

## FEDERAL DILUTION CLAIMS AFTER *MOSELEY v. V SECRET CATALOGUE*

*By Howard J. Shire and Michelle Mancino Marsh \**

### I. INTRODUCTION

After the Supreme Court's decision in *Moseley v. V Secret Catalogue, Inc.*,<sup>1</sup> some critics of the decision predicted that claims under the Federal Trademark Dilution Act (FTDA) were in jeopardy.<sup>2</sup> The Supreme Court's decision resolved one critical issue, namely, that proof of "actual dilution" rather than a "likelihood of dilution" is necessary to sustain a claim under the FTDA, but that proof of actual economic injury is *not* required. However, at least two other questions were raised, but unanswered, by the Supreme Court, namely: (1) how does a litigant prove "actual dilution," and what types of proof are necessary; and (2) does the FTDA cover a claim of "tarnishment" of a mark, in addition to "blurring" of a mark?

The first question proved to be the one most post-*Moseley* courts and litigants grappled with the hardest. Federal courts all over the country were scratching their collective heads over how to interpret the Supreme Court's decision. Did *Moseley* ultimately kill the FTDA claim? The answer is no, at least not yet, but it did significantly challenge the owners of famous marks to prove dilution and it frustrated judges who were deciding their claims.

This article will review the dilution landscape after *Moseley* and will discuss how federal courts have handled FTDA claims in the absence of clear guidance from the Supreme Court on the evidentiary burden necessary to prove "actual dilution." After reviewing the noteworthy federal court decisions on dilution since March of 2003, we will draw conclusions from these rulings and predict the future for dilution claims under the FTDA.

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1. 537 U.S. 418 (2003).

2. See, e.g., Jonathan Moskin, *Victoria's Big Secret: Whither Dilution Under the Federal Dilution Act?* 93 TMR 842 (2003); Courtland L. Reichman & M. Melissa Cannady, *The U.S. Supreme Court Dilutes the Federal Dilution Statute*, 23 Franchise L.J. 24 (2003); Linda B. Samuels, *Is Dilution a Delusion?* 86 J. Pat. & Trademark Off. Soc'y 325 (2004).

## II. BACKGROUND

The controversy in *Moseley* arose soon after Victor and Cathy Moseley opened a retail store in Elizabethtown, Kentucky, named VICTOR'S SECRET, which sold lingerie and adult novelties. Victoria's Secret, a well-known women's lingerie retailer, became aware of VICTOR'S SECRET and sent a cease-and-desist letter demanding that the Moseleys change the name of their store. In response, the Moseleys changed their store's name to VICTOR'S LITTLE SECRET. This change did not satisfy Victoria's Secret, which promptly sued the Moseleys for, among other things, trademark dilution under the FTDA. The district court granted summary judgment in favor of Victoria's Secret on its FTDA claim, focusing on the similarity of the two marks and the tarnishing effect of the junior mark on the senior mark.<sup>3</sup> Previously, when analyzing the trademark infringement claim, the district court had found that there was no likelihood of confusion between the two marks and granted summary judgment dismissing the infringement claim.<sup>4</sup>

The Court of Appeals for the Sixth Circuit affirmed summary judgment for Victoria's Secret.<sup>5</sup> Two months after the district court's decision, the Sixth Circuit had adopted the Second Circuit's standards for determining federal dilution.<sup>6</sup> To apply those standards, two new issues had to be considered: 1) whether the VICTORIA'S SECRET mark is "distinctive," and 2) whether relief could be granted before dilution had actually occurred. On the first issue, the Sixth Circuit concluded that the VICTORIA'S SECRET mark was distinctive because it was "arbitrary and fanciful" and was "deserving of a high level of trademark protection."<sup>7</sup> For the second issue, the Sixth Circuit addressed the growing circuit split as to whether proof of actual, present injury was required to state a dilution claim under the FTDA.

The Fourth and Fifth Circuits required proof of actual harm to a trademark for a federal dilution claim. The Second and Seventh Circuits rejected the actual dilution requirement, instead adopting a much less stringent standard. Relying on the legislative history of the FTDA, the Sixth Circuit agreed with the Second Circuit's analysis, thus permitting a senior user to sustain a dilution claim with an inference of likely harm, rather than proof of actual harm.<sup>8</sup>

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3. No. 3:98CV-395-S, 2000 WL 370525, \*5-6 (W.D. Ky. Feb. 9, 2000).

4. *Id.* at \*4.

5. *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6th Cir. 2001).

6. *See Kellogg Co. v. Exxon Corp.*, 209 F.3d 562, 577 (6th Cir. 2000) (citing *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999)).

7. *V Secret*, 259 F.3d at 470.

