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McDonald's Corp. v. Arche Technologies, Inc.: Trademark Dilution without Tarnishment

by
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A recent case, *McDonald's Corp. v. Arche Technologies, Inc.*, 17 USPQ2d 1557 (N.D. Cal., October 29, 1990), advances trademark dilution law to a new threshold. Prof. J. Thomas McCarthy, author of the leading treatise on trademark law, believes that this case marks the first time that a U.S. court found dilution of a design mark without also finding tarnishment. (Prof. McCarthy has served as an expert for McDonald's Corp. in various cases.)

Dilution Doctrine Defined.

The dilution doctrine provides protection for marks even when the traditional "likelihood of confusion" test for infringement is not met. If defendant's use will tarnish, degrade or dilute the distinctive quality of plaintiff's mark, an injunction may issue as relief against dilution. For example, use of the mark "Tiffany" on a Boston restaurant was found not to cause confusion with Tiffany Jewelers of New York among the consuming public, and so it was not trademark infringement. Yet such use was held to be dilution of Tiffany Jeweler's famous mark, entitling Tiffany Jeweler's to an injunction prohibiting use of its mark on the restaurant. *Tiffany & Co. v. Boston Club, Inc.*, 231 F.Supp. 836, 143 USPQ 2 (D.C. Mass. 1964).

The primary purpose of the dilution doctrine is protection of a trademark owner's property right and goodwill in his mark, through prohibition of a junior user's "whittling away" of the value of the mark. Trademark infringement, on the other hand, seeks primarily to protect consumers against confusion and secondarily to protect the trademark owner's interest in preserving the integrity of his trademark. In both cases, some kind of mental association must exist in the buyer's mind between the two uses of a mark. Such a mental association (or secondary meaning) clearly exists where plaintiff's mark is very famous.

McDonald's v. Arche.

The McDonald's case involved a design mark, McDonald's Golden Arches. KunNan Enterprise, Ltd., a Taiwanese corporation, adopted a single arch design, used in various colors, as a mark for its computer hardware and software, and obtained its own federal trademark registration in 1989 for its single arch. KunNan transferred ownership of its registration to Arche, its U.S. distributor, which then used the mark in connection with its sale of computers and computer components. McDonald's sued KunNan and Arche for a permanent injunction under trademark infringement, unfair competition and dilution theories.

The court found that McDonald's did not prove by a preponderance of the evidence that any likelihood of confusion existed regarding the source, sponsorship, affiliation or endorsement of Arche's products, and so found for Arche on the trademark infringement and unfair competition claims.

The court analyzed eight factors used in the Ninth Circuit for deciding whether likelihood of confusion exists, and found that McDonald's mark has its greatest strength when double arches are used (and Arche uses a single arch); there is no crossover in the type of goods involved (McDonald's is a fast-food chain and Arche manufactures and sells computers) or in marketing channels used (Arche advertises mainly in small trade publications and does no television or radio advertising); no evidence of actual confusion was presented despite both sides' use of consumer surveys; and that the targeted customers are different and unlikely to be confused (Arche's customers are specialized professionals or small businesses, whereas the majority of McDonald's customers are unsophisticated children).

Relief Granted Under Anti-Dilution Theory.

The court did however grant relief to McDonald's under the California anti-dilution statute, California Business & Professions Code § 14330. This statute provides for injunction when either of two conditions are met: there is likelihood of injury to business reputation (tarnishment) or dilution of the distinctive quality of a mark (no tarnishment required). The statute requires no competition or confusion between goods. The courts have imposed a limitation (which is not grounded in the statute) that only the most distinctive marks are eligible for protection, in order to prevent trademark dilution doctrine from swallowing up unfair competition and trademark law.

At least one California court has interpreted the statute to protect against: (1) association with something unsavory or degrading; (2) tarnishment by association with a poorly manufactured product; (3) genericide (the tendency of a widely used product name to become the generic name for the product); and (4) diffusion of the public's immediate association of the mark with the source. *Plasticolor Molded Products, Inc. v. Ford Motor Co.*, 713 F.Supp. 1329, 11 USPQ2d 1023 (C.D. Cal. 1989).

