to a trademark and can be pleaded as alternative legal counts. But both infringement by a likelihood of confusion *and* dilution can coexist as legal findings if it is proven that a significant number of customers are likely to be confused *and* that among a significant number of customers that are not confused, the defendant's use will illegally dilute by blurring or tarnishment.

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<sup>26</sup> Lanham Act § 45.

How could there be any "whittling away" if the buyer, upon seeing defendant's mark, would *never*, even unconsciously, think of the plaintiff's mark? For example, if the person who sees the hypothetical ALBERT FORD brand hiking boots would not even think of FORD autos, then there is no dilution. This could be proven in court only by a consumer survey.

## 2. Dilution by Tarnishment

Dilution by tarnishment exists where the effect of the defendant's unauthorized use is to dilute by tarnishing or degrading positive associations of the mark and thus, to dilute the distinctive quality of the mark. For example, in the *SPAM* case,<sup>27</sup> the Second Circuit said that: "The *sine qua non* of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use."<sup>28</sup> No tarnishment to the trademark *SPAM* was found from the use of the character name "Spa'am" in a Muppets movie.<sup>29</sup>

But does the new 1996 Act cover dilution by tarnishment of a mark? While some commentators have argued that it does not,<sup>30</sup> the case law to date has held that it does.<sup>31</sup> However, it has been held that a junior user's use of a similar mark on an allegedly

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<sup>27</sup> *Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 507, 37 U.S.P.Q.2d (BNA) 1516, 1523 (2d Cir. 1996).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> See, e.g., Robert C. Denicola, *Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995*, 59 L. & CONTEMP. PROBS. 75, 88-90 (1996) (The history of the 1996 legislation requires that it be limited to dilution by blurring. "Unlike broader state dilution acts with their references to 'injury to business reputation' as well as to 'dilution of the distinctive quality of a trademark,' the federal dilution statute is limited to uses that blur the source significance of the mark.") (footnote omitted); Miles J. Alexander & Michael K. Heilbronner, *Dilution Under Section 43(c) of the Lanham Act*, 59 L. & CONTEMP. PROBS. 93, 124-25 (1996) ("Under a strict constructionist view like Justice Scalia's, the omission in the federal statute of the 'injury to business reputation' language that is contained in most state dilution statutes may mean that a claim for tarnishment is not available under the federal statute.").

<sup>31</sup> See, e.g., *Hasbro Inc. v. Internet Entertainment Group Ltd.*, 40 U.S.P.Q.2d (BNA) 1479 (W.D. Wash. 1996) (holding *CANDYLAND* for children's game diluted by tarnishment by the "candyland.com" web site showing sexually explicit pictures); *Anheuser-Busch Inc. v. Andy's Sportswear Inc.*, 40 U.S.P.Q.2d (BNA) 1542 (N.D. Cal. 1996) (granting temporary restraining order ("TRO") against use of *BUTTWEISER* on T-shirts as tarnishing *BUDWEISER* for beer); *Toys "R" Us Inc. v. Akkaoui*, 40 U.S.P.Q.2d (BNA) 1836, 1838 (N.D. Cal. 1996) (*TOYS "R" US* held tarnished by use of *ADULTS R US* as domain name for sale of adult sexual products: "adultsrus.com." "Adults R Us' tarnishes the "R Us" family of marks by associating them with a line of sexual products that are inconsistent with the image Toys 'R' Us has striven to maintain for itself."). See 3 McCarthy, *supra* note 2, § 24:95.

“cheap knock-off” product does not fit within the meaning of “tarnishment.”<sup>32</sup>

### E. *What is a Famous Mark?*

To be eligible for the extraordinary scope of protection and exclusivity offered by the new 1996 Act, the plaintiff's mark must be “famous.” Section 43(c)(1)<sup>33</sup> of the 1996 Act has a “list of eight” factors for a court to ponder and weigh to determine if a mark is “famous.” But there is little predictability of how these factors will be balanced and applied.