8. *Id.*

The appellate court then concluded that the Moseleys' use of VICTOR'S LITTLE SECRET was "a classic instance of dilution by tarnishing (associating the name Victoria's Secret with sex toys and lewd coffee mugs) and by blurring (linking the chain with a single, unauthorized establishment)."<sup>9</sup>

The Supreme Court granted *certiorari* to resolve the circuit split. Justice Stevens delivered the opinion for a unanimous Court, which held that the FTDA requires proof of "actual dilution."<sup>10</sup> In so doing, the Court rejected the "likelihood of dilution" standards of the Second and Sixth Circuits. The Court reached its conclusion by comparing the language of most state antidilution statutes, which "repeatedly refer to a 'likelihood' of harm, rather than to a completed harm."<sup>11</sup> In contrast, the federal dilution statute provides that injunctive relief is appropriate only if a use "*causes dilution* of the distinctive quality' of the famous mark."<sup>12</sup> Because of this difference, the Supreme Court concluded that the FTDA's language "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."<sup>13</sup>

The Supreme Court next examined the record in light of the actual dilution standard. The record consisted of: 1) evidence that consumers who saw advertisements for or went to the Moseley's store made a mental association with VICTORIA'S SECRET, and 2) an affidavit from a marketing expert attesting to the immense value of the VICTORIA'S SECRET mark. The Court held this evidence insufficient to support summary judgment in favor of Victoria's Secret, and reversed and remanded the case. According to the Supreme Court, the evidence was insufficient because it did not show any lessening of the capacity of the VICTORIA'S SECRET mark to serve as a source identifier. The Court was unmoved by the potential difficulty litigants would have in proving actual dilution, stating, "Whatever difficulties of proof may be entailed, they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation."<sup>14</sup>

Unfortunately, the Supreme Court's decision in *Moseley* probably raised more questions than it answered, leaving district and appeals courts to struggle with several cryptic passages. In particular, the Supreme Court did not clarify what kind of evidence is required to prove "actual dilution," but explained, in essence, what was not required, stating as follows:

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9. *Id.* at 477.

10. *Moseley*, 537 U.S. at 418.

11. *Id.* at 432.

12. *Id.* at 433 (emphasis added by court).

13. *Id.* at 434.

14. *Id.*

- “that does not mean that the consequences of dilution, such as actual loss of sales or profits, must be proved.”<sup>15</sup>
- “at least where the marks at issue are not identical, the mere fact that consumers mentally associate the junior user’s mark with a famous mark is not sufficient to establish actionable dilution.”<sup>16</sup>

However, the above statements provide little guidance as to the type of proof that *is* required for proving actual dilution. The following sentence, in particular, which can be considered *dicta*, has given courts and litigants the most trouble:

It may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proven through circumstantial evidence—the obvious case is one where the junior and senior marks are identical.<sup>17</sup>

For ease of reference, we will call the above sentence the “Circumstantial Evidence” sentence. It is unclear from this passage if the Supreme Court meant that when the marks are identical, this identity alone is sufficient circumstantial evidence for proving actual dilution, *or* did the Court mean that only circumstantial evidence, as opposed to direct evidence, is necessary when the marks are identical.<sup>18</sup> In other words, read the first way, in the event the marks at issue are identical, a plaintiff has a fairly low burden to show actual dilution. Read the second way, a plaintiff must show that the marks are identical and then something more in the way of circumstantial evidence, perhaps such as survey evidence or confusion evidence. This ambiguous passage has prompted many courts to struggle with these very questions, planting the seeds of a possible split in the circuits if Congress does not eliminate the vagueness with additional legislation.

Another question the Supreme Court left open, but expressed some doubt about, is whether tarnishment claims under the FTDA are viable. Tarnishment means that the owner’s mark is being linked by consumers to products or services of lesser quality or with unwholesome goods or services, which leads to a blemish on the reputation of the owner. The Sixth Circuit found that the Moseley’s use of VICTOR’S LITTLE SECRET in connection with a

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15. *Id.* at 433.

16. *Id.* at 434.

17. *Id.*

18. The court also failed to address what it meant by “identical” marks. For example, are two marks “identical” where they consist entirely of the same terms but are used by their respective owners in distinctly different styles of lettering and colors?

store that sold low end adult-themed goods “tarnished” the VICTORIA’S SECRET mark, and the Moseleys did not dispute this basis of the decision. Again pointing to the contrasting languages of state dilution statutes and the FTDA, the Supreme Court expressed doubt that the language of the FTDA included “tarnishment” claims, stating, “Whether it is actually embraced by the statutory text . . . is another matter.”<sup>19</sup> Since this part of the Court’s opinion is arguably *dicta*, it does not preclude tarnishment claims under the FTDA, but it does put them in some doubt.

