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# Revisiting the Rational Basis of Trademark Protection: Control of Quality and Dilution - Estranged Bedfellows, 24 J. Marshall L. Rev. 65 (1990)

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# REVISITING "THE RATIONAL BASIS OF TRADEMARK PROTECTION:" CONTROL OF QUALITY AND DILUTION—ESTRANGED BEDFELLOWS?*

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## I. INTRODUCTION

By 1927 the Industrial Revolution was over and in the United States modern forms of business had taken command of the marketplace. American jurisprudence was striving to stay abreast of all the changes brought about by the Revolution. In that year, Frank I. Schechter's[1] article "The Rational Basis of Trademark Protection" was first published.[2] The article advocates that the real function of a trademark is "to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public," that is, to assure the public of the quality of the product.[3] From this position, the argument progresses that the real injury to a trademark is derived from "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," now referred to as dilution of the trademark.[4] The article concludes that the only rational basis for trademark protection is to prevent the above mentioned injury, and that "the preservation of the uniqueness of a trademark should consti-

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1. In addition to the article which is the subject of this paper, Mr. Schechter authored the treatise, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS (1925)[hereinafter SCHECHTER, HISTORICAL FOUNDATIONS] and the articles *Fog and Fiction in Trade-Mark Protection*, 36 COLUM. L. REV. 60 (1936) and *Trade Morals and Regulations: The American Scene*, 6 FORDHAM L. REV. 190 (1937).

2. 40 HARV. L. REV. 813 (1926-1927), 22 TRADEMARK REP. BULL. 139 (1927), *reprinted in*, 60 TRADEMARK REP. 334 (1970) [hereinafter Schechter, *Rational Basis*].

3. Schechter, *Rational Basis*, *supra* note 2, at 818, 60 TRADEMARK REP. at 337.

4. *Id.* at 825, 60 TRADEMARK REP. at 342.

tute the only rational basis for its protection."[5] These ideas contributed to the ongoing revolution of the law and to its goal of answering the needs and reflecting the changes of society and the economy. Both the assurance of quality and anti-dilution components of Mr. Schechter's theory have entered into our body of law.[6] But, interestingly enough, they have been embraced separately, with each part gaining acceptance and legal standing independent of the other.

The function of a trademark as an indicator of quality, with the inherent rights and obligations to control quality, is being constantly tested. The law is developing and the function is being embraced as the courts deal with control of quality issues in franchise,[7] greymarket,[8] and trademark dilution cases.[9] Additionally, legal scholars are acknowledging the legal and social importance of recognizing the quality function of trademarks.[10] Market forces are capitalizing on the consumer's perception of the quality function of trademarks, which is especially apparent in the phenomenon of merchandising.[11]

In merchandising, a strong and famous mark becomes an indicator of quality to consumers. The mark's goodwill sells the product,[12] consumers make purchases relying on their past experience with a product bearing that mark.[13] The theory of dilution was proposed by Mr. Schechter to protect the relationship between a strong and famous mark and the consumer's perception of the quality of

5. *Id.* at 831, 60 TRADEMARK REP. at 345.

6. *See infra* notes 86-178 and accompanying text for a discussion of trademarks as an assurance of quality and notes 203-367 and accompanying text for a discussion of the anti-dilution statutes and resulting case-law.

7. *See* Gorenstein Enters., Inc. v. Quality Care - USA, Inc., 874 F.2d 431, 10 U.S.P.Q.2d (BNA) 1762 (7th Cir. 1989); Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 193 U.S.P.Q.(BNA) 649 (5th Cir. 1977).

8. *See* K-Mart Corp. v. Cartier, Inc., 108 S. Ct. 1811 (1988) [hereinafter *K-Mart Corp. II*]; El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 1 U.S.P.Q.2d (BNA) 1016 (2d Cir. 1986); Yamaha Corp. of Am. v. ABC Int'l Traders Corp., 703 F. Supp. 1398 (C.D. Cal. 1988); Dial Corp. v. Manghnani, Inv. Corp., 659 F. Supp. 1230 (D. Conn. 1987).

9. *See* El Greco Leather Prods. Co. v. Shoe World, Inc., 509 F. Supp. 1380, 224 U.S.P.Q.(BNA) 921 (E.D. N.Y. 1984), *rev'd and remanded*, 806 F.2d 392, 1 U.S.P.Q.2d (BNA) 1016 (2d Cir. 1986).

10. *See* Hanak, *The Quality Assurance Function of Trademarks*, 65 TRADEMARK REP. 318 (1975), for an analysis of the means used by the courts and administrative agencies to preserve the quality assurance function of trademarks.

11. *See infra* notes 194-202 and accompanying text for a discussion of the relationship between trademarks as indicators of quality and merchandising.

12. In this paper the term "product" is synonymous with "goods," and includes by reference "services."

13. Federal Trade Comm. v. Borden Co., 383 U.S. 637 (1966) (Stewart, J. dissenting). *See also* Schechter, *Rational Basis*, *supra* note 2, at 815-819, 60 TRADEMARK REP. at 336-338.

any product bearing that mark.[14]

So, although control of quality and dilution were presented to the legal community as a married couple, the legal community has refused to recognize them as such, instead insisting on treating them as single and independent of each other. Have they then become for all intents and purposes "Estranged Bedfellows"?

This article will examine the two component parts of Mr. Schechter's theory - their development and their current status in the law. It is the purpose of this article to provide evidence to the legal community that there is indeed a married couple waiting to be recognized, and together they are "The Rational Basis of Trademark Protection."

## II. A HISTORICAL PERSPECTIVE

### A. *The Early View - Trademarks Function Only to Denote Source*

Trademarks did not receive early federal protection, but instead they developed during the nineteenth century as an offshoot of the common law tort of fraud and deceit.[15] At the turn of the century, prevailing law held that a trademark's sole purpose was to identify for consumers the product's physical source or origin.[16] The "orthodox definition" of a trademark's primary and proper function was given by the Supreme Court in 1916.[17] The Court

14. Schechter, *Rational Basis, supra* note 2, at 825, 60 TRADEMARK REP. at 342.

15. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 109 S. Ct. 971, 981 (1989). In *Bonito Boats*, the Supreme Court stated that:

> The law of unfair competition has its roots in the common law of deceit; its general concern is with protecting *consumers* from confusion as to source. While that concern may result in the creation of "quasi-property rights" in communicative symbols, the focus is on the protection of consumers, not the protection of producers as an incentive to product innovation.

*Id.* (emphasis original). For further analysis of the history of trademarks see *generally* SCHECHTER, HISTORICAL FOUNDATIONS, *supra* note 1; Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975), *reprinted in*, 73 TRADEMARK REP. 222 (1983); Pattishall, *The Constitutional Foundations of American Law*, 78 TRADEMARK REP. 456 (1988) (exploring the early origins and development of trademark law and the impact of the commerce clause and other constitutional provisions). *See also* 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 5:2 (2d Ed. 1984).

16. *K-Mart Corp. II*, 108 S. Ct. at 1828 (Brennan, J., concurring in part, dissenting in part). *See, eg.*, Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 458, 478 (8th Cir. 1901).

17. Schechter, *Rational Basis, supra* note 2, at 813-14, 60 TRADEMARK REP. at 334 ) (citing Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916)). It was the language of "original or ownership" which formed the requirement that the mark must be of personal ownership. Schechter, *Rational Basis, supra* note 2, at 814, 60 TRADEMARK REP. at 334 (citing, Canal Co. v. Clark, 13 Wall, 311, 324 (U.S. 1871)); Bablin v. Cusenier, 221 U.S. 580, 591 (1911)). Coupled with that definition was the rationale that the lawsuit stemmed from an extension of

stated that a trademark's function was "[t]o identify the origin or ownership of the goods to which it is affixed."[18]

The value of the trademark was derived from its ability to identify the source of the goods.[19] This view is still widely held by many courts, scholars, and practitioners, with some emphatically stating that "[i]t is the source-denoting function which trademark laws protect, and nothing more."[20] And yet, as a consequence of this view, trademark licensing at the turn of the century was viewed as philosophically impossible because "licensing meant that the mark was being used by persons not associated with the real manufacturing 'source' in a strict, physical sense of the word."[21] The harsh result of this view is the relinquishment of ownership, by theory of abandonment of the trademark, for any attempt by a trademark owner to license a third party.[22]

### B. *Business Realities Demand Change*

As Mr. Schechter so aptly put it, judicial expressions of impatience with these early restrictions in trademark protection "reflect[ed] a consciousness of the need for breadth and liberality in coping with the progressive ingenuity of commercial depravity."[23] Prior to the publication of the article,[24] there was a decade of cases illustrating this impatience: in 1916, the "universality theory"[25] appeared and was quickly followed by the "territoriality theory" of trademark protection in 1923;[26] in 1916 and 1918, there were two

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the doctrine of unfair competition beyond the actual "diversion of custom." Schechter, *Rational Basis*, *supra* note 2, at 821, 60 TRADEMARK REP. at 339.

18. *Hanover Star Milling*, 240 U.S. at 412.

19. *See* Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 680, 11 U.S.P.Q.2d (BNA) 1001, 1019 (3rd Cir. 1989) (Becker, J., concurring) (explaining the history of the source theory of trademarks).

20. Anti-Monopoly, Inc. v. General Mills Fun Group, 611 F.2d 296, 301, 204 U.S.P.Q.(BNA) 978, 982 (9th Cir. 1979), *remanded*, 515 F. Supp. 448, 212 U.S.P.Q.(BNA) 748 (N.D. Cal. 1981), *rev'd*, 684 F.2d 1316, 215 U.S.P.Q.(BNA) 588 (9th Cir. 1982) (citing Smith v. Chanel, Inc., 402 F.2d 565, 566-69, 159 U.S.P.Q.(BNA) 388, 391-392 (9th Cir. 1968)).

21. *K-Mart Corp. II*, 108 S. Ct. at 1828 (citing 1 J. MCCARTHY, *supra* note 15, at § 18:13).

22. *K-Mart Corp. II*, 108 S. Ct. at 1828 (citing Evertt O. Fisk & Co. v. Fisk Teachers' Agency, Inc., 3 F.2d 7, 9 (8th Cir. 1924)).

23. Schechter, *Rational Basis*, *supra* note 2, at 813, 60 TRADEMARK REP. at 334.

24. *See also* SCHECHTER, HISTORICAL FOUNDATIONS, *supra* note 1, for a thorough analysis of the development of trademark law prior to 1925 especially at 146-171 for Mr. Schechter's analysis of "The Problems of the Modern Law Historically Considered."

25. Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916) (holding trademarks merely protected the public from deception by indicating the origin of the goods they mark, and did not confer on the owner a property interest).

26. A. Bourjois & Co. v. Katzel, 260 U.S. 689, (1923) (adopting the "territoriality theory" of trademark protection).

challenges to the territorial limitations on trademarks;[27] in 1920, the Court recognized that a famous trademark was associated more closely in the public mind with the product's quality than its origin;[28] in 1924, the Court recognized that ownership of a mark does not prevent a purchaser from repackaging the product and using the trademark on the label;[29] and 1923 saw the notion of "a single, though anonymous source" creeping into the law.[30]

Schechter foresaw in these developing legal theories logical conflicts and the need for change in order "to keep abreast of and to serve the needs of modern business."[31] From the outset, he admonished his readers that "[t]here is no part of the law which is more plastic than unfair competition, and what was not reckoned an actionable wrong 25 years ago may have become such today."[32]

## III. REDEFINING A TRADEMARK'S FUNCTION - THE SINGLE, ALBEIT ANONYMOUS SOURCE

In the first prong of Schechter's attack on early theory, he asked the question: "To what extent does the trademark of today really function as either [an indicator of the origin or ownership of the goods to which it was affixed]?"[33] With a resounding "not in the least!" he postulated that as law and commerce developed, the trademark was receding as a source of information with respect to ownership and was growing in its representation to the public of a certain level of product quality arising from one source.[34] The law began to reflect a moderation of the strict "source theory" as the courts began integrating the concept that a trademark functions as an indicator of "a single, albeit anonymous source."[35] By accepting this concept, the courts recognized that the source or origin is not

27. *Hanover Star Milling*, 240 U.S. at 412; United Drug Co. v. Theodore Rectanus, 248 U.S. 90, 100-01 (1918).

28. Coca-Cola Co. v. Koke Co. of Am., 254 U.S. 143 (1920) (Holmes, J.).

29. Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924).

30. Coty, Inc. v. LeBlume Import Co., 292 F. 264, 267-68 (S.D.N.Y. 1923), *aff'd*, 293 F. 344 (2d Cir. 1923) ("It is, of course, not necessary that he should be known as the maker; on the contrary, it will suffice if the article be known as coming from a single, though anonymous, source.") (Learned Hand, J.).

31. Schechter, *Rational Basis*, *supra* note 2, at 813, 60 TRADEMARK REP. at 334.

32. *Id.*

33. *Id.* at 814, 60 TRADEMARK REP. at 335.

34. *Id. See also* Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 680-81, 11 U.S.P.Q.2d (BNA) 1019-20 (3d Cir. 1989) (Becker, J. in his concurring opinion discusses trademarks signifying a level of quality); 1 J. GILSON, TRADEMARK PROTECTION AND PRACTICE § 1.03[1] (1989).

35. 1 J. MCCARTHY, *supra* note 15, at § 3:3(B).

always known to a consumer.[36]

The modern view is that a trademark indicates "a single, albeit anonymous source."[37] The Lanham Act of 1946 (as amended by the Clarification Act of 1984[38]) recognizes that, even where consumers do not know the name of the manufacturer or the producer of a product, a mark may function as an indicator of source and, therefore, be a valid trademark.[39] It defines a trademark as:

> any word, name, symbol, or device, or any combination thereof - (1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.[40]

"Anonymity" acknowledges that consumers may not know or care who the actual source of a product may be, leaving to the consumer the right to assume that all products bearing the same trademark are linked to or sponsored by the same anonymous source.[41] Professor McCarthy[42] noted that the "anonymous source" is a recognition by the courts that "consumer differentiation by means of trademarks [is] not a precise process,"[43] but that this recognition of "anonymity" is not a retraction of a trademark's primary function as an indicator of source.[44]

But if consumers cannot with any precision differentiate between products by means of a trademark, then what means are they left with? If a trademark does not truly stand for a source, what does it stand for? What is a trademark?

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36. *Id.* (citing Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc., 221 F.2d 464, 105 U.S.P.Q.(BNA) 160 (2d Cir.), *cert. denied*, 350 U.S. 832 (1955))).

37. 1 J. MCCARTHY, *supra* note 15, at § 3:3(B); *see* Thomas Pride Mills, Inc., v. Monsanto Co., 155 U.S.P.Q.(BNA) 205 (N.D. Ga. 1967).

38. The Trademark Clarification Act of 1984, Pub. L. No. 98-620, § 103(1), 98 Stat. 3335 (as codified at 15 U.S.C. § 1127).

39. A.J. Canfield Co. v. Honickman, 808 F.2d 291, 300, 1 U.S.P.Q.2d (BNA) 1354 (3rd Cir. 1986).

40. 15 U.S.C. § 1127 (1982 & Supp. 89) as amended by the Trademark Law Revision Act of 1988, Pub. L. No 100-667, 102 Stat. 3936, 3946 (1988).

41. 1 J. MCCARTHY, *supra* note 15, at § 3:3(B).

42. Professor J. Thomas McCarthy is a member of the faculty at the University of San Francisco School of Law, and is the author of the treatise, TRADEMARKS AND UNFAIR COMPETITION.

43. 1 J. MCCARTHY, *supra* note 15, at § 3:3 (citing Brown, *Advertising and the Public Interest*, 57 YALE L.J. 1165, 1185, 1186 (1948)).

44. 1 J. MCCARTHY, *supra* note 15, at § 3:3 (citing Clairol, Inc. v. Gillette Co., 389 F.2d 264, 156 U.S.P.Q.(BNA) 593 (2d Cir. 1968)).

## IV. TRADEMARKS, PROPERTY RIGHTS, AND GOODWILL

### A. *Trademarks Are Property Rights*

A trademark is a property right,[45] with ownership acquired by actual use[46] of the mark or symbol on goods,[47] and property is defined as a bundle of "rights."[48] Dr. Callmann[49] regards trademarks as a species of property, with the owner having an absolute right to prevent use by others.[50] When analyzing trademark law in economic terms, William Landes and Judge Richard Posner found in trademarks a property right which empowers the owner with the ability to exclude others from using the mark. Furthermore, the trademark owner has total discretion as to whether to enter into an agreement to license to another the use of the mark.[51] They concluded that the property right conferred "two types of economic benefit, static and dynamic."[52]

Thus, in a trademark infringement case, the "property right" in a trademark is the right to prevent confusion.[53] In a dilution case, it is the right to maintain the trademark's integrity and uniqueness.[54]

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45. Dallas Cowboys Cheerleaders, Inc. v. Pussycat Theaters, Ltd., 604 F.2d 200, 206 (2nd Cir. 1979) (citing Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 413 (1915)).

46. Although under the Trademark Revision Act of 1988, "a person who has a bona fide intention . . . to use a trademark in commerce may apply to register the trademark . . . ." 15 U.S.C. § 1051(b) as amended by the Trademark Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988).

47. Anheuser-Busch, Inc. v. Stroh Brewery Co., 587 F. Supp. 330, 338 (E.D. Mo. 1984), *aff'd*, 750 F.2d 631 (8th Cir. 1984) ("It is generally said that exclusive right to use a mark belongs to the first who appropriates it and uses it in connection with a particular business." (citing Canal Co. v. Clark, 13 Wall. 311, 322 (U.S. 1871)); E & J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d (BNA) 1657, 1670-71 (E.D. Cal. 1989) (ownership in surname acquired by acquisition of secondary meaning).

48. K-Mart Corp. v. Cartier, Inc., 108 S. Ct. 950, 957 (1988) [hereinafter *K-Mark Corp. I*] (Trademark law "grants the trademark owner a bundle of . . . rights . . .").

49. The late Dr. Rudolf Callmann was the author of the treatise, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES. The 4th Edition (1981) to which I cite was edited by Mr. Louis Altman. [hereinafter CALLMANN].

50. *K-Mart Corp. I*, 108 S. Ct. at 957, ("Trademark law, like contract law, confers private rights, which are themselves rights of exclusion"). 3 CALLMANN, *supra* note 49, at § 17.07.

51. Landes & Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267 (1988).

52. *Id.*

53. 1 J. MCCARTHY, *supra* note 15, at § 2:6. *See* Kravitz, *Trademarks, Speech, and the Gay Olympics Case*, 69 B.U.L. REV. 131 (1989), *reprinted in* 79 TRADEMARK REP. 604, 608 (1989).

54. *See* Ameritech, Inc. v. American Information Technologies Corp., 1 U.S.P.Q.2d (BNA) 1861, 1864 (6th Cir. 1987) ("Thus, trademark law now pursues two related goals - the prevention of deception and consumer confusion, and, more fundamentally, the protection of property interest in trademarks.").