The McDonald's court based its finding of dilution not on the prong of the § 14330 test requiring likelihood of injury to business reputation, i.e. tarnishment, but on the prong providing a remedy for dilution of the distinctive quality of a mark. The court stated that while there is no evidence of tarnishment since defendants' products are well made and highly regarded, the "distinctive quality" of McDonald's mark can still be protected under the second prong of the anti-dilution statute. "That prong is directed at protecting an owner's right to strong, well recognized marks and requires neither evil intent on the part of the defendant nor proof of likelihood of confusion. Good faith is no defense and actual confusion is not required." *McDonald's Corp.* at 1560.

The court then stated that "distinctive" marks are protected against dilution, i.e. those "which have acquired sufficient secondary meaning to become distinctive." As examples it lists "Tiffany" and "Polaroid." The court found the "Golden Arch," whether single or double, to be a distinctive mark under B & PC § 14330, and to "have acquired sufficient secondary meaning to be entitled to a broad scope of protection under California law," (emphasis added) and so permanently enjoined all use by Arche of an arch design, but only in the colors of gold and yellow.

Other Dilution Cases.

Previous 9th Circuit cases finding dilution have generally found tarnishment, in addition to finding a strong mark. For example, in *Grey v. Campbell Soup Co.*, 650 F.Supp. 1166, 231 USPQ 562 (C.D. Cal. 1986), the court found dilution of the mark "Godiva" for chocolate by defendant's use of the mark "Dogiva" for dog biscuits. The court stated that "Godiva" was wholly arbitrary and fanciful, and inherently distinctive, and therefore a strong mark entitled to protection against dilution. But the court went on to use tarnishment as a basis for granting relief, stating that defendant's use of "Dogiva" injured plaintiff's business reputation because plaintiff's product was premium quality chocolate whereas defendant's product was dog biscuits.

Another previous case finding dilution of a design mark (as opposed to a word mark) based on a finding of tarnishment was *Coca-Cola Co. v. Alma-Leo U.S.A., Inc.*, 719 F.Supp. 725, 12 USPQ2d 1487 (N.D. Ill. 1989). In the Coca-Cola case, the court granted a temporary restraining order against sale of white bubble gum power resembling cocaine in a Coca-Cola look-alike bottle, based upon dilution by tarnishment of plaintiff's reputation and corporate goodwill.

It should be noted that this case might have had a different outcome if tried in a different circuit. The Second Circuit recently stated that a finding of dilution requires either "blurring of a mark's product identification or the tarnishment of the affirmative associations a mark has come to convey." *Mead Data Central v. Toyota Motor Sales*, 10 USPQ2d 1961 (2nd Cir. 1989). (This is the famous *Lexis v. Lexus* case that received so much publicity with the district court's issuance of an injunction against Toyota and the Second Circuit's reversal of that order.) However, the McDonald's case involves neither blurring nor tarnishment.

California's anti-dilution statute was amended in 1985; the amendment has been criticized as being poorly drafted and adding nothing to the original statute. The State Bar of California's Intellectual Property Law section was opposed to the amendment and is working to repeal it.

Need for a Famous Mark?

A great deal of the McDonald's decision can be explained by the strength of plaintiff's mark. It can be argued that the court was result-oriented and desired to protect McDonald's strong mark. In its decision, the court cites two other very strong marks, "Tiffany" and "Polaroid." But the statute itself contains no requirement that a mark must be strong to be protected under dilution theory, although this requirement has been read in by the judiciary to prevent the dilution doctrine from "swallow[ing] up all competition in the claim of protection against trade name infringement." *Coffee Dan's Inc. v. Coffee Don's Charcoal Broiler*, 305 F.Supp. 1210, 163 USPQ 602 (N.D. Cal. 1969).

The dilution theory is broadened by the now explicit ruling that dilution without tarnishment will support an injunction. It is narrowed by judicial shaping of this remedy which extends it only to strong or famous marks. It remains an open question whether less famous marks could secure dilution relief without a showing of tarnishment.

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