#### 1. Examples under the 1996 Act

##### a. Some marks held to be “famous” under the 1996 Act:

BUDWEISER for beer<sup>34</sup>

CANDYLAND children's game<sup>35</sup>

DON'T LEAVE HOME WITHOUT US slogan for traveler's checks and credit cards<sup>36</sup>

THE GREATEST SHOW ON EARTH slogan for a circus<sup>37</sup>

INTERMATIC electrical products<sup>38</sup>

NAILTIQUES fingernail care products<sup>39</sup>

<sup>32</sup> [Defendant] is not attempting to associate [plaintiff's skin care] products with obscenity or sexual or illegal activity, the [defendant's cheaper skin care] product line is neither shoddy nor unwholesome, and no evidence suggests that [plaintiff's] trademark or trade dress will suffer negative associations through [defendant's] use of [its] mark.

Clinique Lab., Inc. v. DEP Corp., 945 F. Supp. 547, 562 (S.D.N.Y. 1996).

<sup>33</sup> Lanham Act 15 U.S.C. § 1125(c)(1) (1994).

<sup>34</sup> *Anheuser-Busch*, 40 U.S.P.Q.2d (BNA) at 1542 (granting a TRO against the use of BUTTWEISER on T-shirts).

<sup>35</sup> *Hasbro*, 40 U.S.P.Q.2d (BNA) at 1479 (holding that a trademarked children's game was diluted by tarnishment by the “candyland.com” web site, which shows sexually explicit pictures).

<sup>36</sup> *American Express Co. v. CFK, Inc.*, 947 F. Supp. 310, 41 U.S.P.Q.2d (BNA) 1756 (E.D. Mich. 1996) (failing to grant summary judgment for plaintiff against use of DON'T LEAVE HOME WITHOUT ME POCKET ADDRESS BOOK registered mark for pocket-sized address books).

<sup>37</sup> *Ringling Bros.-Barnum & Bailey Combined Shows v. B.E. Windows Inc.*, 937 F. Supp. 204, 40 U.S.P.Q.2d (BNA) 1010 (S.D.N.Y. 1996) (holding that the mark was not diluted by THE GREATEST BAR ON EARTH); *Ringling Bros. Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 955 F. Supp. 605, 42 U.S.P.Q.2d (BNA) 1161 (E.D.Va. 1997) (holding that the mark was not diluted by THE GREATEST SNOW ON EARTH).

<sup>38</sup> *Intermatic Inc. v. Toeppen*, 947 F. Supp. 1227, 40 U.S.P.Q.2d (BNA) 1412 (N.D. Ill. 1996), *approved*, 41 U.S.P.Q.2d (BNA) 1223 (N.D. Ill. 1996) (holding that the mark was diluted by cyber-squatting).

<sup>39</sup> *Nailtiques Cosmetic Corp. v. Salon Sciences Corp.*, 41 U.S.P.Q.2d (BNA) 1995 (S.D. Fla. 1997) (finding fame without analyzing the eight statutory factors on a motion for preliminary injunction).

PANAVISION movie and television cameras<sup>40</sup>

TOYS "R" US toy stores<sup>41</sup>

WAWA chain of 500 convenience stores in five eastern states, in use for ninety years<sup>42</sup>

b. Some marks held not to be "famous" under the 1996 Act:  
COLUMBIA university<sup>43</sup>

PETRO truck stop services<sup>44</sup>

WE'LL TAKE GOOD CARE OF YOU slogan for retail drugstore chain<sup>45</sup>

STAR MARKET chain of eight supermarkets only in Hawaii<sup>46</sup>

## 2. What is Fame? The "List of Eight"

**Factor (A):** *The degree of inherent or acquired distinctiveness of the mark.* This factor requires an evaluation or measure of exactly just how strong and famous the mark is.

**Factor (B):** *The duration and extent of use of the mark in connection with the goods or services with which the mark is used.* These criteria are similar to those traditionally used to determine if a non-inherently distinctive designation has achieved that minimum degree of distinctiveness needed to qualify as a mark. This is usually referred to as acquiring "secondary meaning" through use.