What are grounds for extending the property right beyond its use to identify a brand? First, the injury is caused by the copier's appropriation, without compensation, of benefits created by the trademark owner's substantial investments.[55] These property rights are developed through large expenditures of money,[56] time,[57] and effort.[58] These investments are what builds and perpetuates the goodwill of the trademark and creates "the synonymous right of a trademark owner to control his product's reputation."[59] Second, potential dilution results from a consumer being forced to think about two or more producers, instead of one, when associating a trademark with a product, with a resulting blurring of the communicative value of a mark.[60] The copier appropriates a portion of the value engendered in the minds of the public by their experience with the owner's product, with a resulting financial loss to the owner.[61] The final basis for extending this right is the "investment in reputation capital" theory, wherein "many persons purchase branded goods for the purpose of demonstrating to others that they are consumers of particular goods,"[62] that is, to impress others or advertise themselves.[63]

The Congressional intent in enacting the Lanham Act is expressed in its legislative history.

> The purpose underlying any trademark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappro-

55. Landes & Posner, *supra* note 51, at 304.

56. National Football League Properties, Inc. v. Consumer Enters., Inc., 26 Ill. App. 3d 814, 817, 327 N.E.2d 242, 245, 185 U.S.P.Q.(BNA) 550, 552 (2nd Dist.)), *cert. denied*, 423 U.S. 1018 (1975). *But see* Denicola, *Trademarks as Speech, Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols*, 1982 WIS. L. REV. 158, 159, 165-66 (1982).

57. *See* Armstrong Cork Co., v. World Carpets, Inc., 76 F.R.D. 613, 615-16 (N.D. Ga. 1977).

58. Arthur Young, Inc., v. Arthur Young & Co., 579 F. Supp. 384, 390 (N.D. Ala. 1983).

59. James Burrough, Ltd. v. Sign of Beefeater, Inc., 540 F.2d 266, 274 (7th Cir. 1976).

60. Landes & Posner, *supra* note 51, at 304 (where the authors predict that the cheap copy will less likely run afoul of anti-dilution statutes than would appropriation of a well-known trademark for an unrelated product).

61. Chemical Corp. of Am. v. Anheuser-Busch, Inc., 306 F.2d 433, 437 (5th Cir. 1962), *cert. denied*, 372 U.S. 965 (1963).

62. Higgins & Rubin, *Counterfeit Goods*, 29 J. L. & ECON. 211 (1986).

63. Landes & Posner, *supra* note 51, at 305 ("the twist here is that the confusion does not occur in the market for the trademarked good, or in any other product market, but in a 'resale' market where consumers compete for advantageous personal transactions").

priation by pirates and cheats.[64]

Citing this legislative history, many have argued that the basic policy of the trademark law is the protection of the public from deception,[65] with the secondary policy being to protect trademark owners' expenditure of energy, time, and money.[66] This interpretation has been fueled by the notion that "the protection of trademarks originated as a police measure to prevent the grievous deceit of the people by the sale of deceptive goods, and to safeguard the collective good will and monopoly of the gild."[67] However, others would claim this is an excessively narrow reading of the Lanham Act's legislative history.[68]

### *B. Goodwill Is Protected by the Trademark Laws*

The Lanham Act was enacted by Congress "to secure trademark owners in the goodwill which they have built up,"[69] thus providing national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and protect the ability of consumers to distinguish among competing producers.[70] Trademark laws function to protect the individual reputation and goodwill which parties build for their goods in the market.[71]

So what is this goodwill that we are protecting? "Goodwill is not a tangible, physical object that can be seen, felt, and tasted."[72] It exists in the minds of the buying public, where buyers trust the constancy of quality emanating from a particular producer.[73]

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64. S. Rep. No. 1333, 79th Cong., 2d Sess., *reprinted in* 1946 U.S. CODE. CONG. & ADMIN. NEWS 1274.

65. 1 MCCARTHY, *supra* note 15, at § 2:1.

66. Eck, *Statement of The United States Trademark Association in Support of S. 1883 (DeConcini) the Trademark Revision Act*, 78 TRADEMARK REP. 382, 385 & n.2 (1988) (citing HR. Rep. No. 219, 79th Cong., 1st Sess. 2-3, February 26, 1945; S. Rep. No. 1333, 79th Cong., 2d Sess. 3-4, May 14, 1946).

67. Schechter, *Rational Basis, supra* note 2, at 819, 60 TRADEMARK REP. at 338.

68. Dreyfus Fund, Inc., v. Royal Bank of Canada, 525 F. Supp. 1108, 1123 (S.D. N.Y. 1981); Derenberg, *The Problem of Trademark Dilution and the Antidilution Statutes*, 44 CALIF. L. REV. 439 (1956). *See also* Schechter, *Rational Basis, supra* note 2; Wolff, *Non-Competing Goods in Trademark Law*, 37 COLUM. L. REV. 582, 602 (1937) for an historical perspective of the evolution of trademarks.

69. S. Rep. No. 1333, *supra* note 64, at 5, *reprinted in* 1946 U.S. CODE & CONG. ADMIN. NEWS at 1276 (cited in Park 'N Fly, Inc. v. Dollar Park, Fly, Inc., 469 U.S. 189, 213, (1985) (Stevens J., dissenting)).

70. S.Rep. No. 1333, *supra* note 64, at 3, 5, *reprinted in* 1946 U.S. CODE & CONG. ADMIN. SERV. at 1274 (cited in, *Park 'N Fly, Inc.*, 469 U.S. at 198).

71. Bi-Rite Enters., Inc. v. Button Master, 555 F. Supp. 1188 (S.D. N.Y. 1983), *supplemented by*, 578 F. Supp. 59 (S.D. N.Y. 1983).

72. 1 J. MCCARTHY, *supra* note 15, at § 2:8(A).

73. Schechter, *Rational Basis, supra* note 2, at 819, 60 TRADEMARK REP. at 338.

"Goodwill" thus becomes "a business value [that] reflects the basic human propensity to continue doing business with a seller [whose] goods and services . . . the customer likes and has found adequate to fulfill his needs."[74] It "makes tomorrow's business more than an accident."[75]

"Goodwill" is the advantage obtained from use of a trademark, which includes the public confidence in the quality of the product, the warranties made on behalf of the product, and the "name recognition" of the product by the public that differentiates that product from others.[76]

Goodwill is created when the customer has a good memory and is able to identify the full features of the product with the trademark and when there is no change in the features of the product between the first and subsequent consumption decisions.[77] Thus, the trademark has a reputation with the old customer that identifies its features.[78]

Conversely, a trademark is merely the symbol of goodwill for the business with which it is associated.[79] It enables a producer to capitalize on such goodwill by providing a sure method of identifying a particular producer's goods to the public. "Once . . . goodwill is established, trademarks become an extremely important medium of advertisement."[80] Trademarks become potent weapons in the competitive contest, for they guarantee, identify, and sell the article to which they refer.[81] They make the complex and impersonal marketplace more tolerable to the consumer allowing him to quickly identify the products which please him.[82] A trademark symbolizes

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74. 1 J. McCARTHY, *supra* note 15, at § 2:8(A).

75. *Id.*

76. Premier Dental Prods. Co. v. Darby Dental Supply Co., 794 F.2d 850, 853 n.3 (3rd Cir. 1986), *cert. denied*, 479 U.S. 950 (1987), *reh'g denied*, 479 U.S. 1062 (1987).

77. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 528 (1988).

78. *Id.*

79. *See generally* 1 J. McCARTHY, *supra* note 15, at § 3:1.

80. Anti-Monopoly, Inc. v. General Mills Fun Group, 611 F.2d 296, 301, 204 U.S.P.Q. (BNA) 978, 982 (9th Cir. 1979).

81. *Id.* at 301, 204 U.S.P.Q.(BNA) at 982. *See* 3 CALLMANN, *supra* note 49, at § 17.01; Economides, *supra* note 77, at 526.

82. *Anti-Monopoly*, 611 F.2d at 301, 204 U.S.P.Q.(BNA) at 982 (citing Chanel, Inc., 402 F.2d 562, 566, 159 U.S.P.Q.(BNA) 391) (9th Cir. 1968). *See also* W.T. Rogers Co. v. Keene, 778 F.2d 334, 338, 228 U.S.P.Q.(BNA) 145, 146 (7th Cir. 1985) (the purpose of a trademark "is to reduce the cost of information to consumers by making it easy for them to identify the products of producers with which they have had either good experiences, so that they want to keep buying the product (or buying from the producer), or bad experiences, so that they want to avoid the product or the producer in the future.") (citing Scandia Down Corp. v. Euroquilt, Inc., 772 F.2d 1423, 1429-30, 227 U.S.P.Q.(BNA) 138, 142 (7th Cir. 1985)).

nothing more than the public's confidence or "goodwill" in a particular product, and the trademark becomes insignificant once it is separated from that confidence.[83]

A trademark owner is entitled to protection from probable damage to the mark's goodwill where dissatisfied purchasers might conclude that the owner produced the product bought.[84] To possess goodwill in a trademark one does not have to manufacture the product to which it is attached.[85]

Just as trademarks are a bundle of rights, goodwill is a bundle of rights and also of obligations, for goodwill is a direct function of the integrity of the product.

## V. Goodwill and the Control of Quality

> Trademarks encourage competition, promote economic growth and raise the standard of living for all of our citizens. . . . America stakes its reputation on its trademarks. They are the most important ambassadors the United States sends abroad.[86]

In the 1883 Supreme Court case of *Manhattan Medicine Co. v. Wood*,[87] Justice Field noted that a "trademark is both a sign of the quality of the article and an assurance to the public that it is the genuine product of his [the owner's] manufacture."[88] Almost forty years later, Justice Holmes in *Coca-Cola Co. v. Koke Co. of America*[89] commented that the famous trademark COCA-COLA had perhaps become more associated in the public's mind with the product (quality) than with the producer (origin).[90]

When Mr. Schechter wrote his article in 1927, he was able to observe the coming dominance of the quality assurance function of trademarks and write that "a true function [is], then, to identify a product as satisfactory."[91] It was his opinion that trademarks convey a package of information associated with a product, not just the

83. Premier Dental Prods. v. Darby Dental Supply Co., 794 F.2d 850, 853 (3d Cir. 1986).

84. AFP Imaging Corp. v. Photo-Therm Inc., 12 U.S.P.Q.2d (BNA) 1534, 1539 (D. N.J. 1989).

85. Where the manufacturer subcontracts the production of a product, which will be sold under the manufacturer's trademark, the goodwill developed by the consumer's satisfaction with that product inures to the manufacturer - trademark owner.

86. 134 Cong. Rec. S16,973 (daily ed. October 20, 1988) (statement of Sen. DeConcini referring to S.1883).

87. 108 U.S. 218, 222-23 (1883).

88. *Id.*, *quoted in* Hanak, *supra* note 10, at 318.

89. 254 U.S. 143 (1920).

90. *Id.* at 146; Hanak, *supra* note 10, at 319.

91. Schechter, *Rational Basis*, *supra* note 2, at 818, 60 Trademark Rep. at 337 (the second function being to stimulate further purchases by the consuming public); Hanak, *supra* note 10, at 319-20.

identity of the product's source.[92]

### A. Quality Is Derived From the Constant Elements of the Product

Quality comes from the constant, consistent elements in the product itself.[93] It is the experience of dealing with a product over time that leads people to know that one mark stands for a better quality than another mark. The value of a trademark is only enhanced after there has been sufficient, substantial use of the trademark on products. The quality has to be there in the first place, but the sense of quality develops in the buyer's mind only after use.[94] Sales of the product develop the goodwill first, then the consumer's perception of the quality within the product enhances the goodwill even further.[95] To protect the goodwill and resulting value of the trademark the owner must be constantly vigilant to maintain consistent quality.[96]

### B. The Development of the Recognition of the Quality Function of a Trademark

The quality function of trademarks was recognized in the Lanham Act of 1946.[97] It continues to be argued, however, that the quality function does not replace the source function but stands along side it, with the quality theory being but a facet of the older source theory.[98] This dual nature argument of trademark function permits the mark to indicate source or quality, or both, depending upon the manner of use:

> The primary function of a trademark is to indicate a single source of origin of articles to which it refers and to offer assurance to ultimate consumers that articles so labeled will conform to quality standards established and, when licensed to others, controlled by the proprietor.[99]

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92. *See generally* Schechter, *Rational Basis*, *supra* note 2, at 815-19, 60 TRADEMARK REP. at 336-38.

93. 1 J. MCCARTHY, *supra* note 15, at § 3:4.

94. *See generally* Landes & Posner, *supra* note 51.

95. Examples of where goodwill has developed include: LIFE-SAVERS, RAID, COCA-COLA. Conversely, it is argued that where items are selected for purchase solely because of price considerations the mark is weak.

96. 1 J. MCCARTHY, *supra* note 15, at § 2:1.

97. Lanham Act, § 45 definition of "related company," 15 U.S.C. § 1127, § 5, Lanham Act 15 U.S.C. § 1055 (1988); 1 J. MCCARTHY, *supra* note 15, at § 3:4. *See* Dawn Donut Co. v. Hart's Food Stores, Inc. 267 F.2d 358, 121 U.S.P.Q.(BNA) 430 (2d Cir. 1959).

98. 1 MCCARTHY, *supra* note 15, at § 3:4.

99. *Id.* at § 3:4 (quoting Thomas Pride Mills, Inc. v. Monsanto Co., 155 U.S.P.Q.(BNA) 205 (N.D. Ga. 1967)). *See also* Drexel Enters., Inc. v. Ameritage Inc., 138 U.S.P.Q.(BNA) 88, 90 (T.T.A.B. 1963) ("The [furniture] purchaser would have to rely upon his own judgment, or rely upon the reputation of the

Realistically, in today's marketplace a mark's source-indicating function is subordinated to that of providing the purchaser with an assurance of the good's make and quality.[100]

The consumer understands the mark to function as a proclamation of the producer's commitment that all goods bearing the identical mark will be consistent in "nature, quality, and characteristics."[101] Yet there is no legally enforceable bargain that the goods are guaranteed to be a constant level of quality by virtue of the mark.[102] It is the goodwill and value of the trademark that the producer wants to maintain that compels the guarantee.[103]

(i) Trademark Rights Can Be Lost When Quality Is Not Controlled

Trademark rights can be lost through abandonment, non-use, or a "naked license"[104] without control over product quality.[105] Additionally, no deceptive changes may be made to the product.[106] Where the owner changes the character and quality of his product and does not deceive the public, his trademark rights remain intact.[107] When the trademark owner perceives a need to change the features of his product to meet market and consumer demands, he has a choice of actions: (1) change the product's unobservable characteristics to conform to the new tastes, (2) introduce a new trademarked product which more closely matches the new tastes, leaving the old product on the market, or (3) simultaneously introduce new product and withdraw old product.[108] Additionally, regional variances in products to reflect various regional tastes are allowed.[109] Thus, some courts have allowed unannounced changes of ingredi-

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dealer, or rely upon the reputation of the manufacturer as signified by a trademark. A trademark functions both as an indication of quality and of source.").

100. 3 CALLMANN, *supra* note 49, at § 17.03; Hanak, *supra* note 10, at 319.

101. 3 CALLMANN, *supra* note 49, at § 17.03.

102. 1 J. MCCARTHY, *supra* note 15, at § 3:4.

103. *Id.*

104. A transfer of a mark absent the goodwill of the business or product it represents is an invalid, "naked" transfer of rights. *Id.*

105. Tally Ho, Inc. v. Coast Community College Dist., 889 F.2d 1018, 1022 n.6, 13 U.S.P.Q.2d (BNA) 1133, 1136 n.6 (11th Cir. 1989). *See also* Cartier, Inc., v. Three Sheaves Co., 465 F. Supp. 123, 129 (S.D. N.Y. 1979) (court held that where license contains no provision for quality control by licensor, there was no transfer of rights, as license was void as against public policy).

106. *See* Royal Baking Powder Co. v. FTC, 281 F. 744 (2d Cir. 1922); Independent Baking Powder Co. v. Boorman, 175 F. 448 (D. N.J. 1910).

107. Hanak, *supra* note 10, at 330.

108. Economides, *supra* note 77, at 529-30 ("Coke, using third strategy introduced a new formula COKE; withdrawing old COKE, when it was apparent that there was demand for old COKE it was introduced as CLASSIC COKE.").

109. *See* Lever Bros. v. United States, 877 F.2d 101, 102-03 (D.C. Cir. 1989) (court acknowledges that manufacturers adjust products to reflect countries differing tastes and conditions).

ents as long as the general quality level remains unimpaired.[110]

Conversely, other courts have denied trademark owners equitable relief where the nature or ingredients of the underlying product are secretly[111] and materially changed.[112] Trademark owners have also been denied relief when "they have debased the quality of the goods sold under the mark."[113] One district court sustained the use of the doctrine of unclean hands to promote the quality function of a mark, stating that "[t]here is no doubt that a trademark owner who deceives the public by debasing the quality of the product for which his trademark stands may be barred by unclean hands from maintaining an action for infringement."[114] In fact, where a producer believes that the market for his product is failing he may elect to exploit its reputation by selling lower quality goods with the realization that in doing so he may destroy the mark's goodwill.[115]

(ii) Control of Quality Allows for Licensing

When Mr. Schechter proposed his theory, the licensing of trademarks was prohibited and courts invalidated agreements licensing the use of a trademark without an accompanying transfer

110. Menendez v. Farber, Coe & Gregg, Inc., 345 F. Supp. 527, 174 U.S.P.Q.(BNA) 80 (S.D.N.Y. 1972), *modified on other grounds sub nom.* Menendez v. Saks & Co., 485 F.2d 1355, 179 U.S.P.Q. (BNA) 513 (2d Cir. 1973), *cert. granted sub nom.* Alfred Dunhill of London, Inc. v. Republic of Cuba, 416 U.S. 981 (1974) (no loss of trademark protection where cigars no longer contained Cuban tobacco provided quality remained high); Hy-Cross Hatchery, Inc., v. Osborne, 303 F.2d 947, 133 U.S.P.Q. (BNA) 687 (C.C.P.A. 1962). *See also* Rick v. Buchansky, 609 F. Supp. 1522, 226 U.S.P.Q. 449 (BNA) (S.D.N.Y. 1985), *appeal dismissed*, 770 F.2d 157 (7th Cir. 1985) (court held that where a musical group's members kept changing, the group's manager, who kept the group going, owned the trademark).

111. Mr. Hanak suggests that the term "secretly" does not "imply any affirmative action was necessarily taken to prevent public disclosure, but simply meant that little or no affirmative action was taken to assure public disclosure." Hanak, *supra* note 10, at 321.

112. 1 J. MCCARTHY, *supra* note 15, at § 3:4. *See also* Royal Baking Powder Co., v. FTC, 281 F. 744 (2d Cir. 1922) (court held that plaintiff's change from cream of tarter to a phosphate baking powder coupled with the use of an almost identical mark was unfair competition).

113. 1 J. GILSON, *supra* note 34, at § 8.12[13] [c] [v] (*citing*, Renand Sales Co. v. Davis, 22 F. Supp. 703, 37 U.S.P.Q. (BNA) 125 (D. Mass. 1938), *modified by*, 104 F.2d 683, 42 U.S.P.Q.(BNA) 42 (1st Cir. 1939)). It is argued that the trademark is a property right with which the trademark owner can do anything he pleases, including taking down the quality level and running out the mark. The argument is that this is a business decision and nothing more. This author has to query - what happened to the trademark's purpose of protecting consumers from deception?