### III. COURTS GRAPPLE WITH THE STANDARD FOR PROVING ACTUAL DILUTION

The stage was then set. Immediately after *Moseley*, courts were faced with a mandated standard for federal dilution claims, but little guidance in applying that standard. However, as will be shown below, *Moseley* presented a difficult evidentiary challenge, one that the Supreme Court was indifferent about leaving to litigants and the trial courts. The decisions that follow illustrate quite starkly that while Supreme Court precedent provides a rule of law, it is the judges and litigants in the trenches that have to bring that rule of law to life.

#### A. In the Second Circuit

In *Playtex Products, Inc. v. Georgia-Pacific Inc.*,<sup>20</sup> involving a dispute between two manufacturers of disposable personal use wipes, the Southern District of New York had an opportunity to set forth the test for dilution in the wake of the decision in *Moseley*. The dilution issue revolved around whether the mark QUILTED NORTHERN MOIST ONES diluted the distinctive quality of plaintiff’s WET ONES mark for use on an identical type of product.<sup>21</sup> Unfortunately, the court confused the terms “actual dilution” and “actual confusion” in the context of its analysis of dilution. Moreover, although decided five months after *Moseley*, the court appears to have completely ignored *Moseley* and held, “Although the FTDA provides the holder of a senior mark a remedy without proof of actual dilution, see 15 U.S.C. § 1125(c), actual dilution is one of the ten factors suggested by the Circuit for determining dilution. See *Nabisco I*, 191 F.3d at 217-22.”<sup>22</sup> The court then footnoted the ten factors set forth by the Second Circuit,

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19. *Moseley*, 537 U.S. at 432.

20. 67 U.S.P.Q.2d 1923 (S.D.N.Y. 2003), *appeal docketed*, No. 03-7946 (2d Cir. Sept. 12, 2003).

21. *Id.* at 1925.

22. *Id.* at 1931.

including the factor for “actual confusion” and not “actual dilution.”<sup>23</sup> Notwithstanding mixing proverbial apples and oranges, the court held that there was no likelihood of confusion between the two marks at issue, and because there was no evidence of actual confusion, this was parlayed into a determination that there was no evidence of actual dilution.<sup>24</sup>

A few months later in *Savin Corp. v. Savin Group*,<sup>25</sup> the same court, but with a different district court Judge, undertook a more detailed examination of the requirements for a finding of dilution in the aftermath of the *Moseley* case. The case involved a claim of infringement and dilution of the plaintiff’s mark SAVIN for use in connection with the marketing, sale and distribution of business equipment, against the defendants’ use of the mark SAVIN for use in connection with professional engineering services.<sup>26</sup> This time the court expressly acknowledged the Supreme Court’s precedent that “actual dilution, rather than a likelihood of dilution” must be shown.<sup>27</sup> The burning question, though, was how could plaintiff demonstrate actual dilution. Plaintiff interpreted the *Moseley* case to imply that there is no need to prove actual dilution when the marks at issue are identical, basing this conclusion on the single Circumstantial Evidence sentence.<sup>28</sup>

The court commented that the Circumstantial Evidence sentence in *Moseley* is “not easy to interpret, as is apparent from the differing interpretations of lower courts.”<sup>29</sup> The court struggled with the sentence as evidenced by the following:

Is the [Supreme] Court saying, as plaintiff maintains, that when the junior and senior marks are identical, that in itself is sufficient circumstantial evidence to prove actual dilution? Or, is the [Supreme] Court saying that circumstantial evidence of actual dilution, as opposed to direct evidence, is sufficient when the marks are identical? The latter interpretation seems more likely because, in the sentence following its statement that actual dilution may be proven through circumstantial evidence, the *Moseley* Court says: Whatever difficulties of proof may be entailed, they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation.<sup>30</sup>

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23. *Id.* at 1932.

24. *Id.* at 1931.

25. 68 U.S.P.Q.2d 1893 (S.D.N.Y. 2003).

26. *Id.*

27. *Id.* at 1903.

28. *Id.* at 1904.

29. *Id.*

30. *Id.* (citations omitted).

Ultimately, the court concluded that plaintiff failed to offer any circumstantial evidence, other than the facts that the marks are identical letters and colors, and that these facts were insufficient by themselves.<sup>31</sup> The court noted two conflicting decisions that had emerged already from the *Moseley* case, namely, *Nike Inc. v. Variety Wholesalers, Inc.*<sup>32</sup> and *Pinehurst, Inc. v. Wick*,<sup>33</sup> which will be discussed in detail below.

With respect to the claim for dilution under New York state law, the court held (wrongly) that because the standard for dilution is “essentially the same as that under § 43(a) [sic] of the Lanham Act,” and because plaintiff had failed to produce sufficient evidence to create a triable issue under the FTDA, it followed that the state dilution claim also failed.<sup>34</sup>

### ***B. In the Third Circuit***

The Eastern District of Pennsylvania reviewed a FTDA claim in *Scott Fetzer Co. v. Gehring*.<sup>35</sup> Finding for the plaintiff on summary judgment on its claim for dilution against a competing vacuum cleaner company that was using the plaintiff’s allegedly famous mark KIRBY, the court did not similarly struggle with the Supreme Court’s Circumstantial Evidence sentence. Rather, the court conclusively interpreted the passage to mean that “where the competing entities are using marks that are identical, dilution may be reliably found using the circumstantial evidence of the identical marks.”<sup>36</sup> The court did not require any other evidence of actual dilution.