**Factor (C):** *The duration and extent of advertising and publicity of the mark.* This is similar to *factor (B)* and requires evidence of the quantity and quality of promotion and advertising of the mark. This kind of evidence is the same as that traditionally used in trademark law to prove that a mark is relatively "strong." While *factor (B)* focuses on sales, *factor (C)* focuses on advertising and publicity.

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<sup>40</sup> Panavision Int'l L.P. v. Toeppen, 945 F. Supp. 1296, 40 U.S.P.Q.2d (BNA) 1908 (C.D. Cal. 1996) (holding that the mark was diluted by cyber-squatter).

<sup>41</sup> Toys "R" Us Inc. v. Akkaoui, 40 U.S.P.Q.2d (BNA) 1836 (N.D. Cal. 1996) (finding dilution by being tarnished by use of ADULTS R US as domain name for sale of adult sexual products).

<sup>42</sup> Wawa Inc. v. Haaf, 40 U.S.P.Q.2d (BNA) 1629 (E.D. Pa. 1996), *aff'd*, 116 F.3d 471 (3d Cir. 1997) (holding that a mark was diluted by the HAHA market in Pennsylvania).

<sup>43</sup> Trustees of Columbia Univ. v. Columbia/HCA Healthcare Corp., 964 F. Supp. 733, 750, 43 U.S.P.Q.2d (BNA) 1083, 1097 (S.D.N.Y. 1997) ("The plaintiff has also failed to prove that the COLUMBIA mark is a unique identifier of the plaintiff's service such that the defendant's use of its mark [to provide healthcare services] undermines the identifying character of the plaintiff's mark.")

<sup>44</sup> Petro Shopping Ctr. L.P. v. James River Petroleum, 41 U.S.P.Q.2d (BNA) 1853 (E.D. Va. 1997).

<sup>45</sup> Genovese Drug Stores, Inc. v. TGC Stores, Inc., 939 F. Supp. 340 (D.N.J. 1996).

<sup>46</sup> Star Markets, Ltd. v. Texaco, Inc., 950 F. Supp. 1030 (D. Haw. 1996) (one state is not enough).

**Factor (D):** *The geographical extent of the trading area in which the mark is used.* The 1995 legislative history of the 1996 Act contains statements by both Senator Hatch and Congressman Moorhead repeating the view of the Trademark Review Commission to the effect that "a Federal trademark dilution statute is necessary, because famous marks ordinarily are used on a nationwide basis."<sup>47</sup> Similarly, the House Report section by section analysis opined that "[t]he geographic fame of the mark must extend throughout a substantial portion of the U.S."<sup>48</sup> While use in only one state has been held to be insufficient,<sup>49</sup> use in five states for ninety years has been held sufficient.<sup>50</sup>

**Factor (E):** *The channels of trade for the goods or services with which the mark is used.* This factor merely requires the court to define the product or service line or market within which the plaintiff's mark is used and has become famous.

**Factor (F):** *The degree of recognition of the mark in the trading areas and channels of trade used by the mark's owner and the person against whom the injunction is sought.* This factor requires that the court determine the extent to which the fame of the mark in plaintiff's product line A extends to the defendant's product line Z. Unless the mark is famous among a significant percentage of the potential purchasers in the defendant's market or product line, there can be no dilution.

The Trademark Review Commission gave the example of a use of a mark on fish oil sold only to the food processing trade as being non-diluting, where the mark was the same as a famous mark used on microbiological chemicals sold to research laboratories.<sup>51</sup> The assumption of this hypothetical is that persons in these two customer groups do not overlap. If there is no overlap, then a less than substantial portion of people in the fish oil and food processing trade are aware of the mark, which is famous in the bio-tech field. If this is the fact, then the fame of the bio-tech mark is not

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<sup>47</sup> 141 CONG. REC. H14317 (daily ed. Dec. 12, 1995) (statement of Rep. Moorhead in House). See also 141 CONG. REC. S19310 (daily ed. Dec. 29, 1995), reprinted in 51 Pat. Trademark & Copyright J. (BNA) No. 1259, at 345 (Jan. 4, 1996) (statement of Sen. Hatch) (stating similar sentiments as Representative Moorhead).