114. *Menendez*, 345 F. Supp. 527, 174 U.S.P.Q. (BNA) 80. *See also* Hanak, *supra* note 10, at 322.

115. Economides, *supra* note 77, at 529.

of the related business interest.[116]

It is well settled that trademark rights are merely symbols of goodwill.[117] Because of this historical starting point, a mark may only be transferred or assigned as a distinct asset representing goodwill as it exists solely in connection with a business or a product.[118] These tenets encompass the understanding that trademarks signify the source and the quality of the products.[119] A transfer of a mark absent the goodwill of the business or product it represents is an invalid, "naked" transfer of rights.[120]

In the 1930s, a new interpretation was developed approving of trademark licensing where the licensor controlled the quality of the licensee's products.[121] It was premised on the theory that a trademark could also function as an identifier of product quality for consumers.[122] And thus a trademark license came to mean an agreement whereby a licensee was authorized to produce a product in accordance with a licensor's standards.[123] The law was evolving to recognize an additional function - one where the mark assures the purchaser of a certain degree of uniformity or quality in the products to which it is attached.[124]

The trend to allow licensing became the rule with the passage of the Lanham Act in 1946.[125] This trend in the law prompted the

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116. Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 458, 468 (8th Cir. 1901). For a discussion of the *Macmahan Pharmacal Co.* case as the precedent of the source theory of trademarks prior to the *Lanham Act*, see Marks, *Trademark Licensing - Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 642 (1988).

117. 1 J. MCCARTHY, *supra* note 15, § 2:7.

118. United Drug Co. v. Theodore Rectanus, 248 U.S. 90, 97 (1918); Dresser Indus. v. Heraeus Engelhard Vacuum, Inc., 395 F.2d 457, 464 (3d Cir.), *cert. denied*, 393 U.S. 934 (1968); Premier Dental Prods. Co. v. Darby Dental Supply Co., 794 F.2d 850, 853 (3d Cir. 1986). *See also* 15 U.S.C. § 1060 which states: "A registered mark . . . shall be assignable with the goodwill of that business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark . . . ."

119. S. Rep. No. 1333, *supra* note 64, at 3, 5.

120. Berni v. International Gourmet Restaurants of America, 838 F.2d 642 (2d Cir. 1988); J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945, 950 (S.D. N.Y. 1990).

121. *K-Mark Corp. II*, 108 S. Ct. at 1829 (Brennan, J., dissenting). *See also* Grismore, *The Assignment of Trade Marks and Trade Names*, 30 MICH. L. REV. 490, 491 (1932) ("[T]here is much confusion in the books in regard to the transferability of trade marks and trade names.").

122. *Id. K-Mart Corp. II*, 108 S. Ct. at 1829 (citing 1 J. MCCARTHY, *supra*, note 15, at § 18:13).

123. Mr. Marks suggests that this occurred at a time when the licensor and the licensee were equally knowledgeable about the particular industry and the nature and quality of the goods to be produced and also at a time when the licensor could set the standards. Marks, *supra* note 116, at 646.

124. Hanak, *supra* note 10, at 318.

125. Lanham Act, ch. 22, in particular, § 5 (codified at 15 U.S.C. § 1055) and the definition of "related company" in § 45 (codified at 15 U.S.C. § 1127); *K-Mart*

Lanham Act definition of "related company,"[126] which noted therein that there is a need to control "the nature and quality of the goods . . . with which the mark is used."[127] The rule was broadened in 1962 when Congress amended section 32(1)(a) of the Act to delete the italicized portion of the following provision:

> [The infringement must be] likely to cause confusion, or to cause mistake, or to deceive[.] *purchasers as to the source of origin of such goods or services.*[128]

The concept of a trademark as solely a symbol of product source is slowly being eroded.[129] Franchising and merchandising have made trademark licensing a widespread commercial practice with a resulting development of a new rationale for trademarks as representative of product quality.[130]

*Dawn Donut Co. v. Hart's Food Stores, Inc.*[131] was the "bellwether" of 'guaranty' trademark licensing under the Lanham Act.[132] From that point forward a trademark owner could avoid a finding of abandonment by utilizing controlled licensing.[133]

Thus the Lanham Act provides protection for a mark where the trademark owner has the right to control the quality of the goods when a third party manufacturers the goods sold under the mark.[134] Conversely, goods sold by a licensed manufacturer but which are not available for quality control inspections by the trade-

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*Corp. II*, 108 S. Ct. at 1829. *See also Dawn Donut*, 267 F.2d at 366-67, 121 U.S.P.Q.(BNA) at 436-437, for a historical perspective on this change in the law.

126. The Lanham Act, 15 U.S.C. § 1127, defines "related companies" as: "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used." 15 U.S.C. § 1127 (as amended by Pub. L. No. 100-667, 102 Stat. 3946 (1988)).

127. *Id.*

128. 15 U.S.C. § 1114 (as amended by Pub. L. No. 87-772 § 17, 76 Stat. 773, Oct. 9, 1962). 1 J. GILSON, *supra* note 34, at § 1.03[1]. *But see The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors*, 77 TRADEMARK REP. 375, 378 (1987) (hereinafter *USTA Commission Paper*) ("The bill deleted "purchasers" to make it clear that the provision related to potential as well as to actual purchasers.").

129. Professional Golfer's Ass'n of Am. v. Bankers Life & Casualty Co., 514 F.2d 665, 670-71 (5th cir. 1975); El Greco Leather Prods. v. Shoe World, Inn., 806 F.2d 392, 395, 1 U.S.P.Q.2d (BNA) 1016, 1017-18 (2d Cir. 1936); Siegal v. Chicken Delight, Inc., 448 F.2d 43, 48, 171 U.S.P.Q. (BNA) 269, 273 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). *Cf.* Fleischmann Distilling Corp. v. Maier Brewing Co., 314 F.2d 149, 155 (9th Cir. 1963), *cert. denied*, 374 U.S. 830 (1963).

130. *Siegel*, 448 F.2d at 48, 171 U.S.P.Q. (BNA) at 273; Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963).

131. 267 F.2d 358, 121 U.S.P.Q. (BNA) 430 (2d Cir. 1959). *See also* Turner v. HMH Publishing Co., 380 F.2d 224, 154 U.S.P.Q. (BNA) 330 (5th Cir. 1967), *cert. denied*, 389 U.S. 1006.

132. Marks, *supra* note 116, at 643.

133. *Id.*

134. Lanham Act, *supra* note 64.

mark owner are not "genuine" goods, regardless of their actual quality.[135] This is the result of the trademark owner's inability to inspect the goods and certify their quality.[136] "[T]he actual quality of the goods is irrelevant: it is the control of quality that a trademark holder is entitled to maintain."[137]

The quality control rationale grew out of the commercial desire to license trademarks, coupled with the court's reluctance to uphold the license absent a showing of the trademark owner's involvement by exercising quality control.[138] Thus, quality control preserves the fiction of single origin.[139] Acknowledging the proposition that the trademark does not have to identify the origin, it is sufficient that the public knows or assumes that all products bearing the mark come from a single source.[140]

The typical proof of control of quality, to meet Lanham Act standards, is the inclusion of a provision that specifically states that the mark's owner will maintain control of quality over the licensee's goods or services. The right to control quality is exhibited in the license agreement in various ways, among them: criteria for trademark registration notices, with rules about placement, size and proportion of the trademark to be affixed; the trademark owner furnishing detailed specifications and standards for the goods to be produced; submission of plans, drawings, preliminary models, and actual samples to the owner; prior approval of advertising; provisions for inspection of the licensee's facilities, including unannounced spot inspections; assertions of continued controls over the nature and quality of the licensed goods; and remedies for failure to meet standards.[141]

When one or more of these conditions fails to be met, where a dispute erupts between the parties, or where a trademark infringement action is commenced, the licensing practices will come under critical judicial scrutiny.[142] The strongest penalty for failure to comply with the terms of the agreement or to adequately police the licensee's activities is a finding that there was a "naked" or uncon-

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135. *El Greco*, 806 F.2d at 395, 1 U.S.P.Q.2d (BNA) at 1017. 1 J. MCCARTHY, *supra* note 15, at § 3:4 (1989 Supp. at 25).

136. *El Greco*, 806 F.2d at 395, 1 U.S.P.Q.2d (BNA) at 1017-18.

137. *Id.* at 395, 1 U.S.P.Q.2d (BNA) at 1017 (citing Professional Golfer's Ass'n of Am. v. Bankers Life & Casualty Co., 514 F.2d 665, 670-71 (5th Cir. 1976)).

138. 1 J. MCCARTHY, *supra* note 15, at § 18:13(B).

139. *Id.*

140. Schechter, *Rational Basis*, *supra* note 2, at 817, 60 TRADEMARK REP. at 336.

141. Marks, *supra* note 116, at 642-43; Comment, *Trademark Licensing: The Problem of Adequate Control*, 1968 DUKE L.J. 875, 882 (1968), *reprinted in*, 59 TRADEMARK REP. 820, 826 (1969).

142. 1 J. MCCARTHY, *supra* note 15, at § 18:15. *See* Marks, *supra* note 116, at 641.

trolled license.[143] A naked or uncontrolled license effectively works an abandonment of the licensed trademark.[144]

Unfortunately, judicial examination of the extent of control exercised is unusual.[145] In a number of cases, the lip service inclusion of contractual provisions in the agreement or slight control exercised by the licensor has been held sufficient.[146] These results do not adequately answer the concern that a lack of effective control is a detriment to the consumer[147] and to the trademark's value.[148]

Interestingly, trademark owners with strong and famous trademarks take a hard line when licensing their marks to maintain con-

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143. Midwest Fur Prods. Ass'n v. Mutation Mink Breeders Ass'n, 127 F. Supp. 217, 103 U.S.P.Q. (BNA)) 389 (W.D. Wis. 1955); 1 J. MCCARTHY, *supra* note 15, at § 18:15.

144. First Nat'l Bank of Omaha v. Autoteller Sys. Serv. Corp., 9 U.S.P.Q.2d (BNA) 1749 (T.T.A.B. 1988) (Board held that a quality control requirement that the mark only be used in connection with goods and services "of the same quality as those on which it was already using the mark" was a "naked license at best"); Heaton Enter. of Nev., Inc. v. Lang, 7 U.S.P.Q.2d (BNA) 1842 (T.T.A.B. 1988) (the court found that the petitioner had attempted to maintain licenses in transactions he had labeled sales and had no right of quality control).

145. Marks, *supra* note 116, at 641; Comment, *supra* note 141, at 898, 59 TRADEMARK REP. at 840 ("While the range of the control spectrum can be delineated, it remains difficult to predict whether courts will find a particular licensing contract within that range."); Borchard & Osman, *Trademark Sublicensing and Quality Control*, 70 TRADEMARK REP. 99 (1980).

146. Penta Hotels Ltd. v. Penta Tours, 9 U.S.P.Q.2d (BNA) 1081 (D. Conn. 1988) (court held although there was no written agreement providing for quality control, no written evidence of inspections and no evidence that licensee adhered to quality control measures which licensor could rely on, defendant failed to meet its high burden of proof); Bureau Nat'l Interprofessional Du Cognac v. International Better Drinks Corp., 6 U.S.P.Q.2d (BNA) 1610 (T.T.A.B. 1988) (Board held that where there was never an opportunity to test whether there was control, abandonment could not be found by virtue of a lack of written quality control provisions); Nestle Co. v. Nash-Finch Co., 4 U.S.P.Q.2d (BNA) 1085 (T.T.A.B. 1987) (Board found sufficient control absent written licenses where the licensor was controlling the nature and goods by training the personnel, controlling the purchase of raw materials and conducting periodic inspections); Embedded Moments, Inc. v. International Silver Co., 648 F. Supp. 187 (E.D. N.Y. 1986) (quality control requirement, absent contractual rights to control or inspect, satisfied where licensor had confidence in licensee's president's integrity).

Mr. Marks advocates "it is reasonable to conclude that the right to challenge improper licensing has become largely illusory — a conclusion supported by the paucity of cases invalidating trademark rights on the basis of inadequate control by a licensor. . . ." Marks, *supra* note 116, at 657-58. He thus concluded from his examinations of the quality control and policing function of trademark licensing that it would better serve the public interest to relax the quality control standards in merchandising and advocated that a public body study this issue. *Id.*

147. Marks, *supra* note 116, at 642.

148. In addition to a finding that the mark has been abandoned, the trademark's value can be diminished by the court finding "a break in the chain of continuous use necessary to prove priority of use over another; a finding that a license is void; or that the licensor is estopped from challenging the licensee's uncontrolled use." 1 J. MCCARTHY, *supra* note 15, at § 18:15 (citations omitted).

trol of quality.[149] They establish codified licensing and franchising specifications for their licensees and their inspectors;[150] train sophisticated personnel to recognize trademark problems and to prevent them;[151] and establish standards of service.[152]

The owners of valuable marks establish criteria by which they measure the level of the quality to be met by their licensed products.

> [The] quality of the goods must equal or exceed a stated standard; depending on circumstances, this may be the quality of the same article as produced by the licensor or by other licensees, the quality of the licensee's current production of some similar article, or the quality of similar articles produced by named or otherwise designated competitors.[153]

The exercise of quality control is important to protect the validity of the trademark from a defense of abandonment of the mark which stems from allegations of uncontrolled licensing.[154] Arguably, when a trademark owner does not exercise quality control, it is tantamount to allowing a stranger to use the mark. Consequently, uncontrolled licensing of a mark by the owner results in abandonment because the use by other parties of the mark, absent inspection and supervision to assure the maintenance of the quality which the name has come to represent, results in the name losing its significance as a mark.[155]

It has been argued that trademark licensing rules with respect to quality control have not kept up with business practice.[156] But without the maintenance of this standard, how are consumers to be

149. Issues of product liability arise due to the elements of control. A major question is whether the trademark licensor, as an apparent manufacturer, could be strictly liable where there is a product failure. RESTATEMENT (SECOND) OF TORTS, §§ 400-402A. *But see* Accuride Int'l, Inc. v. Accuride Corp., 871 F.2d 1531, 1539 (9th Cir. 1989) ("mere possibility of product liability claims insufficient to justify relief").

150. Marks, *supra* note 116, at 648.

151. *Id.*

152. An example of "standards of service" is McDonald's business philosophy "Q.S.C.V." or "quality, service, cleanliness, and value." Quality Inns Int'l, Inc. v. McDonald's Corp., 695 F. Supp. 198, 203 (D. Md. 1988).

153. Diamond, *Requirements of a Trademark Licensing Program*, 1962 BUS. LAW. 295.

154. 1 J. MCCARTHY, *supra* note 15, at § 18:15.

155. Heaton Enterprises of Nev., Inc. v. Lang, 7 U.S.P.Q.2d (BNA) 1842, 1847 (T.T.A.B. 1988) (court held that plaintiff sought to license use of name while retaining ownership. However, contracts did not contain provisions for quality control of the services to be performed nor was there evidence that quality control could be exercised); *see* Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 198 U.S.P.Q. (BNA) 610 (C.C.P.A. 1978); Yocum v. Covington, 216 U.S.P.Q. (BNA) 210 (T.T.A.B. 1982); Midwest Fur Producers Ass'n v. Mutation Mink Breeders Ass'n, 127 F. Supp. 217, 103 U.S.P.Q.(BNA) 389 (W.D. Wis. 1955).

156. Marks, *supra* note 116, at 642.

protected? If they are not protected, how are trademarks going to continue to reflect goodwill and corresponding value?

Today it is argued that trademark licensing increases the availability of quality products.[157] The courts sustain licensing contracts where the amount of control retained by the trademark owner over the nature and quality of the licensee's product is felt to be adequate to protect consumer reliance on the trademark.[158]

(iii) Control of Quality and the "Guaranty" Theory

It was with the development and acceptance of the control rationale that the "guaranty" theory of trademarks came firmly into the law.[159] According to this theory, the trademark owner guarantees that his mark would appear only on goods of a certain quality which could be relied on by the consumer as indicating a consistent product level.[160]

Quality control requirements also exist to assure that the consumer will not be conned, bilked, or hurt. Dr. Callmann's treatise notes that a trademark assures the public that goods bearing the same mark are similar in "nature, quality, or characteristics."[161] For these reasons the courts require that licensing contracts set forth criteria which establish the quality of the product.[162]

Additionally, courts have recognized the rights and obligations of franchisors to control the quality of the goods bearing their mark. They have acknowledged that, to the consumer, a trademark

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157. Proponents of the phenomenon of franchising often herald it as a method by which trademark licensing increases the availability of quality products. The development and acceptance of the "quality" function of trademarks has contributed to this phenomenon, coupled with this is the rapid adoption of the franchise system, wherein individuals develop retail operations promoting the franchised mark. *See generally* 1 J. McCARTHY, *supra* note 15, at § 18:22.

158. Comment, *supra* note 141, at 882, 59 TRADEMARK REP. at 826.

159. *See generally* Dawn Donut Co. v. Harts' Food Stores, Inc., 267 F.2d 358, 121 U.S.P.Q. (BNA) 430 (2d cir. 1959).

160. In the absence of trademarks, it could be argued that quality regulation, say through minimum quality standards, enforced through laws on fraud, could conceivably create similar levels of efficiency in the marketplace. Although quality minimums might be upheld through regulation, it is practically impossible to regulate variety efficiently. Given the consensus among consumers on the desirability of a quality feature, a regulatory board can set minimum quality standards.

Economides, *supra* note 77, at 530.

Where there are different standards of quality under the same trademark by the first owner - they are eating away at the goodwill, and that only diminishes the value of the trademark, it does not endanger the validity, as trademark rights are the owners rights as long as the trademark is in use.

161. 3 R. CALLMANN, *supra* note 49, at § 17.03. Hanak, *supra* note 10, at 318.

162. Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 193 U.S.P.Q. (BNA) 649 (5th Cir. 1977); Haymarket Sports, Inc. v. Turian, 581 F.2d 257, 198 U.S.P.Q. (BNA) 610 (C.C.P.A. 1978). 1 J. McCARTHY, *supra* note 15, at § 18:14(A).

identifies a product and implies consistency.[163] It also creates a correlative duty in the owner to assure consistent quality.[164] Where the franchisor/trademark owner has broken off business relationships with the franchisee/licensee, his right to prevent continued used of his mark has been upheld.[165] The courts have found that any continued use would violate the trademark owner's duty to control the quality of the goods.[166]

The landmark greymarket[167] case, *A. Bourjois & Co. v. Katzel*,[168] which was decided prior to publication of Mr. Schechter's seminal article, provided him with an insight as to the problems which were arising in our trademark system.[169] Greymarket cases have been tied to the strength of the United States dollar; they seem to appear when the dollar is strong and imported products become relatively less expensive.[170]

Thus, in the 1970s and early 1980s when the dollar was strong there were a flurry of greymarket cases.[171] These cases illustrate trademark owners' concerns over the damage done to their goodwill by the loss of control over quality.[172] The United States trademark owners often made claims that the infringing imports were not backed by a warranty;[173] were inferior in quality as a result of im-

163. Gorenstein Entrs., Inc. v. Quality Care-USA Inc., 874 F.2d 431, 435, 10 U.S.P.Q.2d (BNA) 1762, 1764 (7th Cir. 1939) (citing Oberlin v. Marlin Am. Corp., 596 F.2d 1322, 1327 (7th Cir. 1979)).