### ***C. In the Fourth Circuit***

Just a few weeks after *Moseley*, the Middle District of North Carolina issued in *Pinehurst, Inc. v. Wick*<sup>37</sup> what has become a frequently cited decision. The defendant was a domain name speculator, owning at one time as many as 10,000 domain names, including the names PinehurstResort.com, PinehurstResorts.com and Pinhurst.com. Defendant claimed he was using them as a “free speech forum.”<sup>38</sup> Plaintiff was granted summary judgment on its

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31. *Id.*

32. 274 F. Supp. 2d 1352 (S.D. Ga. 2003).

33. 256 F. Supp. 2d 424 (M.D.N.C. 2003).

34. *Savin*, 68 U.S.P.Q.2d at 1905.

35. 288 F. Supp. 2d 696 (E.D. Pa. 2003), *appeal docketed*, No. 03-3280 (3d Cir. Aug. 5, 2003).

36. *Id.* at 702.

37. 256 F. Supp. 2d 424 (M.D.N.C. 2003).

38. *Id.* at 426.

claim for federal dilution. The court cited to the *Moseley* decision for the proposition that actual dilution can be proven through circumstantial evidence, relying on the Circumstantial Evidence sentence.<sup>39</sup> The court concluded that plaintiff's inability to register and use domain names containing the name of its resort has "reduced the selling power" of its marks, but did not point to any actual proof of this reduced selling power.<sup>40</sup> Moreover, the court noted that defendant's use of "domain names identical or confusingly similar to Plaintiff's marks is likely to prevent or hinder Internet users from accessing Plaintiff's golf services on the Internet."<sup>41</sup> Again, the court did not state whether it had considered any proof that, in fact, defendant's websites had prevented or hindered users in the way and manner described. Ultimately, the court held that the defendant had diluted plaintiff's marks due to the "identical or virtually identical character of their domain names to Plaintiff's marks."<sup>42</sup>

The *Pinehurst* decision has been cited by several other courts for the proposition that evidence that the marks are "identical or virtually identical" may be sufficient circumstantial evidence to prove actual dilution.<sup>43</sup> However, it should be noted that the terms "virtually identical" were not contained in the *Moseley* decision, and they are most likely an improper expansion of the scope of the Supreme Court's decision.

In *7-Eleven, Inc. v. McEvoy*,<sup>44</sup> in the District of Maryland, a franchisor terminated an agreement with its franchisee, and sued for, among other claims, trademark infringement and dilution. The court denied defendant's motion for summary judgment on the issue of infringement and dilution because of factual issues surrounding whether 7-Eleven had consented to defendant's use.<sup>45</sup> The court misstated the new *Moseley* standard for dilution claims by stating, "Though dilution claims require evidence of actual confusion, that requirement is satisfied when, as here, the defendant uses the plaintiff's mark."<sup>46</sup> As noted above in *Playtex Products*, this court's mixing of trademark infringement and dilution terminology is, unfortunately, not uncommon despite the

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39. *Id.* at 431.

40. *Id.*

41. *Id.*

42. *Id.* at 432.

43. See *Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc.*, No. 1:00-CV-1934-BBM, 2003 U.S. Dist. LEXIS 8788, \*111 (N.D. Ga. May 9, 2003); *Savin Corp. v. Savin Group*, 68 U.S.P.Q.2d 1893, 1904 (S.D.N.Y. 2003); *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1372 (S.D. Ga. 2003).

44. 300 F. Supp. 2d 352 (D. Md. 2004).

45. *Id.* at 357.

46. *Id.*

fact that dilution statutes have been discussed at the federal or state level for over fifty years.<sup>47</sup>

#### *D. In the Sixth Circuit*

The Sixth Circuit Court of Appeals, the court that was reversed by the Supreme Court in *Moseley*, opined on a dilution claim shortly after the Supreme Court's decision in *Moseley*. In *Kellogg Co. v. Toucan Golf, Inc.*,<sup>48</sup> the plaintiff appealed the dismissal by the Trademark Trial and Appeal Board of Kellogg's opposition to the defendant golf equipment manufacturer's application for the mark TOUCAN GOLD for use in connection with golf clubs and golf putters. Additionally, Kellogg sued in the district court for trademark infringement and dilution of its Toucan Sam logo used in connection with its FROOT LOOPS cereal.