<sup>48</sup> H.R. REP. NO.104-374, at 7 (1995), reprinted in 1996 U.S.C.C.A.N. 1029, 1034.

<sup>49</sup> *Star Markets*, 950 F. Supp. at 1030 (one state is not enough).

<sup>50</sup> *Wawa Inc. v Haaf*, 40 U.S.P.Q.2d (BNA) 1629 (E.D. Pa. 1996), *aff'd*, 116 F.3d 471 (3d Cir. 1997) (holding that the mark was diluted by the HABA market in Pennsylvania).

<sup>51</sup> Commission Report, *supra* note 4, at 460-61. "Dilution is possible with respect to one purchaser universe but not another. For example, if a mark is famous at the industrial level but not at the consumer level, protection may be appropriate at the industrial level but not at the consumer level." *Id.* at 461.

diluted when used in the food processing trade. On the other hand, if there is some overlap, then dilution becomes a possibility.

Assume that the hypothetical mark NEW WAVE is a registered trademark used by the Babbitt Company in Texas for commercial farm equipment used to pick fruit. Babbitt NEW WAVE equipment is sold to commercial fruit growers around the United States. Among persons in portions of the farming industry, NEW WAVE is a strong and famous mark. Assume that our client Frita-Hay wants to use NEW WAVE as the trademark for its new brand of snack chips, aimed at the general population of consumers. Because of our concern over the NEW WAVE farm equipment registration, we commission a telephone survey of 500 households, asking, "Have you or have you not ever seen or heard of a product or service sold under the name 'NEW WAVE?'" with follow-up probing questions. The results are that only 2 of the 500 respondents (0.4%) associated NEW WAVE with farming equipment. Does this mean that our client's NEW WAVE illegally dilutes because there is some overlap in the customer markets? The issue is whether a *significant number of persons* in the market for *defendant's product* are aware of the fame of the mark in the specialized field.

In my view, there is no dilution in the NEW WAVE hypothetical. The *Restatement* supports this view, taking the position that a mark famous only to a sub-group of purchasers is protectable against dilution only in that particular sub-market, not protectable in a broader market of overall consumers.<sup>52</sup> The famous *LEXIS* case also supports this view. In the *LEXIS v. LEXUS* case,<sup>53</sup> while *LEXIS* was a strong mark in the field of attorneys and accountants, only 1% of the general public recognized *LEXIS* as a mark.<sup>54</sup> Thus, the court concluded that: "For the general public, *LEXIS* has no distinctive quality that *LEXUS* will dilute."<sup>55</sup> Blurring was unlikely in the minds of a significant percentage of the general public who were potential buyers of a *LEXUS* auto, for the *LEXIS* mark was

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<sup>52</sup> A mark that is highly distinctive only to a particular class or group of purchasers may be protected from diluting uses directed at that particular class or group. For example, a mark may be highly distinctive among purchasers of a specific type of product. In such circumstances, protection against dilution of the mark's distinctiveness is ordinarily appropriate only against uses specifically directed at that particular class of purchasers; uses of the mark in broader markets, although they may produce an incidental diluting effect in the protected market, are not normally actionable.

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 cmt. e (1995).

<sup>53</sup> *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1028 (2d Cir. 1989).

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 1031 ("[S]uch distinctiveness as *LEXIS* possesses is limited to the narrow field of attorneys and accountants.").

not known to them. The court said that blurring would occur only where the plaintiff's mark is so famous in its own field that it is also famous for a "significant percentage of the defendant's market."<sup>56</sup> The court did not try to define what is a "significant percentage," but presumably 1% was not "significant."<sup>57</sup>

*Factor (G): The nature and extent of use of the same or similar marks by third parties.* Evaluating mark strength and fame by the degree of third party use is a method often used in traditional infringement analysis. A mark that is merely one in a "crowd" of similar marks will not usually be "famous."