164. *Id.*

165. *Id. See* El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 396, 1 U.S.P.Q.2d (BNA) 1016, 1018-19 (2d Cir. 1986); Burger-King Corp. v. Mason, 710 F.2d 1480, 1492, 219 U.S.P.Q. (BNA) 693, 700-01 (11th Cir. 1983).

166. *Gorenstein Enters.*, 874 F.2d at 435, 10 U.S.P.Q.2d (BNA) at 1764. *El Greco*, 806 F.2d at 396, 1 U.S.P.Q.2d (BNA) at 1018-19; *Burger-King*, 710 F.2d at 1492; Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664, 668 (2d Cir. 1968).

167. "Greymarket goods," which are also known as "parallel imports," are foreign manufactured goods, which bear a registered U.S. trademark, that are legally purchased abroad and are imported into the United States without the consent of the American trademark owner. *See K-Mark Corp. II*, 108 S. Ct. at 1812.

168. 260 U.S. 689 (1923).

169. Mr. Schechter cites to the *Katzel* case in note 13 of *Rational Basis*. Additionally, he expresses concern over the impact of the development of "the chain type of organization" on trademark law. Schechter, *Rational Basis*, *supra* note 2, at 824, 60 TRADEMARK REP. at 341.

170. *Supra* note at 167.

171. K-Mark Corp. *II* 108 S. Ct. 1811 (1988) was the major case of the era. In it the Supreme Court examined the Customs Service regulation for determining whether the overseas manufacturer was the "same person" as the U.S. trademark owner or a person "subject to common. . .control" with the U.S. trademark owner. *K-Mart Corp. II*, 108 S.Ct. at 1819.

172. *Id.*. 108 S.Ct. at 1828-31 (Brennan, J. dissenting).

173. Yamaha Corp. of Am. v. ABC Int'l Traders Corp., 703 F. Supp. 1398 (C.D. Cal. 1988).

proper shipping and storage;[174] were products not intended for the United States market;[175] and were being sold in a market which the trademark owner did not intend to sell the product.[176] The basic premise behind these arguments is that the United States trademark owner owns the mark's American goodwill,[177] with its inherent representations of quality, and the importer is placing products bearing the mark into the United States market without compliance with the quality standards of the United States trademark owner.[178] The damage to the trademark owner is threefold: the owner must support the greymarket product, by such means as warranty repairs, to assure the maintenance of his product's quality image; the owner's own sales are eroded by competition with the cheaper greymarket products; and the owner's ability to control the development of the product's market and image are thwarted by the uncontrolled influx of the greymarket products.

## VI. THE FUNCTION OF TRADEMARKS IN THE MARKETPLACE

### A. *Trademarks Advertise the Product*

The trademark is a symbol which is simple and quickly grasped.[179] Its use speeds up thinking, communicating, and buying.[180]

In modern marketing the predominant function of a trademark is to indicate degree of quality, and, subordinately, to indicate origin

174. Duracell Inc. v. Global Imports, Inc., 12 U.S.P.Q.2d (BNA) 1651 (S.D. N.Y. 1989) (court noted that batteries have a limited shelf life, and that the life of name-brand batteries is an important quality to consumers). *See also In re* Certain Alkaline Batteries, U.S.I.T.C. Invest. No. 337-TA-165, Nov. 1984.

175. Lever Bros. v. United States, 877 F.2d at 10b 102-03 (D.C. Cir. 1989); Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987) (the "adoption papers" enclosed with the infringing CABBAGE PATCH dolls were in Spanish); (Dial Corp. v. Manghnani Inv. Corp. 659 F. Supp. 1230 (D. Conn. 1987); Dial Corporation v. Encina Corp., 643 F. Supp. 951 (S.D. Fla. 1986) (infringing DIAL soap had a different chemical composition, different fragrance, lacked active ingredient which made it a deodorant soap, and was not properly labeled under FDA requirements).

176. *See supra* notes 173-175 and the cases cited therein.

177. "A *fortiori*, a genuine good marked with a genuine mark will have different legal consequences, depending on the country. And there may be a different entity in each country with the right to control those goods with that mark." Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d at 659, 681, 11 U.S.P.Q. 2d (BNA) at 1001, 1020 (3d cir. 1989) (Becker, J., concurring).

178. *Id.*

179. Economides, *supra* note 77, at 523.

180. By way of example, "in the prestige fragrance field trademarks are extremely important - because no matter how much money you spend on advertising and models, the marketing person can't get the total concept across unless they use the right trademark, which symbolizes everything, which is what trademarks are all about." From a conversation with Mr. Patrick E. Boland, Trademark Counsel at S.C. Johnson.

or source.[181] "Consumers rarely know or care about the origin of a product."[182] Therefore, trademark owners have a stake in continuing to ensure the quality of the products with which their mark has become identified.[183] The level of quality - high or low or mediocre - is not the issue; it is the consistency or constancy of that quality which becomes important to the consumer.[184] It is out of this "consistency" level that the phenomenon of franchising has grown.[185] Equal quality levels, cleanliness, consistently fast service, and value at every location[186] are the cornerstones of the franchising industry.

The impetus for the modern development of the law of trademarks comes from the demands of modern advertising. The creative forces in the advertising world conjure up an image, create a corresponding mark - and arrive at a market for the product.

Accordingly, in examining the economic justification for advertising, one author established a simple test: "Is it designed to make the final consumer a more competent buyer?"[187] Advertising promotes a mental image which includes an ability to distinguish between a trademarked product's quality and variety features, and therefore permits competition in yet another dimension.[188]

The consumer wants to be able to relate trademarks to their own personal measure of quality; simply, to what he/she likes and dislikes.[189] Thus, "[i]f the origin of a product is of concern to a consumer, it is only because the manufacturer's products have come to be associated with a certain level of quality."[190]

The consumer divides the features of the product between quality features and variety features.[191] Trademarks enable con-

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181. Hanak, *supra* note 10, at 319.

182. *Id.*

183. 1 J. McCARTHY, *supra* note 15, at § 18:13(B).

184. *Id.*

185. Gorenstein Entrs., Inc. v. Quality Care-USA, Inc., 874 F.2d at 431, 435, 10 U.S.P.Q. 2d (BNA) 1762, 1764 (7th Cir. 1989).

186. Quality Inns Int'l, Inc. v. McDonald's Corp., 695 F. Supp. 198, 203 (D. Md. 1938).

187. CHARINGTON, THE CONSUMER LOOKS AT ADVERTISING 186 (1928).

188. Economides, *supra* note 77, at 532.

189. [A] trademark today does not evoke in the minds of consumers separate and independent concepts of product and source, but rather evokes a 'brand image.' A brand image is a complex constellation of association and images that comprises a consumer's knowledge of the brand and his attributes towards it. It may include knowledge of the source of the product, awareness of other product characteristics, beliefs about the value of the object, and judgments about the suitability of the brand.

Note, *Trademarks and Generic Words: An Effect-on-Competition Test*, 51 U. CHI. L. REV. 868, 869 (1984) (footnotes omitted).

190. Hanak, *supra* note 10, at 319.

191. It is more desirable to have a greater amount of quality features, as long as there is a willingness to pay for the increase in quality. Economides, *supra* note 77, at 525.

sumers to choose between products with unobservable differences in quality or variety to obtain the desired combination of features.[192] This encourages firms to maintain consistent standards and to compete for consumers.[193] The repeat consumer is a direct result of the reaction to the first sample of the product - if it is a good experience.

### B. *Merchandised Trademarks Create New Markets*

> The creation of a market through an established symbol implies that people float on a psychological current engendered by the various advertising devices which give a trademark its potency.[194]

Merchandising creates a market for an item.[195] In merchandising, the owner of a well-known trademark licenses a trademark to someone else for application to goods of a different kind, probably a different trade.[196] The practice utilizes a mark's commercial magnetism, building and retaining the market. It is important to note just how very expensive it is for companies to develop trademarks.

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192. *Id.* at 526.

193. *Id.* at 525. Interestingly enough, several commentators hold the view that trademark rights form barriers to entry, reasoning "trademarks may be a mixed blessing, however. One school of thought, building on the ideas of economist Edward Chamberlain, has warned that trademarks may impede competition by creating irrational brand loyalties that pose a barrier to entry." Kravitz, *supra* note 53, at 608 n.17 (citing Naresh, *Incontestability and Rights in Descriptive Trademarks*, 53 U. CHI. L. REV. 953, 958 (1986)).

194. Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 208 (1942). Justice Frankfurter further observed:

> The protection of trademarks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trademark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same — to convey through the market, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value. If another poaches upon the *commercial magnetism* of the symbol he has created, the owner can obtain legal redress.

*Id.* at 205 (emphasis added).

195. Merchandising of trademarks is somewhat a phenomenon of the 1980s, where there has been a proliferation of merchandising symbols, such as the names or insignia of professional sports teams or musical groups. The emblazed items cost considerably more than unadorned items and yet they sell. *See* Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C.L. REV. 603 (1984), *reprinted in* 75 TRADEMARK REP. 41 (1985); Gaines & Battersby, *The Protection of Merchandising Properties*, 69 TRADEMARK REP. 431 (1979).

196. Marks, *supra* note 116, at 646-47 (currently, different forms of licensing are being developed - what has come to be known as "merchandising", "collateral product licensing" or "character licensing").

Merchandising stacks the deck in the marketing persons' favor.[197] The marketing person goes out and, instead of spending a lot of money establishing a brand,[198] pays a royalty for an established brand in a non-related field. Well-known marks have an incalculable value and can bring an immense premium at a corporate acquisition.[199]

Today it is standard practice to apply trademarks of goods normally applied in one product area to goods in another product area.[200] One of the major reasons for this change is that the companies that own well-known trademarks are presented with an opportunity to generate royalty income with minimal effort. Other companies enter into merchandising arrangements which enable them to enter a new business end-market without having to make major investments in a product's development and advertising and which allows them to share the financial risks with a partner. Merchandisers hope that the established trademark's fame and goodwill will carry over to the new area and for that they are willing to pay a royalty.[201] Unfortunately, where the licensor does not know the industry of the licensee, or feels that the merchandising is inconsequential, not enough attention may be given to the aspect of quality control.

"Merchandising will continue to expand in ways not even thought of."[202] But care must be taken as merchandising may endanger the value of a trademark, when there is market saturation.

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197. *See generally* Gaines & Battersby, *supra* note 195, at 434-37; Marks, *supra* note 116, at 646-47.

198. What does it cost to develop a trademark? Mr. Patrick E. Boland of S.C. Johnson stated that just to bring out a minor product, *e.g.*, a man's fragrance, "Carrington," the first year investment would be $5 million. When Calvin Klein came out with "Obsession" perfume they poured $18 million into advertising - to establish the brand overnight as a prestige brand that people wanted to buy.

199. Anson, *Realistic, Market Based Trademark and Brand Valuations*, LICENSING J., May, 1989, at 14. One licensing expert wrote that:

> If the top U.S. advertisers and consumer goods companies would value their trademarks and brand names, in a real world market based environment, they could probably add $25 billion to their balance sheet value. Accurate, market based brand name and trademark values represent a vast pool of untapped assets. For example, Grand Met added over 500 million pounds sterling to their asset based when they valued the Smirnoff brand in the Heublien acquisition.

*Id.* For a discussion and criticism of the accounting practices being used in brand valuations, see *Contra On the Brandwagon*, The Economist, January 20, 1990, at 17.

200. American consumers are educated through advertising and merchandising techniques to accept leaps among the product lines. An example of one licensing situation: Campbell's Soup and Campbell's Kitchen utensils.

201. Examples of families of marks which have been merchandised are the trademarks of Walt Disney, Coca-Cola, and Fisher Price.

202. Marks, *supra* note 116, at 647.

Therefore, a careful hand must be played at all times. For without a careful monitoring of the licensees, merchandising may be harmful to the trademark's long term value.

## VII. Antidilution Laws Protect a Trademark's Goodwill

The selling power of trademarks is being undermined in the marketplace. The selling power is the association in the public mind with the excellence of the product.[203] Mr. Schechter's article is concerned with "[t]rademark pirates" who "proceed circumspectly, by suggestion and approximation, rather than by direct and exact duplication of their victims' wares and marks."[204] Antidilution statutes focus on the investment the owner had made in the mark and on the commercial value and image of the mark itself, protecting both from those who would appropriate the mark for their own benefit.[205] Thus, antidilution statutes protect a trademark's "selling power."[206]

The premise behind a dilution action is that a trademark has value beyond its ability to distinguish the source of goods or services.[207] A strong, distinctive trademark may become a symbol of consumer loyalty and goodwill rather than merely an indicator of supplier identity.[208] It is the trademark owner's property rights in that goodwill that are usurped when dilution takes place. Mr. Schechter explained that the injury to a trademark caused by another's use is "the gradual whittling away or dispersion of the identity and hold upon the public mind or name by its use upon noncompeting goods."[209]

### A. *The Dilution Results From a Trespass on Property Rights*

A leading champion of the theory that a trademark can be injured by dilution, Beverly Pattishall[210] advocates that dilution is a

203. Schechter, *Rational Basis*, *supra* note 2, at 819, 829, 60 TRADEMARK REP. at 338, 344.

204. *Id.* at 285, 60 TRADEMARK REP. at 341.

205. *Id.* at 819, 60 TRADEMARK REP. at 388. *See* Sally Gee, Inc. v. Myra Hogan, Inc., 699 F.2d 621, 624-25, 217 U.S.P.Q. (BNA) 658, 661 (2d Cir. 1983).

206. Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1030, 10 U.S.P.Q.2d (BNA) 1961, 1963 (2d Cir. 1989); *Sally Gee, Inc.*, 699 F.2d at 624-25, 217 U.S.P.Q. at 661.

207. Schechter, *Rational Basis*, *supra* note 2, at 817-19, 60 TRADEMARK REP. at 336-38.

208. Tally-Ho, Inc. v. Coast Community, College dist., 889 F.2d 1018, 1024, 13 U.S.P.Q.2d (BNA) 1133, 1137 (11th Cir. 1989).

209. Schechter, *Rational Basis*, *supra* note 2, at 825, 60 TRADEMARK REP. at 342.

210. Mr. Pattishall has authored the following articles which discuss the antidilution statutes: *Constitutional Foundations of American Trademark Law*, *supra* note 15; *Dawning Acceptance of the Dilution Rationale for Trademark -*

trespass:

> The tort of trademark or trade name dilution sounds not in deceit but in trespass and is a wrong damaging to an incorporated property right in the sanctity of whatever distinguishing quality may be associated with one's mark or name. The right is to be protected against any trespass likely to diminish or destroy the distinguishing quality of that mark or name.[211]

The goodwill of a trademark is an exclusive property right and anyone who uses that goodwill without permission is committing a trespass. Another commentator has stated that "[t]he underlying rationale of the dilution doctrine is that the gradual diminution or whittling away of the value of a trademark, resulting from use by another, constitutes an invasion of the senior user's property right and goodwill in his mark and gives rise to an independent wrong."[212]

An analogy to the dilution invasion in the field of real property is the situation where a second party continuously passes over the owner's property. After a period of time the second party may claim prescriptive easement rights allowing it right of continuous passage over the subject property. This results in the owner losing the full right to control his property. Additionally, any subsequent passage of title by the owner will be subject to this easement, therefore lessening the value of the property.[213] Similar to the slowly maturing[214] easement, dilution results in a subtle undermining of a

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*Trade Identity Protection*, 74 TRADEMARK REP. 289 (1984) [hereinafter Pattishall, *Dawning Acceptance*]; *The Dilution Rationale for Trade-Mark Identity Protection, Its Progress and Prospects*, 71 NW. U. L. REV. 618 (1977), *reprinted in*, 67 TRADEMARK REP. 607 (1977) [hereinafter Pattishall, *Dilution Rationale*]; *The U.S.A. Courts and the Prevention of Unfair Competition*, 53 TRADEMARK REP. 599 (1963); *The Case for Anti-dilution Trademark Statutes*, 43 TRADEMARK REP. 877 (1953) [hereinafter Pattishall, *The Case*].

211. Pattishall, *Dawning Acceptance*, *supra* note 210, at 309. Professor Denicola challenges this distinction in the context of trademarks as speech and the first amendment.

> The first amendment thus does not operate to restrict the rights afforded trademark owners under traditional doctrine. Trademark law, however, has sometimes ventured beyond the confines of the confusion model. Those seeking to extend the scope of trademark protection have championed models more closely allied with property than with tort. When consumer confusion ceases to be the touchstone, however, the accommodation between trademark law and the first amendment becomes more problematic.

Denicola, *supra* note 56, at 166.

212. 2 J. MCCARTHY, *supra* note 15, at § 24:13, *cited in Tally-Ho, Inc.*, 889 F.2d at 1024 n.11, 13 U.S.P.Q.2d (BNA) at 1137 n.11; Academy of Motion Pictures Arts & Sciences v. Creative House Promotions, Inc., 13 U.S.P.Q.2d (BNA) 1435, 1443 (C.D. Cal. 1989).

213. BLACK'S LAW DICTIONARY 457 (5th ed. 1979). *See also* R. CUNNINGHAM, THE LAW OF PROPERTY § 8.7-8.8 (1984).

214. A prescriptive easement, much like adverse possession, requires, a statutory period of time to pass prior to a vesting of rights in the second party.

trademark's delicate hold on the public mind and to its value. Over time, the usurping use of the mark may destroy its value as a fanciful or arbitrary, strong and distinctive mark. The second user may be able to claim that its mark has also captured part of the human mind; and the trademark owner/first user will have lost his unencroached mark.

### *B. Dilution - A Subtle, Infectious Injury to a Trademark*

Judge Learned Hand recognized the intimacy of the mark and the danger of dilution:

> 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.[215]

The dilution injury is similar to an infection which "if allowed to spread, it will inevitably destroy the advertising value of the mark,"[216] the mark's selling power. It is an evil which ignores the primary purpose of a mark to *create and retain custom*,[217] and instead allows a "cancer-like growth of dissimilar products or services which feed upon the business reputation of an established distinctive trade-mark or name."[218] It is the nature of dilution to "gnaw away insidiously at the mark's value,"[219] the consequence being a loss of distinctiveness, a weakening of a mark's propensity to bring to mind a particular product, service, or source of either.[220]

The United States Trademark Association's recent proposal for a federal antidilution statute[221] contained the following definition of dilution:

> "Dilution" means the material reduction of the distinctive quality of a famous mark through use of a mark by another person, regardless of

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215. Yale Elec. Corp. v. Robertson, 26 F.2d 972, 974 (2d Cir. 1928) (emphasis added).

216. Mortellito v. Nina of Cal., Inc., 335 F. Supp. 1288, 1296 (S.D.N.Y. 1972).

217. Schechter, *Rational Basis*, *supra* note 2, at 822, 60 TRADEMARK REP. at 339.

218. Allied Maintenance Corp. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 544, 369 N.E.2d 1162, 1165, 399 N.Y.S.2d 628, 632 (1977).