The Sixth Circuit, commenting on *Moseley*, noted that:

The Supreme Court held that the plaintiff's claim [of dilution] failed, even though it presented evidence that consumers had associated the two marks. The plaintiff did not present any empirical evidence that consumers no longer clearly understood to which products the "Victoria's Secret" mark was related, and thus failed to demonstrate the "lessening of the capacity of the Victoria's Secret mark to identify and distinguish goods or services sold in Victoria's Secret stores or advertised in its catalogs."<sup>49</sup>

It appears that the Sixth Circuit has read the *Moseley* opinion quite narrowly and strictly, by requiring a dilution claimant to proffer "empirical evidence that consumers no longer clearly" understand to which products its mark is related. This appears to be an almost impossible burden. Not surprisingly, the appellate court affirmed the district court's dismissal of Kellogg's dilution claim, and held that at trial Kellogg "presented no evidence that [defendant's] use of its toucan marks has caused consumers no longer to recognize that Toucan Sam represents only Froot Loops."<sup>50</sup> The court stated it was specifically looking for evidence that demonstrated that "any segment of the population recognizes Toucan Sam as the spokesperson only for Froot Loops in lesser numbers than it did before [defendant] started using its toucan marks."<sup>51</sup> Moreover, the court refused to remand the case to give

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47. Massachusetts enacted the first trademark dilution statute in 1947.

48. 337 F.3d 616 (6th Cir. 2003).

49. *Id.* at 628.

50. *Id.*

51. *Id.*

Kellogg an opportunity to present such “empirical evidence,” because Kellogg had been unable to meet even the lesser standard of likelihood of dilution.<sup>52</sup>

The court did not offer any guidance on exactly how Kellogg could have shown the required lessening of recognition and appeared to hold against Kellogg the evidence Kellogg had submitted to show the fame of its TOUCAN SAM mark and its wide consumer recognition. This paradox of having to show both fame and a reduction in recognition for a mark undoubtedly is going to prove very difficult for plaintiffs to overcome in the Sixth Circuit.

On June 29, 2004, in *Autozone, Inc., et al. v. Tandy Corp.*,<sup>53</sup> the Sixth Circuit gave a detailed analysis of its dilution jurisprudence in the wake of *Moseley*. The marks at issue were plaintiff’s AUTOZONE mark for auto parts goods and services and defendant’s POWERZONE mark for use in Radio Shack stores to denote a section devoted to power-related items, such as batteries.<sup>54</sup> In *Autozone*, the court did not struggle with the Circumstantial Evidence sentence, but instead raised concern about the applicability of the use of the multifactor test previously employed for determining “likelihood of dilution” in the Sixth Circuit pre-*Moseley*. The multifactor test was termed the *Nabisco* test after the Second Circuit’s decision in *Nabisco, Inc. v. PF Brands, Inc.*<sup>55</sup> Prior to *Moseley*, both the Second and Sixth Circuits employed the same multifactor, non-exclusive, test to determine whether a “likelihood of dilution” existed under the FTDA.<sup>56</sup>

In the *Autozone* case, plaintiff asked the court to reverse the district court’s grant of summary judgment for defendant and remand for further findings based on the Supreme Court’s holding in *Moseley*, and more specifically whether the application of some or all of the *Nabisco* factors was improper in light of the Supreme Court’s holding.<sup>57</sup>

The Sixth Circuit stated the following in *dicta*:

Nothing in the Supreme Court’s opinion in *Moseley* addressed the efficacy of the ten-factor test; the Supreme Court did not criticize the Second Circuit for creating the test or the Sixth Circuit for adopting it. The Supreme Court in essence made it more difficult for dilution claims to succeed because plaintiffs face a much higher hurdle of demonstrating actual dilution,

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52. *Id.* at 628-29.

53. 2004 Fed. App. 0200P (6th Cir. 2004).

54. *Id.* at \*3-4.

55. *See Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999).

56. *Autozone*, 2004 Fed. App. at \*26.

57. *Id.* at \*28.

but the Court was silent as to the manner in which courts must evaluate plaintiffs' success in overcoming that hurdle. This silence could imply that a test designed to measure likelihood of dilution may not be appropriate to evaluate actual dilution, but we are left without firm guidance on the issue.<sup>58</sup>

Ultimately, the court stated that it need not resolve whether the *Nabisco* factors may be useful in future cases, because plaintiff had failed to meet even the lower standard of likelihood of dilution, let alone actual dilution.<sup>59</sup> In addition, the court took the opportunity to discuss at least one factor that it deemed relevant to the analysis of plaintiff's claim of dilution, namely, the similarity of the marks at issue. The court noted that "every federal court to decide the issue has ruled that a high degree of similarity, ranging from 'nearly identical' to 'very similar,' is required for a dilution claim to succeed."<sup>60</sup> Therefore, in accordance with its prior precedent, and "the guidance of other circuits," the court held that a plaintiff must "demonstrate a higher degree of similarity than is necessary in infringement claims in order to prove that actual dilution has occurred."<sup>61</sup> The court held that the marks at issue were not sufficiently similar for FTDA purposes.