*Factor (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.* While federal registration as a prerequisite for protection under the 1996 Act was deleted in congressional hearings, this factor permits a court to find that a mark is not "famous" because, among other reasons, it was not federally registered.

#### F. Defenses. There are Three Statutory Defenses:

##### 1. Fair Use in Comparative Advertising.<sup>58</sup>

For example, assume that we represent the hypothetical client Bay Burgers, a local chain of fast food outlets. Our client just put up a sign on the same pole that its big BAY BURGERS sign appears, the new sign reading: "Better burgers. Faster Service than Burger Queen." We receive a cease-and-desist letter from the competitor Burger Queen, claiming that this use "dilutes" their famous mark. In my opinion, on behalf of our client, we could tell the attorney for Burger Queen that there is no basis for the claim of dilution. This kind of use of a competitor's trademark is entirely proper and constitutes fair comparative advertising. In addition, our client is using the Burger Queen designation, not as a mark to identify the client, but as a mark to truthfully identify the competition.

##### 2. Noncommercial Uses.<sup>59</sup>

The intent of Congress appears to be that the 1996 Act cannot be used as a legal riposte to uses of a trademark in negative product reviews in the media or negative opinions expressed about

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<sup>56</sup> *Id.*

<sup>57</sup> If we changed the facts so that our client was not selling NEW WAVE snack chips, but NEW WAVE farm tractors, the whole equation changes to a different result, with probable dilution by blurring being the result.

<sup>58</sup> Lanham Act § 43(c)(4)(A), 15 U.S.C. § 1125(c)(4)(A) (1994).

<sup>59</sup> *Id.* § 43(c)(4)(B). This statutory "defense" is probably redundant in view of the requirement in section 43(c)(1) that the challenged use be a "commercial use."

company policies.<sup>60</sup> So when our angry client calls and demands that we threaten a product review web site or an electronics magazine with an anti-dilution claim because of an unfavorable product review, we should urge the client to cool off and not send a letter threatening an anti-dilution claim.

### 3. All Forms of News Reporting and News Commentary.<sup>61</sup>

This statutory defense includes all forms of news reporting and news commentary. This was obviously inserted to satisfy the free speech concerns and the lobbying of the media that stopped the anti-dilution bill in the House in 1988. This category of exempted uses seems self-explanatory and was inserted to assure the media that the federal anti-dilution law would not be used as a weapon against media use of trademarks in the context of conveying news and other forms of socially useful information. This section also ensures that the statute does not apply to allegedly tasteless or nasty modifications of famous marks in the media, in newspaper cartoons, magazine stories, Internet home pages, and the like. The commitment to free speech means that media parody does not generally trigger the anti-dilution laws.

### G. Remedies

Injunction is the normal remedy, while the usual Lanham Act remedies of damages and profits require the predicate finding that the defendant "wilfully intended to trade on the owner's reputation or to cause dilution of the famous mark."<sup>62</sup>

## II. CONCLUSION

Soon this shiny new federal law will become encrusted with court decisions, narrowing the scope of my speculations and predictions. But the difficulty of determining what marks are "famous," will, I think, continue and the definitional process will be vague and imprecise.

This is a very potent piece of legislation. All who do business in the United States will have to deal with it either as a sword or will be looking for a shield against claims under the new law. Other nations are pondering whether to enact such a law. The world is

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<sup>60</sup> See the case law interpreting Lanham Act section 43(a)'s requirement that an allegedly false representation be in "commercial advertising or promotion" and misrepresent the nature of "goods, services or commercial activities." See 3 MCCARTHY, *supra* note 2, § 27:71.

<sup>61</sup> Lanham Act § 43(c)(4)(c).

<sup>62</sup> *Id.* § 43(c)(2).

watching what the U.S. courts will do with this new approach to expanding the exclusionary scope of trademarks.