219. Hyatt Corp. v. Hyatt Legal Serv., 736 F.2d 1153, 222 U.S.P.Q. (BNA) 669 (7th Cir. 1984), *cert. denied*, 469 U.S. 1019 (1984), *remanded* 610 F. Supp. 381 (1985).

220. Stop the Olympic Prison v. U.S. Olympic Comm., 489 F. Supp. 1112, 1123 (S.D.N.Y. 1980); *See also* King Research, Inc. v. Shulton, Inc., 324 F. Supp. 631, 638 (S.D.N.Y. 1971); 2 J. MCCARTHY, *supra* note 15, at § 24:13.

221. The 1988 Trademark Law Revision Act (Public Law 100-667, effective November 16, 1989) as proposed included a dilution provision. Although it was passed by the Senate, it was taken out of the House version, and thus failed to be included in the final compromise bill.

the presence or absence of (a) competition between the users of the mark, or (b) likelihood of confusion, mistake, or deception arising from that use.[222]

The first state to adopt an antidilution statute was Massachusetts[223] in 1947, and since then over half of the states have passed antidilution statutes.[224] Unfortunately, dilution has been treated as

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222. This definition was enacted as part of the antidilution statute enacted by the State of Washington, S. Bill No. 5733, 51st Leg. 1989 Reg. Sess., 1989 Wash., effective July 23, 1989. The test of the statute is as follows:

> The owner of a famous mark shall be entitled, subject to the principles of equity, to an injunction against another person's use in this state of a mark, commencing after the mark becomes famous, which causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this section. In determining whether a mark is famous and has distinctive quality, a court shall consider all relevant factors, including, but not limited to the following:
>
> (1) Whether the mark is inherently distinctive or has become distinctive through substantially exclusive and continuous use;
>
> (2) Whether the duration and extent of use of the mark are substantial;
>
> (3) Whether the duration and extent of advertising and publicity of the mark are substantial;
>
> (4) Whether the geographical extent of the trading area in which the mark is used is substantial;
>
> (5) Whether the mark has substantial renown in its and in the other person's trading areas and channels of trade; and
>
> (6) Whether substantial use of the same or similar marks is being made by third parties.

*Id.* The owner shall be entitled only to injunctive relief in an action brought under this section, unless the subsequent user willfully intended to trade on the registrant's reputation or to cause dilution of the owner's mark. *Id.* If such willful intent is proven, the owner shall also be entitled to the remedies set forth in this chapter, subject to the discretion of the court and the principles of equity. *Id.* An extensive analysis of the new Washington statute and the *Mead Data* case was recently published: Brownlee, *Mead Data Central v. Toyota and other Contemporary Dilution Cases: High Noon for Trademark Law's Misfit Doctrine?*, 79 TRADEMARK REP. 471 (1989).

223. Act of May 2, 1947, ch. 307, § 7a, 1947 Mass. Acts 300 (repealed by 1973 Acts ch. 897, § 2; replaced by MASS. GEN. LAWS. ch. 110B, § 12 (1975)). The 1947 statute went through changes as it progressed through the legislature. The Massachusetts House of Representatives passed the bill which protected only "coined or peculiar" words (1947 House Bill No. 656 (Mass.)), but the Senate redefined the protected words to include any marks of "distinctive quality" but did not include any legislative history for the change. This lack of history has wrought havoc on the development of the dilution theory. *See*, Handler, *Are the State Antidilution Laws Compatible with the National Protection of Trademarks?*, 75 TRADEMARK REP. 269, 275-76 (1985); Derenberg, *supra* note 68, at 453.

224. ALA. CODE § 8-12-17 (Supp. 1989); ARK. CODE ANN. § 4-71-133 (Michie 1987); CAL. BUS. & PROF. CODE § 14330 (West 1987); CONN. GEN. STAT. ANN. § 35-11i(c) (West 1987); DEL. CODE ANN. tit. 6, § 3313 (Supp. 1988); FLA. STAT. ANN. § 495.151 (West 1988); GA. CODE § 106-115(b) [10-1-451] (Harrison Supp. 1989); HAW. REV. STAT. § 482 (1989); IDAHO CODE § 48-512 (1977); ILL. REV. STAT. ch. 140, para. 22 (1987); IOWA CODE ANN. § 548.11(2) (West 1987); LA. REV. STAT. § 51:223.1 (West 1987); ME. REV. STAT. ANN. tit. 10, § 1530 (1988); MASS. ANN. LAWS ch. 110B, § 12 (Law. Co-op 1985); MINN. STAT. ANN. § 333 (1989); MISS. CODE ANN. § 25 (1989); MO. ANN. STAT. § 417.061(1) (Vernon 1979); MONT. CODE ANN. § 30-13-334 (1987); NEB. REV. STAT. § 87-122 (1981 Reissue); N.H.

a "nebulous concept" by courts and practitioners alike.[225] The coolness of the bar can be traced to the lack of definition in the statutes.[226]

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REV. STAT. ANN. § 350-A:12 (1984); N.M. STAT. ANN. § 57-3-10 (1987); N.Y. GEN. BUS. LAW § 368-d (McKinney 1984); OR. REV. STAT. ANN. § 647.107 [ch.122 § 2] (Butterworth 1988); PA. CONS. STAT. ANN. tit. 54, § 112 (Purdon Supp. 1989); R.I. GEN. LAWS § 6-2-12 (1985); TENN. CODE ANN. § 47-25-512 (Supp. 1988); 1989 Tex. Sess. Law. Serv. ch. 932 (Vernon) (effective June 14, 1989) (enacting TEX BUS. & COM. § 16.29); 1989 WASH. LEGIS. SERV. ch. 72 (West) (effective July 23, 1989) (enacting WASH. REV. CODE § 19.77.10).

Additionally, courts in two states which do not have antidilution statutes have discussed common law causes of action. Michigan: Clairol, Inc. v. Boston Discount Center of Berkley, Inc., 608 F.2d 1114, 1118 (6th Cir. 1979), and Indiana: Westward Coach Mfg. Co. v. Ford Motor Co., 258 F. Supp. 67 (S.D. Ind. 1966).

225. There has been a slow warming toward the dilution theory by both the judiciary and the bar. This lack of zealousness can be traced to a variety of factors: the absence of definitions for key terms; an uncertainty as to the actual elements of the dilution claim; and a lack of experience with the theory. These handicaps have been discussed in several articles: Shire, *Dilution v. Deception - Are State Antidilution Laws as Appropriate Alternative to the Law of Infringement?*, 77 TRADEMARK REP. 273, 283-296 (1987); Handler, *supra* note 223, at 283-87; Griewe, *Anti-dilution Statutes: A New Attack of Comparative Advertising*, 72 TRADEMARK REP. 178, 183-84 (1982); Pattishall, *Dawning Acceptance*, *supra* note 210, at 291 n.11; Day, *State Anti-Dilution without a Statute*, 54 TRADEMARK REP. 590, 594 (1964); 2 J. MCCARTHY, *supra* note 15, at § 24:13(D).

There have been incidents where the bar has pled boiler plate state dilution claims along with Lanham Act claims and failed to develop the merits of the dilution claims in their records. This has apparently been a source of frustration to the judiciary. As one court succinctly put it: "Neither party has bothered . . . ." Gear, Inc. v. L.A. Gear Cal., Inc., 670 F. Supp. 508, 512 (S.D. N.Y. 1987); *see also* Home Box Office v. Showtime/The Movie Channel, 665 F. Supp. 1079, 1087 (S.D. N.Y. 1987). Another court proceeded by saying "[f]or now, we evaluate that provision without aid from its counsel." Coca-Cola Co. v. Alma-Leo U.S.A., Inc., 12 U.S.P.Q.2d (BNA) 1487, 1489 (N.D. Ill. 1989).

The coupling of state dilution claims with Lanham Act claims has created a situation where a large proportion of the law has been decided in the federal courts. The Oregon Supreme Court stated "a federal court's interpretation of state law may be persuasive but it is not controlling." Wedgwood Homes, Inc. v. Lund, 294 Or. 493, 497 n.11, 659 P.2d 377, 382 n.11 (Or. 1983) (en banc).

226. The lack of certainty as to the parameters of antidilution statutes has lead to questions of preemption. In Iowa, the courts have held that the Iowa antidilution statute is preempted by the Lanham Act where the trademarks are used in interstate commerce. They argue that the statute provides greater rights to holders of trademarks than are available under the Lanham Act. United States Jaycees v. Commodities Magazine, Inc., 661 F. Supp. 1360, 1368, 2 U.S.P.Q.2d (BNA) 1119, 1126 (N.D. Iowa 1987); Comidas Exquisitos v. Carlos McGee's Mexican Cafe, 602 F. Supp. 191, 198 (S.D. Iowa 1985).

Conversely, the Seventh Circuit found no direct conflict between the statutes (Lanham Act and Illinois antidilution statute) and no evidence of Congressional intent to preempt the state antidilution laws. Ringling Bros. - Barnum & Bailey Combined Shows, Inc. v. Celozzi - Ettelson Chevrolet, Inc., 855 F.2d 480, 8 U.S.P.Q.2d (BNA) 1072 (7th Cir. 1988). *See also* Plasticolor Molded Prods. v. Ford Motor Co., 713 F. Supp. 1329, 1347 (C.D. Cal. 1989). A New York court stated: "It has long been recognized that in the area of trade names and trademarks remedies may be granted by both federal law and state law concurrently." Dallas Cowboy Cheerleaders v. Pussycat Cinema, 467 F. Supp. 366, 378 (S.D. N.Y. 1979). But a district court in Illinois expressed concern that a nation-

Until the recent passage of the Washington statute,[227] all of the state statutes were based on the Model State Trademark Act.[228] The Model Act does not include any definitions of key terms and the states developed very little legislative history.[229] The result has been an inconsistent development and interpretation of the statutes. The passage of the Washington statute, with its definition of dilution and list of factors to consider in determining distinctiveness, may fill the gap.

### C. *Elements for a Dilution Cause of Action*

Over the years two basic elements for a dilution cause of action have evolved: plaintiff must show that its mark is distinctive (or has acquired secondary meaning) and that defendant's use of a similar mark has created a likelihood of dilution (defendant's mark threatens to dilute the distinctiveness of plaintiff's mark or, alternatively, to tarnish the reputation of plaintiff's mark).[230] Because

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wide injunction could place an excessive burden on commerce. Hyatt Corp. v. Hyatt Legal Services, 610 F. Supp. 381 (N.D. Ill. 1985), *rev'd on other grounds*, 736 F.2d 1153, 222 U.S.P.Q. (BNA) 669 (7th Cir.); *cert. denied*, 459 U.S. 1019 (1984). Courts have also noted that dilution statutes can be preempted by the Copyright Act. Conan Properties, Inc. v. Mattel, Inc., 13 U.S.P.Q.2d (BNA) 1017, 1024 (S.D. N.Y. 1989).

The issue of preemption has been explored in the following articles: Brownlee, *supra* note 222, at 498-506; Pattishall, *supra* note 15; Handler, *supra* note 223, at 283-87 (arguing that (1) interstate commerce is so broad that virtually any commercial activity is likely to be considered "in commerce" and (2) that the Congressional objective of providing uniform trademark protection with the Lanham Act should preempt state antidilution laws); Griewe, *supra* note 225, at 189-203 (concluding that the first amendment protects informative advertising from regulation under state antidilution laws but does not protect persuasive comparative advertising).

227. For the text of the Washington Statute, see *supra* note 222 and accompanying text.

228. Most of the state statutes were patterned on the MODEL STATE TRADEMARK ACT, § 12, which reads:

> Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this Act, or a mark valid at common law, or a trade name valued at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services.

2 J. MCCARTHY, *supra* note 15, at 22:4. Florida, Georgia and Illinois also prohibit dilution of "labels and forms of advertisement." FLA. STAT. ANN. § 495.151 (West 1988); GA. CODE § 106-115(b) [10-1-451] (Harrison Supp. 1989); ILL. REV. STAT. ch. 140, para. 22 (1987).

The first major deviation from the model is the Washington statute, *supra* note 222, which was patterned after the proposed federal statute.

229. The New York legislative history discusses the need to protect famous marks from occurrences such as "DuPont shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos, Bulova gowns." 1954 N.Y. LEGIS. ANN. 49-50.

230. Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A. Inc., 875 F.2d 1026, 10 U.S.P.Q.2d (BNA) 1961, 1963 (2d Cir. 1989); Century 21 Real Estate Corp. v. Sandlin, 846 F.2d 1175, 6 U.S.P.Q.2d (BNA) 2032 (9th Cir. 1988); Pignons S.A. de Mecanique de Precision v. Polaroid Corp., 657 F.2d 482, 493-94

of the ambiguity of the original state statutes, additional conflicting elements are being considered by various courts: proof that plaintiff owns a valid trademark registration;[231] proof that the defendant's trademark is a colorable imitation of the plaintiff's trademarks;[232] evidence that defendant's use was without plaintiff's consent;[233] proof of specific or predatory intent;[234] proof that use of the trademark by a second user decreases the mark's com-

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(1st Cir. 1981); White Swan, Ltd. v. Clyde Robin Seed Co., 12 U.S.P.Q.2d (BNA) 1985, 1991 (N.D. Cal. 1989); Horn Abbot, Ltd. v. Sarsaparilla, Ltd., 601 F. Supp. 360 (N.D. Ill. 1984); *Wedgwood Homes*, 294 Or. 493, 659 P.2d 377.

231. For cases which support the position that a trademark must be registered to be protected, see: Elite Personnel, Inc. v. Elite Personnel Servs., Inc., 259 Ga. 192, 193, 378 S.E.2d 117, 119 (Ga. 1989) (statutory protection only available upon registration with Secretary of State). *See also* Diamond Supply Co. v. Prudential Paper Prods. Co., 589 F. Supp. 470, 476 n.13 (S.D.N.Y. 1984) (must be a "valid" trademark).

For cases which support the position that a trademark need not be registered to be protected, see: Louis Ender, Inc. v. General Foods Corp., 467 F.2d 327, 330 (2d Cir. 1972) (no requirement of registration with Patent Office); Cullman Ventures, Inc. v. Columbian Art Works, Inc., 13 U.S.P.Q.2d (BNA) 1257, 1268 (S.D.N.Y. 1989); Hospitality Int'l, Inc. v. Northway Inn Corp., 12 U.S.P.Q.2d (BNA) 1238 (N.D.N.Y. 1989); Marks v. Cayo Hueso, Ltd., 437 So.2d 775 (Fla. App.3 Dist. 1983).

In the USTA's statement in support of S.1883 they noted a potential conflict between state antidilution statutes and a federal antidilution statute. The state statutes may apply to common-law trademarks while a federal statute would only cover registered marks. Although the federal statute would not preempt state statutes which would continue to have jurisdiction to protect locally famous or distinctive marks, a valid federal registration could be a complete defense to a claim of dilution under state or common law. Eck, *supra* note 66, at 407.

232. Coca-Cola Co. v. Alma-Leo U.S.A., Inc., 12 U.S.P.Q.2d (BNA) 1487, 1488-89 (N.D. Ill. 1989) (the court found that the contours of the plaintiff's and defendant's bottles mirrored each other, each had circular bottoms, and vertical lines covering the length of the bottle, with the result that the physical resemblances sufficiently demonstrated the requisite dilution).

233. E&J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d (BNA) 1657, 1675 (C.D. Cal. 1989) (court found that defendant knew that plaintiff wine producer would object to the use of it's surname mark on cheese products).

234. For cases which support the position that specific intent to capitalize on strength and advertising value of trademark is a relevant factor, see: McDonald's Corp. v. McBagel's Inc., 649 F. Supp. 1268, 1281, 1 U.S.P.Q.2d (BNA) 1761, 1771 (S.D.N.Y. 1986); *E&J Gallo Winery*, 12 U.S.P.Q.2d (BNA) at 1663, 1675 (court found that defendant knew the plaintiff would object and that a mark integrating plaintiff's surname would have automatic consumer appeal) (citing Sally Gee, Inc. v. Myra Hogan, Inc., 699 F.2d 621, 626, 217 U.S.P.Q. (BNA) 658, 662 (2d Cir. 1983)).

For cases which support the position that predatory intent is an element, see: Sage Realty Corp. v. Sage Group, Inc., 711 F. Supp. 134, 143 (S.D. N.Y. 1989) (citing *Sally Gee, Inc.*, 699 F.2d at 625-26, 217 U.S.P.Q. (BNA) at 662). *See also* Toys "R" Us, Inc. v. Canarsie Kiddie Shop, Inc., 559 F. Supp. 1189, 1206-09 (E.D. N.Y. 1983).

For cases which support the position that predatory intent is not a necessary element but it is a factor favoring relief, see: TNT Limited v. TNT Messenmercial value;[235] whether the products on which the marks are used can be competitive products;[236] and proof of consumer confusion.[237]

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ger Serv., Inc., 724 F. Supp. 201, 208, 13 U.S.P.Q.2d (BNA) 1649, 1655 (S.D. N.Y. 1989) (citing *Sally Gee, Inc.*, 699 F.2d at 625, 217 U.S.P.Q.(BNA) at 662).

For cases which support the position that a lack of predatory intent is not a good faith defense, see: Golden Door, Inc. v. Odisho, 437 F. Supp. 956 (D.C. Cal. 1977), *aff'd*, 646 F.2d 347 (9th Cir. 1980).

235. Freedom Savings & Loan Ass'n v. Way, 757 F.2d 1176, 1186, 226 U.S.P.Q. (BNA) 123, 129-30 (11th Cir. 1985); Burger King Corp. v. Pilgrim's Pride Corp., 12 U.S.P.Q.2d (BNA) 1527, 1533 (S.D. Fla. 1988).

236. For cases which support the position that the statute does not apply where products are competitive, see: Business Trends Analysts v. Freedonia Group, Inc., 650 F. Supp. 1452, 1458 (S.D. N.Y. 1987); Smithkline Beckman Corp. v. Proctor & Gamble Co., 591 F. Supp. 1229, 1246-47 (N.D.N.Y. 1984) *aff'd mem.*, 755 F.2d 914 (2d Cir. 1985); Ives Laboratories, Inc. v. Darby Drug Co., 455 F. Supp. 939, 951 (E.D.N.Y. 1978), *aff'd on other grounds*, 601 F.2d 631 (2d Cir. 1979).

For cases which support the position that the statute may apply where products are competitive, see: Frito-Lay, Inc. v. Bachman Co., 704 F. Supp. 432, 438 (S.D.N.Y. 1989); Gaston's White River Resort v. Rush, 701 F. Supp. 1409, 8 U.S.P.Q.2d (BNA) 1209 (W.D. Ark. 1988); LeSportsac, Inc. v. K-Mart Corp., 617 F. Supp. 316, 317 (E.D. N.Y. 1985); *reh'g*, 617 F. Supp. 316, 318-319 (E.D.N.Y. 1985); Sykes Laboratory, Inc. v. Kalvin, 610 F. Supp. 849, 856 (S.D. Cal. 1985).