The Southern District of Ohio, Western Division, a court within the Sixth Circuit, denied a defendant's motion to dismiss a dilution claim in *Reed Elsevier, Inc. v. Thelaw.net Corp.*, but warned in *dicta* that with respect to dilution claims, "it is extremely difficult to prevail on such under the Lanham Act" because of the Supreme Court's holding in *Moseley* that required a showing of actual dilution.<sup>62</sup> Based upon the above cases, it appeared to be a rather bleak future for FTDA plaintiffs in the Sixth Circuit.

Alas, at least one court in the Sixth Circuit, the Eastern District of Michigan, has since found actual dilution after *Moseley* in *General Motors Corp. v. Autovation Techs, Inc.*<sup>63</sup> General Motors sued defendant for the manufacture and sale of car foot pedals bearing certain of plaintiff's trademarks. The court held that because the marks used by defendant were identical to General Motor's famous marks, this was "reliable, circumstantial proof of actual dilution," which gave the Circumstantial Evidence sentence

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58. *Id.* at \*30-31.

59. *Id.* at \*32.

60. *Id.* at \*33.

61. *Id.* at \*34.

62. 269 F. Supp. 2d 942, 954 (S.D. Ohio 2003).

63. No. 04-70447, 2004 U.S. Dist. LEXIS 8156 (E.D. Mich. Apr. 14, 2004).

the very liberal reading ascribed by the court in the *Pinehurst* case.<sup>64</sup>

### *E. In the Seventh Circuit*

The Seventh Circuit issued a decision in *Ty, Inc. v. SoftBelly's, Inc.*,<sup>65</sup> in connection with a claim of dilution of plaintiffs' BEANIE BABIES mark for soft plush toys in the shape of animals, arising from defendant's use of the SCREENIE BEANIES mark for soft plush animals sold in computer stores for wiping computer screens of dust and lint. After a jury trial, the district court (the Northern District of Illinois, Eastern Division) had entered judgment as a matter of law for plaintiff on its trademark infringement and dilution claim.<sup>66</sup> The Seventh Circuit held that the district court's decision on dilution had "scant grounding in evidence" and remanded the case for a new trial.<sup>67</sup> What is most interesting about the *Ty* case is the Seventh Circuit's puzzlings about how a plaintiff can go about proving actual dilution as required by the Supreme Court in *Moseley*. The court stated:

We are not sure what question could be put to consumers that would elicit a meaningful answer either in [the *Moseley*] case or this one. (We are not alone in having these doubts. Jonathan Moskin, "Victoria's Big Secret: Whither Dilution Under the Federal Dilution Act?," 93 Trademark Rep. 842, 853 (2003); 4 McCarthy, *supra*, § 24:94.2.).<sup>68</sup>

*Ty* attempted to argue that no consumer survey, or, indeed, any other evidence, is required when the allegedly diluting mark is identical, citing to the Supreme Court's Circumstantial Evidence sentence in *Moseley*.<sup>69</sup> The Seventh Circuit pondered the passage in *Moseley* and stated that the Supreme Court

did not explain and no one seems to know what that "circumstantial evidence" might be. No matter. Neither "Beanies" nor "Beanie Babies" is identical to "Screenie Beanies."<sup>70</sup>

In the case of *Lee Middleton Original Dolls, Inc. v. Seymour Mann, Inc.*,<sup>71</sup> the Eastern District of Wisconsin denied defendant's

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64. *Id.* at \*18; see *Pinehurst, Inc. v. Wick*, 256 F. Supp. 2d 424, 432 (M.D.N.C. 2003).

65. 353 F.3d 528 (7th Cir. 2003).

66. No. 00 C 5230, 2001 U.S. Dist. LEXIS 1341 (N.D. Ill. Feb. 9, 2001).

67. *Ty*, 353 F.3d at 535.

68. *Id.*

69. *Id.*

70. *Id.* at 536.