For cases which support the position that competition is of no significance, see: Jordache Enters., Inc. v. Hogg Wyld, Ltd., 828 F.2d 1482, 1489 (10th Cir. 1987); Plasticolor Molded Prods. v. Ford Motor Co., 713 F. Supp. 1329, 1343 (C.D. Cal. 1989); *Sage Realty Corp.*, 711 F. Supp. at 143; Dreyfus Fund, Inc. v. Royal Bank of Canada, 525 F. Supp. 1108, 1125 (S.D.N.Y. 1981); Allied Maintenance, Inc. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 544-45, 369 N.E.2d 1162, 1165-66, 399 N.Y.S.2d 628, 632 (1977).

For cases which support the position that competition is not an element, see: Tally-Ho, Inc. v. Coast Community College Dist., 889 F.2d 1018, 1025, 13 U.S.P.Q.2d (BNA) 1133, 1138 (11th Cir. 1989); Andy Warhol Enterprises v. Time, Inc., 700 F. Supp. 760, 768 (S.D. N.Y. 1988) (citing *Sally Gee, Inc.*, 699 F.2d at 624, 217 U.S.P.Q. (BNA) at 661); Robarb, Inc. v. Pool Builders Supply of the Carolinas, Inc., 696 F. Supp. 621, 629 n.3, (N.D. Ga. 1988); Horn Abbot, Ltd. v. Sarsaparilla, Ltd., 601 F. Supp. 360, 366 (N.D. Ill. 1984); Tio Pepe, Inc. v. El Tio Pepe de Miami Restaurant, Inc., 523 So.2d 1158, 1160, 6 U.S.P.Q.2d (BNA) 1228, 1230 (Fla. Dist. Ct. App. 1988). *See also* Pattishall, *Dilution Rationale*, *supra* note 210, at 613; 2 J. McCarthy, *supra* note 15, at § 24:13(C).

237. For cases which support the position that confusion is not a necessary element, see: Universal City Studios, Inc. v. Nintendo Co., 746 F.2d 112 (2d Cir. 1984), *cert. denied*, 479 U.S. 987 (1986); *Sally Gee, Inc.*, 699 F.2d at 624, 217 U.S.P.Q. (BNA) at 661; Safeway Stores, Inc. v. Safeway Discount Drugs, 675 F.2d 1160, 1167 (11th Cir. 1982); *Robarb, Inc.*, 696 F. Supp. at 629 n.3; PPG Industries, Inc. v. Clinical Data, Inc., 620 F. Supp. 604, 606 (D.C. Mass. 1985); *Horn Abbot, Ltd.*, 601 F. Supp. at 366; *Golden Door, Inc.*, 437 F. Supp. 956; *Allied Maintenance, Inc.*, 42 N.Y.2d at 544-45, 369 N.E.2d at 1165-66, 399 N.Y.S.2d at 632.

For cases which support the position that the likelihood of confusion must be shown, see: Levi Strauss & Co. v. Blue Bell, Inc., 788 F.2d 1352, 1362, 228 U.S.P.Q. (BNA) 346, 353 (9th Cir. 1985)(en banc); Sardi's Restaurant Corp. v. Sardi, 755 F.2d 719, 723, 226 U.S.P.Q. (BNA) 23, 25 (9th Cir. 1985); EA Engineering Science & Technology v. Environmental Audit, Inc., 12 U.S.P.Q.2d (BNA) 1295, 1296 (C.D. Cal. 1989); DCA Food Indust., Inc. v. Hawthorn Mellody, Inc.,

(i) Distinctiveness and Strength of the Mark

"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."[238] In his article, Mr. Schechter advocates protection for coined,[239] arbitrary,[240] or fanciful[241] words or phrases as they are added to the human vocabulary by their owners and which from their inception are associated with a single product, giving rise in the public consciousness to an impression of that product's excellence.[242]

Mr. Schechter's limited field of protection has not been widely embraced. Mr. Pattishall questions the desirability of limiting the protection of a mark's "commercial magnetism" to only those mark's which are coined, unique, fanciful, invented, or arbitrary marks, finding that there is no social or commercial justification for the limitation.[243] The rule as Mr. Pattishall states it is "[t]hat which may be diluted must have a distinctive quality."[244] If coined, unique, arbitrary, fanciful and original marks are not exclusively definitive of distinctive marks, then what is a distinctive mark?

The recently enacted Washington statute[245] enumerates a set of relevant factors for determining whether a mark is "famous and has distinctive quality:"

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470 F. Supp. 574, 582 (S.D. N.Y. 1979); Shadow Box, Inc. v. Drecq, 71 Misc. 2d 733, 336 N.Y.S.2d 801, 802 (Supp. Ct. 1972).

*See* Shire, *supra* note 225, at 274 (noting that for years "dilution remained shackled by a judicially imposed requirement that plaintiff demonstrate likelihood of confusion").

238. Schechter, *Rational Basis*, *supra* note 2, at 825, 60 TRADEMARK REP. at 342.

239. Coined words such as POLAROID and KODAK are created solely to identify a product. Wedgwood Homes Inc. v. Lund, 294 Or. 493, 498, 659 P.2d 377, 378 (1983). 1 J. MCCARTHY, *supra* note 15, at § 11:2.

When a mark is first coined it has no commercial significance. It is the use of the mark that engenders identifying significance. Pattishall, *Dilution Rationale*, *supra* note 210, at 631.

240. An arbitrary mark, such as V-8 (a beverage made from juice of eight vegetables), is the use of existing words applied to a product in an unexpected and non-descriptive fashion. *Wedgwood Homes*, 294 Or. at 499, 659 P.2d at 379 (citing Standard Brands, Inc. v. Smidler, 151 F.2d 34 (2d Cir. 1945); 1 J. MCCARTHY, *supra* note 15, at § 11:3.)

241. Fanciful marks are those that are "coined" or invented for the sole purpose of functioning as a trademark. 1 J. MCCARTHY, *supra* note 15, at § 11:2. *See* Grey v. Campbell Soup Co., 650 F. Supp. 1166, 1175, 231 U.S.P.Q. (BNA) 562, 568, (C.D. Cal. 1986), *aff'd*, 830 F.2d 197 (9th Cir. 1987) (GODIVA chocolates).

242. Schechter, *Rational Basis*, *supra* note 2, at 829, 60 TRADEMARK REP. at 344.

243. Pattishall, *Dilution Rationale*, *supra* note 210, at 630.

244. *Id.*

245. S. Bill No. 5733, *supra* note 222.

(1) Whether the mark is inherently distinctive through substantially exclusive and continuous use;
(2) Whether the duration and extent of use of the mark are substantial;
(3) Whether the duration and extent of advertising and publicity of the mark are substantial;
(4) Whether the geographical extent of the trading area in which the mark is used is substantial;
(5) Whether the mark has substantial renown in its and in the other person's trading areas and channels of trade; and
(6) Whether substantial use of the same or similar marks is being made by third parties.[246]

Over the history of the antidilution statutes, additional factors have been developed for determining whether a mark is distinctive: (1) whether the name was original with the plaintiff;[247] (2) whether the name acquired widespread reputation and goodwill through the plaintiff's efforts;[248] and (3) whether the defendant's name or mark was virtually identical.[249]

Interestingly, some relevant factors actually are the same components which create goodwill: the length of time the mark has been used, the scope of advertising and promotion, the nature and extent of the business, and the scope of the first user's reputation.[250]

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246. *Id.*

247. Kern v. WKQK Radio, 175 Ill. App. 3d 624, 635, 529 N.E.2d 1149, 1156-57, 9 U.S.P.Q.2d (BNA) 1131, 1137 (1st Dist. 1988) (the court held that although the marks were virtually identical, and plaintiff had presented some evidence that the mark had acquired a reputation and goodwill, the plaintiffs had failed to show that they had originated the mark they sought to protect).

Professor McCarthy noted that "[t]he court seems to have used the inappropriate word "originality" when what it was struggling to express was the requirement that the mark be "strong" enough to be diluted." 2 J. McCARTHY, *supra* note 15, at § 24:14 (1989 Supp. at 73).

248. *Wedgwood Homes*, 294 Or. 493, 659 P.2d 377 (the Oregon Supreme Court held that Plaintiff had developed distinctive quality over 25 years of business and substantial advertising programs which promoted the "quality, styling and flair of plaintiff's residential construction," which instilled consumer recognition).

249. *Kern*, 175 Ill. App. 3d at 635, 529 N.E.2d at 1156-57, 9 U.S.P.Q.2d (BNA) at 1137 (citing Ye Olde Tavern Cheese Prods., Inc. v. Planter's Peanuts Div., Standard Brands, Inc., 261 F. Supp. 200, 151 U.S.P.Q. (BNA) 244 (N.D. Ill. 1966), *aff'd*, 394 F.2d 833, 155 U.S.P.Q. (BNA) 481 (7th Cir. 1967)). *See* Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1028-29, 10 U.S.P.Q.2d (BNA) 1961, 1963 (2d Cir. 1989) (court explained that Mr. Schechter intended that statutory violations be limited to the unauthorized use of identical marks) (citing Schechter, *Rational Basis*, *supra* note 2, at 830-33, 60 TRADEMARK REP. at 345-47; Shire, *supra* note 225, at 273-76).

*Compare Mead Data Central*, 875 F.2d at 1029, 10 U.S.P.Q.2d (BNA) at 1964 ("We hold that the marks must be 'very' or 'substantially' similar and that, absent such similarity, there can be no viable claim of dilution."); Community Federal Sav. & Loans, Ass'n v. Orondorff, 678 F.2d 1034 (11th Cir. 1982).

250. McGraw-Edison Co. v. Walt Disney Prod., 787 F.2d 1163, 1174 (7th Cir. 1986); Coca-Cola Co. v. Alma-Leo U.S.A., Inc. 12 U.S.P.Q. (BNA) 1487, 1488

We can presume that there are marks which from their inception have questionable strength - marks which are saturated and already diluted at the time the owner chose the mark. These marks are words which are already used in various fields of trade and commence,[251] are surnames,[252] are geographic terms,[253] are descriptive, or are generic.[254] By virtue of their origins some marks may never develop a distinctiveness which will entitle them to protection from dilution.[255]

Weak marks are by definition diluted, and their possessors are in poor positions to invoke applicable antidilution statutes.[256] If a trademark owner chooses to develop a weak mark, he accepts that weakness with the risk that others using the mark could further dilute the mark as applied to his product. The choice of a weak mark such as MUSTANG for a bicycle will not prevent others from using it on mobile homes, cars, airplanes, tractors, motorcycles,

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(N.D. Ill. 1989) (citing Hyatt Corp. v. Hyatt Legal Serv., 736 F.2d 1153, 1158, 222 U.S.P.Q. (BNA) 669, 672 (7th Cir. 1984), *cert. denied* 469 U.S. 1019).

251. Astra Pharmaceutical Prods., Inc. v. Beckman Instruments, Inc., 718 F.2d 1201, 1210 (1st Cir. 1983) (court held no dilution of mark ASTRA in medical field where there were over 100 registrations of mark in other fields); Allied Maintenance, Inc. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 369 N.E.2d 1162, 399 N.Y.S.2d 628 (1977) (court held that the mark ALLIED was too widely used in commerce to be eligible for protection).

252. Exclusive rights in a surname *per se* cannot be established without evidence of long and exclusive use which changes its significance to the public from a surname of an individual to a mark for particular goods or services. *See In re* Etablissements Darty et fils, 759 F.2d 15, 17, 225 U.S.P.Q. (BNA) 625, 653 (Fed. Cir. 1985); Hoover Co. v. Citicorp Venture Capital, Ltd., 674 F. Supp. 460, 6 U.S.P.Q.2d (BNA) 1396 (S.D. N.Y. 1987) (court held that although plaintiff had used the mark for 75 years and it is distinctive, there is no apparent distinction for determining dilution between defendant's name and other corporate names using HOOVER which plaintiff has not challenged).

*But see Hyatt Corp.*, 736 F.2d at 1158, 222 U.S.P.Q. (BNA) at 672 (court held the surname HYATT sufficiently distinctive to be eligible for statutory protection).

253. Geographically descriptive terms which indicate the origin of the goods are "inherently descriptive." Therefore they can be protected, as upon use they can prove they have become distinctive. 1 J. MCCARTHY, *supra* note 15, at § 14:1. *See* American Bank of Merritt Island v. First Am. Bank & Trust, 455 So. 2d 443 (Fla. App. Dist. 1984).

254. Generic terms are those which are inherently nondistinctive because they name the product itself and not the source of the goods. 1 J. MCCARTHY, *supra* note 15, at § 3:1, 12:1. "Genericness is determined by the primary significance of the term to the purchasing public, not purchaser motivation." *USTA Commission Paper*, *supra* note 128, at 379; Gear, Inc. v. L.A. Gear Cal., Inc., 670 F. Supp. 508 (.S.D.N.Y. 1987) (GEAR); WSM, Inc. v. Hilton, 724 F.2d 1320 (8th Cir. 1984) (OPRY).

255. Handler, *supra* note 223, at 278.

256. Exquisite Form Inds., Inc. v. Exquisite Fabrics of London, 378 F. Supp. 403, 415 (S.D.N.Y. 1974) (citing Esquire, Inc. v. Esquire Slipper Mfg. Co., 243 F.2d 540 (1st Cir. 1957).

cranes, and clothing.[257] But what makes a mark distinctive and strong so that it can be protected by the antidilution statutes?

There is a wide range of opinion as to the level of distinctiveness and strength that a mark must have to be protected.[258] As mentioned, concern has been exhibited about Mr. Schechter's limitation on relief to coined, arbitrary, or fanciful words or phrases, with queries about whether the restriction would limit the cause of action to large and powerful corporations.[259] Cogent examples of "unquestionably distinctive" marks are: EXXON;[260] POLAROID; and the McDonald's Corporation's "Mc" prefix which is used with a generic food item.[261] To be considered distinctive, a mark must have come to be identified with its owner's products or services.[262] It is the uniqueness of powerful and famous marks that render them vulnerable to injuries that the less famous would simply not suffer.

There are a number of New York cases in which the courts have used the legislative history to conclude that only the most famous and celebrated trademarks may be diluted.[263] Numerous courts have required that the mark be either unique, arbitrary, coined, or fanciful, or have acquired secondary meaning.[264]

This concept of protecting marks that have overcome a lack of inherent distinctiveness by establishing secondary meaning was not proposed by Mr. Schechter. Professor McCarthy describes secondary meaning as "a *mental association* in buyers' minds between the alleged mark and a single source of the product."[265] Secondary meaning occurs "when the name and business become synonymous

257. Example from Westward Coach Mfg. Co. v. Ford Motor Co., 258 F. Supp. 67 (S.D. Ind. 1966) (note: Indiana has no dilution statute).

258. For a discussion of the anti-dilution statutes and their ambiguity on the required levels of distinctiveness, see Brownlee, *supra* note 222, at 483-87.

259. *See* Mead Data Central Inc. v. Toyota Motor Sales, USA, Inc., 702 F. Supp. 1031, 1042, 9 U.S.P.Q.2d (BNA) 1442, 1451 (S.D. N.Y. 1988), *rev'd*, 875 F.2d 1026, 10 U.S.P.Q.2d (BNA) 1961 (2d Cir. 1989); Brownlee, *supra* note 222, at 485.

260. Exxon Corp. v. Xoil Energy Resources, Inc., 552 F. Supp. 1008 (S.D. N.Y. 1981).

261. McDonald's Corp. v. McBagel's Inc., 649 F. Supp. 1268, 1272 1 U.S.P.Q. (BNA) 1761 (S.D.N.Y. 1986) ("In this case the Court has no hesitation in finding that McDonald's owns a "family of marks", both registered and unregistered, whose common characteristic is the use of "Mc" or "Mac" as a formative").

262. Coca-Cola Co. v. Alma-Leo U.S.A., Inc., 12 U.S.P.Q. (BNA) 1487, 1488 (N.D. Ill. 1989) (citing Hyatt Corp. v. Hyatt Legal Services, 736 F.2d 1153, 1157, 222 U.S.P.Q. (BNA) 669, 671 (7th Cir. 1984), *cert. denied*, 469 U.S. 1019 (1984)).

263. P.F. Cosmetique S.A. v. Minnetonka Inc., 605 F. Supp. 662, 672, 226 U.S.P.Q. (BNA) 86, 92-93 (S.D.N.Y. 1985); Lord Jeff Knitting Co. v. Warnaco Inc., 594 F. Supp. 579, 582, 225 U.S.P.Q. (BNA) 671, 672-73 (S.D.N.Y. 1984).

264. Midwest Research Inst. v. S & B Promotions Inc., 677 F. Supp. 1007, 1017, 6 U.S.P.Q.2d (BNA) 1269 (W.D. Mo. 1988).

265. 1 J. McCARTHY, *supra* note 15, at § 15:2; *See* Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 851 n.11 (1982).

in the public mind; and submerges the primary meaning of the name . . . in favor of its meaning as a word identifying that business."[266] It is a question of fact whose proof depends on a number of factors, including: use of the mark by third parties;[267] proof of actual confusion;[268] perception of dealers, buyers, customers, and professionals;[269] amount, nature, and coverage of advertising;[270] and length of time the mark has been used.[271]

The courts require proof beyond mere advertising expenses and sales to support the contention that a mark has secondary meaning.[272] What is required is information about how the public associates the mark to the product.[273] Marks with widespread use and heavy advertising may develop secondary meaning in a narrow field. In *Dreyfus Fund, Inc. v. Royal Bank of Canada*,[274] the court stated "[t]hough Dreyfus' lion marks are not so unique and arbitrary as to deserve protection in fields totally unrelated to Dreyfus' activities, it is a suggestive use that has acquired great strength in the financial arena."[275]

In *Wedgwood Homes, Inc. v. Lund*,[276] the court recognized that small local firms may expend proportionally equal amounts of effort and money as large firms.[277] Such efforts can result in a "high degree of local fame" that has a protectible commercial value.[278]

In Arkansas, the courts have distinguished between the use of similar marks in businesses that deal with the general public and in businesses that do not. Where marks are in use with the general public, the courts require that a distinctive mark have acquired sec-

266. Wedgwood Homes, Inc. v. Lund, 294 Or. 493, 499, 659 P.2d 377, 379 (1983) (citing Visser v. Macres, 214 Cal. App. 2d 249, 253, 29 Cal. Rptr. 367, 369 (1963)).

267. *Midwest Research Institute*, 677 F. Supp. 1007, 6 U.S.P.Q.2d (BNA) 1269.

268. *Id.*

269. *Id.*

270. 1 J. MCCARTHY, *supra* note 15, at § 15:2-15:9.

271. *Id.*

272. *P.F. Cosmetique*, 605 F. Supp. at 672.

273. *Id.* at 672-73.

274. 525 F. Supp. 1108, 1125 (S.D. N.Y. 1981).

275. *Id.* at 1125.

276. 294 Or. 493, 659 P.2d 377 (1983).

277. *Id.* at 381.

278. *Id.* In *Mead Data Central*, 875 F.2d at 1033, 10 U.S.P.Q.2d (BNA) at 1966, Judge Sweet in his concurring opinion noted that the measure of the mark's recognition for proof of secondary meaning is with the consuming public and not the general public.

Conversely, the majority in Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1031, 10 U.S.P.Q.2d (BNA) 1961, 1965 (2d Cir. 1989), acknowledged that while the plaintiff had developed a strong mark in the field of computerized research (76% identification by attorneys), only one percent of the general public recognized the mark, that fact coupled with the sophistication of attorneys, lead the court to conclude there would be no dilution of the mark LEXIS (computerized legal research) by the mark LEXUS (automobile).

ondary meaning to be protected.[279] Where the businesses do not deal with the general public, the courts will allow greater similarity in marks[280] but will not protect descriptive marks that have not acquired a secondary meaning.[281]

Although the statutes do not call for any particular level of strength, commentators and courts have stated that the mark must be particularly strong to be able to support a dilution claim.[282] Professor McCarthy observed "[o]nly strong marks need apply."[283] This requirement seems to be no more than a common sense reflection on the fact that a common type or little-known mark is in fact inherently "diluted" and the presence of another similar mark could hardly affect the negligible public perception of the original mark.[284]

A mark that is strong because of its fame or uniqueness is more likely to be remembered and more likely to be associated in the public mind with a greater breadth of products than a mark that is weak.[285] Distinctiveness is valuable to the trademark owner because it identifies his product to consumers both effectively and positively.[286] To call a mark distinctive is to imply that it is the product of fancy or an arbitrary choice.[287] Generally, "distinctiveness will only be found where the work has acquired a widespread reputation and goodwill through plaintiff's efforts."[288]

A tacit problem in the dilution analysis is the movement back and forth between the dilution cause of action and likelihood of confusion infringement action of the terms "distinctiveness" and

279. Gaston's White River Resort v. Ruxh, 701 F. Supp. 1409, 1440, 8 U.S.P.Q.2d (BNA) 1209, 1215 (W.D. Ark. 1988).

280. Sav-a-Stop, Inc. v. Sav-a-Stop, Inc., 230 Ark. 319, 322 S.W.2d 454, 121 U.S.P.Q. (BNA) 232 (1959).

281. Pullan v. Fulbright, 287 Ark. 21, 695 S.W.2d 830, 227 U.S.P.Q. (BNA) 493 (1985).

282. White Swan Ltd. v. Clyde Robin Seed Co., 12 U.S.P.Q.2d (BNA) 1985, 1991 (N.D. Cal. 1989); Sykes Laboratory, Inc. v. Kalvin, 610 F. Supp. 849 (S.D. Cal. 1985); 2 J. MCCARTHY, *supra* note 15, at § 24:14.

283. 2 J. MCCARTHY, *supra* note 15, at § 24:14.

284. *White Swan Ltd.*, 12 U.S.P.Q.2d (BNA) at 1991.

285. E&J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d (BNA) 1657, 1673 (E.D. Cal. 1989); James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d 266, 276, 192 U.S.P.Q.(BNA) 563 (7th Cir. 1976). *But see* B.V.D. Licensing Corp. v. Body Action Design, Inc., 846 F.2d 727, 729, 6 U.S.P.Q.2d (BNA) 1719, 1721 (Fed. Cir. 1988).

286. Dreyfus Fund, Inc. v. Royal Bank of Canada, 525 F. Supp. 1108, 1123 (S.D.N.Y. 1981).

287. P.F. Cosmetique S.A. v. Minnetonka, Inc., 605 F. Supp. 662, 672, 226 U.S.P.Q. (BNA) 86 (S.D.N.Y. 1985).

288. Coca-Cola Co. v. Alma-Leo U.S.A., 12 U.S.P.Q.2d (BNA) 1487, 1488 (N.D. Ill. 1989) (citing Ye Ole Tavern Cheese Prods., Inc. v. Planters, Peanuts Div., Standard Brands, Inc., 261 F. Supp. 200, 208, 151 U.S.P.Q. (BNA) 244, 250 (N.D. Ill. 1966), *aff'd*, 394 F.2d 833, 155 U.S.P.Q. (BNA) 481 (7th Cir. 1967)).

"strength."[289] Distinctiveness in the antidilution realm is being evaluated in much the same way as a mark's strength is evaluated in the area of likelihood of confusion.[290] The federal trademark infringement standards relating to the strength of a mark were not established with the concerns of the antidilution statutes in mind.[291]

Some courts have distinguished between "distinctive" marks and "strong" marks by noting that under infringement "[t]he extent to which a mark is protectible is a function of its power to identify goods sold under the mark as originating from a particular source. This power is referred to as a mark's "strength."[292] Therefore, the analysis of a dilution case differs from that of an infringement case.[293] The dilution case focuses "on the dilution of a mark's distinctive quality" while infringement looks "to the likelihood to consumer confusion."[294]

> Dilution is an injury that differs materially from that arising out of the orthodox confusion. Even in the absence of confusion, the potency of a mark may be debilitated by another's use. This is the essence of dilution. Confusion leads to immediate injury, while dilution is an infection, which, if allowed to spread, will inevitably destroy the advertising value of the mark.[295]

The dilution statutes extend "the protection afforded trade-marks and trade names beyond that provided by actions for infringement and unfair competition."[296]

(ii) Threat of Dilution to the Distinctiveness of the Mark

The cause of action for dilution relates to the protection of a mark's selling power.[297] "The essence of dilution is the watering down of the potency of a mark and the gradual debilitation of its

289. *See* Pattishall, *The Case*, *supra* note 210, at 889.

290. *P.F. Cosmetique*, 605 F. Supp. at 672.

291. *See* Pattishall, *The Case*, *supra* note 210, at 892.

292. McGregor-Doniger, Inc. v. Dizzle, Inc., 599 F.2d 1126, 1131, 202 U.S.P.Q. (BNA) 81, 87 (2d Cir. 1979); TNT Limited v. TNT Messenger Serv., Inc., 724 F. Supp. 201, 204, 13 U.S.P.Q.2d (BNA) 1649, 1652 (S.D.N.Y. 1989).

293. Tally-Ho, Inc. v. Coast Community College Dist., 889 F.2d 1018, 1024, 13 U.S.P.Q.2d (BNA) 1133, 1137 (11th Cir. 1989).

294. *Id.*

295. Mortellito v. Nina of Cal., Inc., 335 F. Supp. 1288 (S.D.N.Y. 1972). *See* Polaroid Corp. v. Polaraid Inc., 319 F.2d 830, 836, 138 U.S.P.Q.(BNA) 265, (7th Cir. 1963); Hing Research, Inc. v. Shulton, Inc., 324 F. Supp. 631, 638 (S.D.N.Y. 1971); Gaston's White River Resort v. Ruxh, 701 F. Supp. 1409, 1439, 8 U.S.P.Q.2d (BNA) 1209, 1215 (W.D. Ark. 1988).

296. Allied Maintenance Inc., v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 544, 369 N.E.2d 1162, 1165, 399 N.Y.S.2d 628, 632 (1977).

297. Under the statutes patterned after the Model Trademark Act only injunctive relief was available. *See* Coca-Cola Co. v. Alma-Leo U.S.A., Inc., 12

selling power."[298] The focus is on the damage of the mark's inherent value as a symbol, rather than on whether consumers have been misled as to origin or sponsorship.[299]

A New York Court prevented a restaurant owner from using the TIFFANY mark saying:

> The risk of detraction may be a risk of an erosion of the public's identification of this very strong mark with the plaintiff alone, thus diminishing its distinctiveness, uniqueness, effectiveness and prestigious connotations.[300]

The injury occurs when the first user no longer comes immediately to mind on the hearing of the mark.[301]

In *Augusta National, Inc., v. The Northwestern Mutual Life Insurance Company,*[302] the court stated that if the defendant's mark "Ladies' Masters at Moss Creek Plantation" is used there was "reasonable certainty that the value of plaintiff's mark [THE MASTERS] would be eroded; a little now, more later, until the magic of the Masters will be mortally dissipated if not completely dispelled."[303]

It is a blurring of the mental image that anyone who had dealt with or knew of the first user would have.[304] Although a trademark owner does not need to prove actual injury to sustain a dilution claim, the amount of money lost is relevant.[305] Since proof of likelihood of dilution in the public's mind can be derived from a loss of money, evidence that two singing groups, using the same name,

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U.S.P.Q.2d (BNA) 1487, 1488 (N.D. Ill. 1989); Hyatt Corp. v. Hyatt Legal Serv., 736 F.2d 1153, 1157, 222 U.S.P.Q.2d (BNA) 699, 671 (7th Cir. 1984).

*But cf.* Berghoff Restaurant Co. v. Lewis W. Berghoff, Inc., 499 F.2d 1183, 1185 (7th Cir. 1974) (injunctive relief under antidilution statute not mandatory). Since the passage of the Washington statute less than a year ago monetary damages are now potentially available.

298. Toys "R" Us, Inc. v. Canarsie Kiddie Shop, Inc. 559 F. Supp. 1189, 1209 (E.D.N.Y. 1983).

299. E&J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d (BNA) 1657, 1675 (E.D. Cal. 1989); Toho Co., Ltd. v. Sears, Roebuck & Co., 645 F.2d 788, 793, 210 U.S.P.Q. (BNA) 547, 552 (9th Cir. 1981).

300. Tiffany & Co. v. Boston Club, Inc., 231 F. Supp. 836, 844, 143 U.S.P.Q. (BNA) 2, 8 (D. Mass. 1964).

301. As Mr. Schechter so eloquently described it:

> It is 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.

Schechter, *Rational Basis, supra* note 2, at 825, 60 TRADEMARK REP. at 342.

302. 193 U.S.P.Q. (BNA) 211, 222 (S.D. Ga. 1976).

303. *Id.* at 222.

304. Exxon Corp. v. Exxene Corp., 696 F.2d 544, 550, 217 U.S.P.Q. (BNA) 215, 219 (7th Cir. 1982) (Judge Posner discussing Polaroid Corp. v. Polaraid, Inc.).

305. Marshak v. Sheppard, 666 F. Supp. 590, 603 (S.D.N.Y. 1987).

could command lower fees when they appeared in the same area was relevant.[306] Additionally, when a professional group stipulated that it had suffered no monetary damage and that their attendance had actually increased, the court concluded that they had failed to make out a claim for trademark dilution.[307]

The Eighth Circuit affirmed a decision holding that where two seed manufacturers had similarly shaped and colored signs marking their fields, which most people would only observe while passing by in a car, the subsequent user's sign created a "likelihood of dilution" of the distinctive quality of the senior user's sign.[308] The court felt that the condition under which the sign was viewed was a factor.[309] Dilution constitutes a less immediately discernible injury to the trademark by impairing its effectiveness as a selling device.[310]

(iii) The Lack of Ability to Control Quality is an Injury to Business Reputation

The words "injury to business reputation" are part of many state statutes.[311] These words crept into the dilution statutes at the earliest moment: the phrase was introduced as substitute language to the proposed Massachusetts statute in 1947.[312] It has been part of the history of dilution theory every since. The concept of "injury to business reputation" has been muddied by the fact that many courts and practitioners refer to it as "tarnishment."[313]

There are two types of situations in which the courts have examined allegations of an injury to business reputation.[314] The first is where the trademark owner or senior user lacks the ability to control the quality of products dissimilar to his own but which bear his mark. The second is where unsavory associations are made to

306. *Id.*

307. Academy of Motion Picture Arts & Sciences v. Creative House Promotions, Inc., 13 U.S.P.Q.2d (BNA) 1435, 1443 (C.D. Cal. 1989).

308. Pioneer Hi-Bred Int'l, Inc. v. Wilson Hybrids, Inc., 585 F. Supp. 1, 9 (S.D. Iowa 1982), *aff'd* 733 F.2d 574 (8th Cir. 1984).

309. *Id.*

310. 3A CALLMANN, *supra* note 49, at § 21.11.

311. *See supra* note 224, for general listing of statutes. In a number of states, including New York, Texas, Tennessee, and Maine, the state statutes are titled "Injury to Business Reputation."

312. *See* Shire, *supra* note 225, at 278-80.

313. The term "tarnishment" confuses and distracts the court and practitioners from the actual nature of the dilution action. It means to dull the lustre or to sully or dim the reputation. While to "dilute" is to reduce in strength by addition of other matter and to "whittle" is to reduce by subtractions. *See* WEBSTER'S NEW COLLEGIATE DICTIONARY 1184, 317, 1328 (1979) (for the definitions of "tarnishment," "dilute," and "whittle" respectively).

314. *See also* Wolf, *Trademark Dilution: The Need for Reform*, 74 TRADEMARK REP. 311, 318 (1985) (arguing that "injury to business reputation which occurs other than by reference to a mark is outside the proper scope of antidilution law").

the mark or the mark is the subject of a parody. These are two incongruous applications of the dilution theory. Only the first properly falls within the parameters of a dilution cause of action.

A "diluting" injury to business reputation occurs when the defendant loses control over the goodwill and reputation that is associated with his mark. On a counterclaim in *Arthur Young, Inc. v. Arthur Young & Co.*,[315] the court held that the subsequent use of the ARTHUR YOUNG mark was likely to dilute the distinctiveness of the mark. The mark's distinctiveness had been created by the company through extensive promotions and long-term efforts devoted to protecting and enhancing the image of the mark.[316] In examining the injury to business reputation, the court noted that the evidence included the fact that the subsequent user charged contingency fees, which are considered unethical according to counterclaimant's understanding of the executive search profession.[317] Consequently, if the plaintiff was allowed to continue to use the mark, the counterclaimant would have no control over the quality of the services rendered, therefore diluting the reputation of the mark and its goodwill.

A California court held that the use of "JOSEPH GALLO" as a trademark on the defendants' cheese threatened to tarnish the reputation of the GALLO trademark because the defendants were not taking the care that a responsible owner of a famous mark would take to assure the purity and safety of its product.[318] In this case, the court explored factors that it considered relevant to a finding that the defendants' use of a mark similar to that of the plaintiff's would cause an injury to plaintiff's business reputation:

> (1) Risk of a public report of substantial public health problems - real or suspected - in connection with a branded cheese product. Such a report would likely have devastating consequences for the brand involved.
>
> (2) The self-regulated nature of the industry. State and federal supervision provide regulatory minimums, but owners of well-respected trademarks adopt and police their own quality control programs to protect their brands from injury that can result from quality control problems.
>
> (3) Whether defendants employed enough people to insure quality control.

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315. 579 F. Supp. 384 (N.D. Ala. 1983).

316. *Id.* at 390.

317. *Id.*

318. E&J Gallo Winery v. Gallo Cattle Co., 12 U.S.P.Q.2d (BNA) 1657 1675; *See* Grey v. Campbell Soup Co., 650 F. Supp. 1166, 1175, 231 U.S.P.Q. (BNA) 562, 568 (C.D. Cal. 1986); CPC Int'l v. Balzola Foods Corp., 224 U.S.P.Q.(BNA) 85, 89 (S.D. Fla. 1984); Edgar Rice Burroughs, Inc. v. Mann Theaters, 195 U.S.P.Q.(BNA) 159, 162 (C.D. Cal. 1976); Coca-Cola Co. v. Gemini Rising, Inc., 346 F. Supp. 1183, 1191, 175 U.S.P.Q.(BNA) 56, 61 (E.D.N.Y. 1972).

(4) Whether defendants had quality control procedures and specifications in force to ensure quality control.
(5) Whether defendants followed quality control procedures normally observed by the owner of an established consumer brand.[319]

A reading of these factors illustrates that injury to business reputation is directly related to the inability of the plaintiff to monitor the quality of the products being sold under his reputation.[320] Without dilution protection, the trademark owner is subject to being judged by the consumer's experience with the subsequent user's product.

In several additional cases, the courts have examined the quality of the defendant's products to determine whether there was an injury to business reputation. They failed to find tarnishment where there was no showing that defendant's goods or services are substandard.[321] In *Lever Bros. Co. v. American Bakeries Co.*,[322] the plaintiff contended that its AUTUMN mark for margarine could be disparaged by customer dissatisfaction with defendant's AUTUMN GRAIN mark for bread. The court noted that although the mark was arbitrary, it was in common use for food and drink products. Although the defendant conceded that it had no control over some of the bread sold under its mark, the court found that the satisfactory quality of the defendant's product was solidly demonstrated, and there was no basis for a finding that continued sale of defendant's product would diminish the value of the plaintiff's mark.[323]

In a greymarket situation, the court held that there was no injury to business reputation where the defendants were selling only genuine YAMAHA products.[324] The plaintiff, Yamaha-America, claimed that there was an injury arising out of the fact that the defendants did not back Yamaha products with the peripherals (extensive warranty and consumer education programs) as did the plaintiff. Conversely, the defendants maintained they sold only genuine Yamaha products and consumers received defendants' warranty and a statement confirming that defendants imported the products.[325] The court held that, because of these steps, any dissat-

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319. *See E&J Gallo Winery*, 12 U.S.P.Q.2d (BNA) at 1669 (the defendant's cheeses were at risk of carrying the pathogens salmonella and listeria which could cause epidemic illness and even multiple deaths).

320. *Id.* at 1675. *See also Grey*, 650 F. Supp. at 1175, 231 U.S.P.Q.(BNA) at 568 (court found that the use of confusingly similar trademarks DOGIVA and CATIVA on treats meant for animal consumption injured the business reputation associated with the mark GODIVA which was used on premium quality food products meant for human consumption).

321. TNT Limited v. TNT Messenger Serv. Inc., 724 F. Supp. 201, 208, 13 U.S.P.Q.2d (BNA) 1649, 1655 (S.D.N.Y. 1989).

322. 537 F. Supp. 248 (E.D. N.Y. 1982).

323. *Id.* at 255.

324. Yamaha Corp. of Am. v. ABC Int'l Traders Corp., 703 F. Supp. 1398, 1403 (C.D. Cal. 1988).

325. *Id.* at 1402.

isfaction felt by the consumers would cause an injury to the defendants' name and not to the that of the plaintiff.[326]

And finally, the court in *Home Box Office v. Showtime/The Movie Channel*[327] held that the use of plaintiff's mark in defendant's advertising, which was a campaign to get consumers to purchase both services, was not going to damage plaintiff's reputation.[328] The court reasoned that there was no evidence that the services offered by the defendant were inferior in quality, and the plaintiff would actually benefit from increased sales.[329]

Each of these cases fails to come to terms with the concept that the trademark owner should have the right to control the quality of any product used in conjunction with his mark. Where the court refuses to recognize the right of the trademark owner to control the quality of any product bearing his mark, the court is creating a situation synonymous to a "naked license" for the benefit of the second user.

These holdings must be critically questioned because the injury to business reputation is based on the essential property conception of trademark rights; its emphasis is on the right of a trademark owner to maintain the standard of quality with which his mark is associated under his exclusive control. These decisions consider only a moment in time. They do not reflect the long-term actions and quality standards of the subsequent user. As such, they block the ability of the trademark owner to control the reputation of his mark in the future.

## VIII. ROAD-BLOCKS TO THE ACCEPTANCE OF MR. SCHECHTER'S THEORY DEVELOPING IN THE CASE-LAW

### A. *"Tarnishment Through Parody" Is a Play on a Trademark's Source Function*

The antidilution statutes have come under attack by those who say that the tarnishment rationale potentially "expand[s] the scope of the antidilution statute far beyond the frontiers of commerce and deep into the realm of expression."[330] This criticism of the statutes is fueled by the series of cases which were brought under the vari-

326. *Id.* at 1402-03.