71. 299 F. Supp. 2d 892 (E.D. Wis. 2004).

motion for summary judgment on the issue of dilution and allowed the claim to be tried before the jury. The court struggled with the evidentiary requirements set forth in the *Moseley* decision, and commented on the differing interpretations coming out of various courts, including the Southern District of New York's decision in the *Savin* case and the Seventh Circuit decision in the *Ty* case.<sup>72</sup> Appearing hesitant to deny plaintiff its day in court on its dilution claim, the court held, "In view of the developing status of the law on the nature of the evidence, the court believes that the best course is to permit the plaintiff the opportunity to present its dilution claim to the jury."<sup>73</sup>

In the well-publicized case of *Caterpillar Inc. v. Walt Disney Co.*,<sup>74</sup> Caterpillar sued the famous movie maker for unauthorized use and dilution by tarnishment of Caterpillar's trademarks in the film "George of the Jungle 2," moving for a temporary restraining order prior to the film's release. First, the District Court for the Central District of Illinois questioned whether a claim of tarnishment was viable in the wake of the *Moseley* decision, and became one of the only courts to bring this issue up at all even though the Supreme Court very much left the issue up for debate.<sup>75</sup> Nevertheless, in denying the motion, the district court stated that it is "unclear what type of showing Caterpillar must make" but the court found no basis in the record to support a conclusion that Caterpillar would be able to prove actual dilution.<sup>76</sup> The court noted the bizarre predicament Caterpillar was in because the film had not yet been released; there was simply no way for plaintiff to measure if it had lost sales or to measure consumer reaction.<sup>77</sup> In other words, the court was not sure what Caterpillar had to prove or how it could prove it, but since there was nothing in the record resembling proof, it could safely deny the motion.

The above decision highlights the unworkable standard set forth in *Moseley* when a litigant attempts to move for preliminary injunctive relief before the launch of the diluting product. Under *Moseley*, a trademark owner simply must wait to see if its famous mark's distinctiveness is chipped away and associated with another's products before it can seek relief.<sup>78</sup>

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72. *Id.* at 902.

73. *Id.*

74. 287 F. Supp. 2d 913 (C.D. Ill. 2003).

75. *Id.* at 922.

76. *Id.*

77. *Id.*

78. To the authors knowledge there is no reported post—*Moseley* decision that has issued an injunction under § 43(c) before a junior user has commenced use of an allegedly diluting mark.

The District Court for the Northern District of Illinois, in May 2004, issued a decision in *Nike, Inc. v. Circle Group Internet, Inc.*,<sup>79</sup> which discussed the emerging dispute concerning the Supreme Court's Circumstantial Evidence sentence. The case involved Nike's claim to the domain name justdoit.net owned by Circle Group Internet, Inc. and used in a non-competing manner for defendant's business consulting services.<sup>80</sup> The court granted Nike's motion for summary judgment in connection with its claim under the Anticybersquatting Consumer Protection Act (ACPA), and denied defendant's motion dismissing Nike's claim for dilution under the FTDA. The court noted that the litigants pointed out the two possible ways to interpret the Circumstantial Evidence sentence, namely, proof of actual dilution by circumstantial evidence is sufficient if the marks are identical, or dilution may be found if the marks are identical, which in itself constitutes sufficient circumstantial evidence of dilution.<sup>81</sup> Ultimately, however, the court stated that it did not have to resolve the dispute "because in addition to the identity of the marks at issue, there is sufficient circumstantial evidence of dilution in the record to preclude summary judgment."<sup>82</sup> The circumstantial evidence considered consisted of admissions by defendant that (1) its justdoit.net domain name had become recognized as having some relation to defendant by its employees and customers; and (2) people likely associated its justdoit.net domain name with Nike.

#### *F. In the Eighth Circuit*

In *Gateway, Inc. v. Companion Products, Inc.*,<sup>83</sup> plaintiff Gateway, the computer seller, sued Companion Products in the District of South Dakota for infringement and dilution of Gateway's famous black and white cow-spots trademark. Companion Products was using a white cow with black spots trademark in connection with plush stuffed animals called "stretch pets," that wrap around computer monitors for decorative purposes. In connection with its successful trademark infringement claim, Gateway offered a survey that demonstrated a high level of confusion among those interviewed: 39% of the people exposed to defendant's product identified plaintiff as the source of the product.<sup>84</sup> However, for purposes of showing actual dilution, as

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79. 70 U.S.P.Q.2d 1853 (N.D. Ill. 2004).

80. *Id.* at 1854.

81. *Id.* at 1859.

82. *Id.*

83. 68 U.S.P.Q.2d 1407 (D.S.D. 2003), *appeal docketed*, No. 03-3410 (8th Cir. Oct. 3, 2003).

84. *Id.* at 1419.

the court correctly noted was required under *Moseley*, the survey merely showed a high level of mental association, but did not demonstrate that defendant's use of the mark "lessens the strength of Gateway's trademark."<sup>85</sup> The court, however, did not offer any guidance on what Gateway could or should have shown to satisfy its burden under the FTDA.

### *G. In the Ninth Circuit*

The Ninth Circuit Court of Appeals has only commented on *Moseley* for the limited purpose of remanding cases to their respective district courts to permit the parties an opportunity to either reopen discovery to introduce evidence that may satisfy, or undermine, the new FTDA standard, or for the district courts to consider an existing record under the new standard.<sup>86</sup> For example, in *Playboy Enterprises v. Netscape Communications Corp.*,<sup>87</sup> the court held that, contrary to the district court's findings on summary judgment, Playboy Enterprises had shown a likelihood of dilution under the old standard, but would be unable to prove actual dilution with the current evidence in the record, and allowed discovery to be reopened.