327. 665 F. Supp. 1079 (S.D. N.Y. 1987).

328. *Id.* at 1087.

329. *Id.*

330. L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 33 (1st Cir. 1987). *See also* Denicola, *supra* note 56, 181-193; Note, *Trademark Parody: A Fair Use and First Amendment Analysis*, 72 VA. L. REV. 1079, 1092-1099 (1986) (discussing the problem of trademark parody and the dilution theory of trademark protection).

ous statutes and relate to "tarnishment through parody."[331]

"Tarnishment through parody" resembles dilution in that the purported injury results from the blurring of a mark's distinctiveness by the addition of a new set of associations in consumer's minds.[332]

> [T]he keystone to parody is imitation. It is hard to imagine, for example, a successful parody of Time magazine that did not reproduce Time's trademarked red border. A parody 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. To the extent that it does only the former but not the latter, it is not only a poor parody but also vulnerable under trademark law, since the customer will be confused.[333]

Therefore, the thrust of parody is to poke fun at a mark by highlighting the differences between the products.[334] When a parody is successful, it becomes evident to the consumer that the trademark owner is not sponsoring the product.[335]

In *Tetley Inc.*,[336] the plaintiff alleged that the defendant's PETLEY FLEA BAGS would tarnish the affirmative associations which their mark had come to convey. The court held that the broad humor employed by the defendant served to prevent "the type of blurring which might result from a more subtle or insidious effort at humor at plaintiff's expense."[337]

Examples of unsuccessful parodies can be seen in examining the various attacks on the COCA-COLA trademark.[338] The Coca-Cola Company has displayed a tenaciousness for protecting its marks and their goodwill from any "likelihood of injury to reputa-

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331. *See L.L. Bean*, 811 F.2d at 32-34. Dallas Cowboy Cheerleaders, Inc., v. Pussycat Theaters, Ltd., 604 F.2d 200 (2d Cir. 1979); Chemical Corp of Am. v. Anheuser-Busch, Inc., 306 F.2d 433 (5th Cir. 1962), *cert. denied*, 372 U.S. 965 (1963); Original Appalachian Artworks, Inc. v. Topps Chewing Gum, 642 F. Supp. 1031 (N.D. Ga. 1986); Pillsbury Co. v. Milky Way Prods., Inc., 215 U.S.P.Q. (BNA) 124 (N.D. Ga. 1981); Gucci Shop's Inc. v. R.H. Macy & Co., 446 F. Supp. 838 (S.D. N.Y. 1977); Coca-Cola Co. v. Gemini Rising, Inc., 346 F. Supp. 1183, 175 U.S.P.Q.(BNA) 56 (E.D.N.Y. 1972).

332. Kravitz, *supra* note 53, at 143, 79 TRADEMARK REP. at 616.

333. Cliff's Notes, Inc. v. Bantam Doubleday Dell Publishing Group, Inc., 12 U.S.P.Q.2d (BNA) 1289, 1291-92 (2d Cir. 1989).

334. *L.L. Bean*, 811 F.2d at 34.

335. Schieffelin & Co. v. Jack Company of Boca, Inc., 725 F. Supp. 1314 (S.D.N.Y. 1989); American Express Co. v. Vibra Approved Laboratories Corp., 10 U.S.P.Q.2d (BNA) 2006 (S.D. N.Y. 1989).

336. Tetley, Inc. v. Topps Chewing Gum, Inc., 556 F. Supp. 785 (E.D.N.Y. 1983).

337. *Id.* at 794.

338. Coca-Cola Co. v. Koke Co., 254 U.S. 143 (1920); Coca-Cola Co. v. Gemini Rising, Inc., 346 F. Supp. 1183, 175 U.S.P.Q. (BNA) 56 (E.D. N.Y. 1972); Coca-Cola Co. v. Alma-Leo U.S.A., Inc., 719 F. Supp. 725, 12 U.S.P.Q.2d (BNA) 1487 (N.D. Ill. 1989).

tion." They have gone after any association of their mark with cocaine:

> To associate such a noxious substance as cocaine with plaintiff's wholesome beverage as symbolized by its "Coca-Cola" trademark and format would clearly have a tendency to impugn that product and injure plaintiff's business reputation.[339]

But the injury here is one of perception. The company does not want its name publicly linked with cocaine or its mark represented as a source of cocaine.[340] This is different from the injury which the dilution theory as proposed by Schechter was meant to protect. The dilution injury is the insidious cancerous confusion which seeps into the consumer's mind by associating the second user's product, which carries the same mark as that of the first user, with the first user's product.

This form of tarnishment does not belong under the protection of the antidilution statutes.[341] Parody does not deal with the trademark owner's lack of control over the quality of the second user's product which the consumer is unwittingly purchasing. It deals instead with a play on the trademark's function as an indicator of product source, which is not the function protected by dilution.

### *B. The Antidilution Statutes Do Not Prevent Genericness*

There is a group of commentators who believe that the antidilution statutes provide an avenue to protect a trademark from genericness.[342] This belief is based on defining "dilution by genericization" as "occur[ring] when a mark becomes known as the common descriptive name of a product"[343] with a resulting

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339. *Gemini Rising*, 346 F. Supp. at 1189, 175 U.S.P.Q.(BNA) at 59. Such a sensitivity on the part of Coca-Cola is not unfounded because the Coca-Cola name is "derived from the Andean coca leaf plant and the African cola nut, extracts of which gave the beverage its flavor. The coca leaf is the source of cocaine." *Id.* at 1189, n.7, 175 U.S.P.Q. (BNA) at 59 n.7. *See also Alma-Leo U.S.A.*, 719 F. Supp. at 728 n.3, 12 U.S.P.Q.2d (BNA) at 1489 n.3.

340. *See also* Grey v. Campbell Soup Co., 650 F. Supp. 1166 231 U.S.P.Q. (BNA) 562 (C.D. Cal. 1986) (subsequent use of DOGIVA and CATIVA, pet treats, injures business reputation of GODIVA which was meant for human consumption).

341. There are other potential avenues available to protect a trademark against tarnishment. The USTA Commission formed to review the trademark system suggests "that trademark tarnishment and disparagement are separate forms of legal wrong, and recommends amending Section 43(a) to deal with them." *USTA Commission Paper*, *supra* note 128, at 455 n.134.

342. Brownlee, *supra* note 222, at 480; Griewe, *supra* note 225, at 187. *See also* Zeller v. LaHood, 627 F. Supp. 55, 60 (C.D. Ill. 1985) (court held that the term GONDOLA as applied to a sandwich was beginning to acquire "generic overtones" and was a "classic example of dilution").

343. Brownlee, *supra* note 222, at 479.

abandonment due to the mark's loss of significance.[344] The test of whether a mark has become generic is "whether its primary significance is a product category or genus rather than a product's source or producer."[345] Or, more simply, the court asks: has the term "come to be understood as referring . . . to the genus of which the particular product . . . is a species?"[346] For "[w]hen a trademark primarily denotes a product, not the product's producer, the trademark is lost."[347] It is generic.

The genericness doctrine prevents anti-competitive misuse of trademarks.[348] The injury is manifested by a loss of the automatic association in the public mind with the source of the product, "instead caus[ing] a mark to represent a product type that could originate from any number of sources."[349] The dilution theory was not meant to protect a trademark from an injury resulting from a confusion of source or a loss of the source-indicating function.[350] It is instead meant to protect a mark's association in the public mind with the excellence of any single product from a blurring of that association by the mark's placement on dissimilar products.[351] To claim that antidilution law is intended to prevent the genericization of a trademark is over-reaching its boundaries.[352]

### C. *First Amendment Rights Are Safe*

A major concern of the naysayers of the dilution cause of action is whether it infringes first amendment rights.[353] It is in the areas of parody, comparison advertising, and commercial speech where the discussions of the tension between protection from dilution and first amendment rights have occurred. But it is a "legitimate aim of the anti-dilution statutes to prohibit unauthorized use of another's trademark in order to market incompatible products or services," a

344. 15 U.S.C. § 1127 (as amended by Pub. L. No. 100-667, 102 Stat. 3946 (1988)).

345. G. Heileman Brewing Co. v. Anheuser-Busch Inc., 676 F. Supp. 1436, 1467, 6 U.S.P.Q.2d (BNA) 1481, 1499 (E.D. Wis. 1987).

346. Anti-Monopoly, Inc. v. General Mills Fun Group, 611 F.2d 296, 302, 204 U.S.P.Q.(BNA) 978, 983 (9th Cir. 1979); Surgicenters of Am., Inc. v. Medical Dental Surgeries Co., 601 F.2d 1011, 1014, 202 U.S.P.Q. (BNA) 401, 403-404 (9th Cir. 1979); Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9, 189 U.S.P.Q. (BNA) 759, 764 (2d Cir. 1976).

347. *Anti-Monopoly*, 611 F.2d at 301, 204 U.S.P.Q.(BNA) at 982.

348. *Id.*

349. Brownlee, *supra* note 222, at 480 (citing Wolf, *supra* note 314, at 316).

350. *See* Schechter, *Rational Basis*, *supra* note 2, at 815-817, 60 TRADEMARK REP. at 336-337.

351. *Id.* at 825, 60 TRADEMARK REP. at 342.

352. *See also* Wolf, *supra* note 314, at 318 (suggesting a new cause of action for genericness).

353. Pattishall *supra* note 15; Denicola, *supra* note 56, at 166.

permissible regulation of commercial speech.[354] There has been judicial commentary as well as scholarly discussion on the issue of whether trademark protection intrudes upon first amendment rights.[355]

> Trademark law gives private parties power to restrict one of the most basic tools of free expression - words. Kept within its traditional bounds, this power serves useful functions, protecting consumers against deception and fraud as well as ensuring producers rewards for their labor. *Over extending* that power to protect against dilution and tarnishment, however, may jeopardize the richness of free discourse we so highly treasure.[356]

Commentators fear that the courts are not sensitive to the threat.[357]

This concern must be scrutinized carefully, because the situations which are being presented to illustrate the dangers are not within the realm of the dilution theory's protection. The dilution protection proposed by Mr. Schechter were never intended to encompass parody and comparison advertising. The dilution theory was meant to cover the whittling away of the distinctiveness of the mark.[358] Instead, it is the dilution statute which is being diluted. There is a constant tension between the trademark owner's interest in policing and controlling the public's image of his mark, the parodist's desire to ridicule or play with it,[359] and the advertiser's ability to compare his product by use of it. The antidilution statutes and the dilution cause of action are not the appropriate avenue by which to obtain relief from damages done by parody or comparison advertising. Any other outcome results in a "dilution" of the very theory under which protection is being sought.

### D. *Dilution Protection Does Not Create a Monopoly of Language*

The dilution theory has been challenged for failing to have a built-in or judicially imposed limitation of scope, similar to that of the likelihood of confusion requirement which limits "a trademark's zone of exclusivity to similar products sold in the same or similar markets." A critic argues that absent some limitations, either statutory or judicially imposed, any use of the mark, in any

354. Mead Data Central Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1030, 10 U.S.P.Q.2d (BNA) 1961, 1964 (2d cir. 1989) (citing L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 32-33 (1st Cir. 1987), *cert. denied*, 483 U.S. 1013 (1987)).

355. Kravitz, *supra* note 53, at 135, 79 TRADEMARK REP. at 608.

356. *Id.* at 180, 79 TRADEMARK REP. at 655-656.

357. *Id.*

358. Schechter, *Rational Basis*, *supra* note 2, at 825, 60 TRADEMARK REP. at 342.

359. Shaughnessy, *Trademark Parody: A Fair Use and First Amendment Analysis*, 72 VA. L. REV. 1079, *reprinted in*, 77 TRADEMARK REP. 177 (1987).

context, could constitute infringement.[360]

One commentator queries:

> [I]f all that is required is the existence of secondary meaning and if the theory is applicable even where the products are the same, have not we radically altered the law of trademarks, with trespass superseding deceit as the basis of protection? . . . [T]hen the rights in secondary meaning marks will be on a parity with government granted patents and the monopoly of language will be complete. Does this make sense as a matter of public policy?[361]

This argument claims that the antidilution laws will block a wide range of speech and result in an abridgement of first amendment rights.[362]

To answer the critics, I would exhort them to focus on the parameters laid down by Mr. Schechter. He minimized the complained of dangers by confining dilution protection to coined, arbitrary, or fanciful marks.[363]

Other proponents would limit it to celebrated marks of undeniable "commercial magnetism."[364] By focusing on the coined, famous, arbitrary, or fanciful words (as suggested by Mr. Schechter), we will be protecting words which have been:

> [A]dded to rather than withdrawn from the human vocabulary by their owners, and have from the very beginning been associated in the public mind with a particular product, not with a variety of products, and have created in the public consciousness an impression or symbol of excellence of the particular product in question.[365]

In foreseeing this attack, Mr. Schechter said: "[a]ll that the plaintiff in such cases asks is the preservation of a valuable, though possibly anonymous link between him and his consumer, that has been created by his ingenuity and the merit of his wares or services. 'All the rest of infinity is open to the defendant.' "[366]

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360. Kravitz, *supra* note 53, at 142, 79 TRADEMARK REP. at 615 (citing Lucasfilm Ltd. v. High Frontier, 622 F. Supp. 931, 227 U.S.P.Q. (BNA) 967 (D.C. D.C. 1985) (plaintiff, producer of film "Star Wars" and licensor of products marketed under the name, brought an action to enjoin political advocacy groups from using term "Star Wars" to describe a space-based missile defense plan)).

361. Handler, *supra* note 223, at 278-79.

362. *Id.* at 283-87 (arguing state antidilution statutes should be considered preempted because they undermine the Lanham Act's goal of uniformity in trademark protection).

363. Schechter, *Rational Basis*, *supra* note 2, at 829, 60 TRADEMARK REP. at 344.

364. Pattishall, *Dilution Rationale*, *supra* note 210, at 633, 67 TRADEMARK REP. at 624.

365. Schechter, *Rational Basis*, *supra* note 2, at 829, 60 TRADEMARK REP. at 344.

366. *Id.* at 833, 60 TRADEMARK REP. at 347 (quoting Coca-Cola Co. v. Old Dominion Beverage Corp., 271 Fed. 600, 604 (4th Cir. 1921)).

## IX. CONCLUSION

Mr. Schechter presented a cogent argument for the dilution theory. First, he advocates that a trademark functions to identify a product as satisfactory, thereby stimulating further purchases.[367] That is to say, to the consuming public the trademark is an indicator of quality.[368] Today, our law recognizes that trademarks function as indicators of quality.[369] This function is established by requirements for quality control when licensing a mark. The current merchandising trends are manifestations of how willing the public is to recognize the mark as an indicator of quality and to rely on its goodwill in making the purchase.

Secondly, Mr. Schechter focuses on the damage caused to a mark when the trademark owner loses control of the quality associated with his mark.[370] We know it as dilution.[371] It is an injury caused by the "gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name."[372] Under dilution, the damage occurs where the consumer thinking of the quality experienced with the purchase of the trademark owner's product purchases the subsequent user's product with the assumption that the second product will have the same quality as the first.[373] Without the dilution protection as proposed by Mr. Schechter, the trademark owner must suffer the risk of the consumer making judgments about the quality of his products based on the consumer's experience with the subsequent user's product.

Mr. Schechter used the mark KODAK as an example of a coined and fanciful word;[374] a mark entitled to protection under his proposed dilution rationale in 1927.[375] At that time KODAK represented film, cameras and photo supplies to consumers. The word KODAK carried goodwill because of the faith the consumers developed through having consistent experiences with every KODAK product they purchased. But goodwill is ethereal. Where a trademark owner does not maintain the consistency of his product's qual-

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367. Schechter, *Rational Basis, supra* note 2, at 818, 60 TRADEMARK REP. at 337.

368. *Id.* at 829, 60 TRADEMARK REP. at 344.

369. In Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 681, 11 U.S.P.Q.2d (BNA) 1001, 1015 (3d Cir. 1989), Judge Becker in his concurrence stated: "I conclude . . . the source theory of trademark protection is no longer viable."

370. Schechter, *Rational Basis, supra* note 2, at 830, 60 TRADEMARK REP. at 344.

371. Schechter refers to the German term "verwassert" (diluted) when discussing the German 'Odol' decision. *Id.* at 832, 60 TRADEMARK REP. at 346.

372. *Id.* at 825, 60 TRADEMARK REP. at 342.

373. *Id.* at 831, 60 TRADEMARK REP. at 345.

374. *Id.* at 829, 60 TRADEMARK REP. at 344.

375. *Id.*

ity goodwill can disappear. Goodwill exists only with the control of quality.

Today the mark KODAK represents to consumers not only film, cameras and photo supplies but also plastics, photocopiers, computer diskettes, medical equipment, chemical analyzers, and chemicals and fibers.[376] Each of these product lines carries with it the consumer's expectation of a level of quality. This expectation arises from the consumer's past experience with the mark KODAK. Should that expectation fail to be met, the mark's goodwill, as it represents all product lines, would falter and perhaps eventually fail. The swiftness with which goodwill can dissipate means that only KODAK should have the right and the obligation to control its quality, reputation and goodwill.

The threat of the marketplace makes this a difficult accomplishment. Modern marketing trends have created a predisposition among consumers to accept famous marks on diverse and unrelated items. Consumers make their purchasing decisions based on this predisposition. They purchase items bearing established trademarks expecting to experience the same satisfaction with the newly licensed product as they did with the established product line. By way of example, if tomorrow a KODAK motorcycle[377] was introduced into the marketplace consumers would approach their purchasing decision from what they had experienced with products bearing the name KODAK. They would start with a level of goodwill, based upon the quality of the established product line.

Two problems then arise when we learn that this motorcycle is not a product of the KODAK trademark owner but is being offered in the marketplace by a subsequent user. The first is that the mark KODAK will no longer mean one body of ideas in the mind of the consumer (film, cameras . . .) but will also mean motorcycles. The second is that mark KODAK represents a level of quality to the consumer. These motorcycles are being manufactured outside of the control of the trademark owner and without his ability to set or maintain the level of quality. This is analogous to a licensor who has granted a "naked license" or fails to maintain quality control - the lack of control is deemed an abandonment of the mark. The fortunes of the goodwill which his mark represents will be outside of his control and in the hands of the subsequent user.

376. Eastman Kodak, Annual Report 1984.

377. Mr. Schechter used KODAK as an example of a coined, arbitrary, or fanciful word. Schechter, *Rational Basis*, *supra* note 2, at 828, 60 TRADEMARK REP. at 344. He cited, in note 76, to a British case Eastman Kodak Co. v. Kodak Cycle Co., 15 R.P.C. 105 (1898), wherein the court protected the trademark KODAK from being used on bicycles. *See also* Derenberg, *supra* note 68.

Mr. Schechter proposed his "Rational Basis for Trademark Protection" to prevent the harms that occur when a famous mark is used on dissimilar goods; the loss of the distinctive nature of the mark and, more importantly, the loss of control over the quality associated with his mark. Without control of quality there is no goodwill, and without goodwill there is no trademark to be protected. I would urge my colleagues to more closely examine the merits of the dilution theory when pursuing the protection of famous marks. Mr. Schechter was correct. A dilution cause of action is the "only rational basis of trademark protection."