The Northern District of California had an opportunity to visit the new dilution standard in *Wham-O, Inc. v. Paramount Pictures Corp.*,<sup>88</sup> a case that received significant publicity. Wham-O brought a motion for a temporary restraining order against Paramount Pictures for the unauthorized use of Wham-O's well-known SLIP 'N SLIDE product in the movie *Dickie Roberts: Former Child Star*. In the movie, the character Dickie Roberts is seen misusing the SLIP 'N SLIDE product and causing injury to himself. In analyzing plaintiff's dilution claim, the court initially erred in misstating the proper test for dilution, citing the old Ninth Circuit precedent of *Avery Dennison Corp. v. Sumpton*<sup>89</sup> for a four-part test for dilution that includes the factor "there exists a likelihood of dilution of the distinctive value of the mark."<sup>90</sup> Notwithstanding this obvious misstatement, the court nevertheless applied the

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85. *Id.* at 1423.

86. *Horphag Research Ltd. v. Pellegrini*, 337 F.3d 1036 (9th Cir. 2003); *Visa Int'l Serv. Ass'n v. JSL Corp.*, No. 02-17353 and No. 03-15420, 2003 U.S. App. LEXIS 26129 (9th Cir. Dec. 22, 2003); *Playboy Enters. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004).

87. 354 F.3d at 1033-34.

88. 286 F. Supp. 2d 1254 (N.D. Ca. 2003), *appeal docketed*, No. 03-17052 (9th Cir. Oct. 31, 2003).

89. 189 F.3d 868 (9th Cir. 1999).

90. *Wham-O*, 286 F. Supp. 2d at 1260.

proper standard, stating that plaintiff had failed to demonstrate “anything to confirm actual dilution.”<sup>91</sup>

In *Golden West Financial v. WMA Mortgage Services*,<sup>92</sup> the Northern District of California denied plaintiff’s motion for a preliminary injunction on its claim that defendants’ use of the mark WORLD LENDING GROUP was diluting plaintiffs’ family of WORLD marks used in connection with financial services. The court held that plaintiff had failed to proffer evidence of actual dilution as required by *Moseley*, and pointed to plaintiff’s record profits for 2002 to demonstrate that defendants’ use had not diluted plaintiff’s business.<sup>93</sup> The court further noted that defendants’ use of the mark has not decreased the value of plaintiffs’ mark because “plaintiffs’ customers can easily recognize and contact them.”<sup>94</sup>

### *H. In the Eleventh Circuit*

District courts in the Eleventh Circuit have proven to be a hotbed of interesting dilution decisions in the wake of the Supreme Court’s *Moseley* decision. Two months after *Moseley*, the Northern District of Georgia decided *Tommy Hilfiger Licensing, Inc. v. Goody’s Family Clothing, Inc.*,<sup>95</sup> a suit alleging counterfeiting, trademark infringement and dilution by the defendant. After a bench trial, the district court held that plaintiff had succeeded on its trademark infringement claims, but found that Hilfiger’s evidence of similarity of the marks, defendant’s intent, and the strength of Hilfiger’s mark, which were some of the factors the court used to assess a likelihood of confusion, were insufficient to infer actual dilution.<sup>96</sup> The district court noted that the Supreme Court had “foreclosed the use of such ‘likelihood’ factors in assessing actual dilution.”<sup>97</sup> The decision provides no guidance on what kind of evidence Hilfiger should have presented to make out its claim of dilution.<sup>98</sup>

The Southern District of Georgia also had an opportunity to opine on the new dilution standard in *Nike, Inc. v. Variety*

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91. *Id.* at 1262.

92. No. C 02-05727 CRB, 2003 U.S. Dist. LEXIS 4100 (N.D. Ca. Mar. 13, 2003).

93. *Id.* at \*23-24.

94. *Id.*

95. No. 1:00-CV-1934-BBM, 2003 U.S. Dist. LEXIS 8788 (N.D. Ga. May 9, 2003).

96. *Id.* at \*110-11.

97. *Id.* at \*111.

98. The court unsympathetically pointed out to Hilfiger that the Georgia Anti-Dilution Statute only required a likelihood of dilution, but Hilfiger’s complaint failed to allege such a claim under the statute. *Id.* at \*109 n.11.

*Wholesalers, Inc.*,<sup>99</sup> a case involving Nike's claims of counterfeiting, trademark infringement, dilution and breach of a settlement agreement by defendant, a general merchandise discount retailer. After a bench trial, the district court concluded that Nike was entitled to an injunction on its dilution claim due solely to defendant's use on the accused goods of marks that were "identical or virtually identical" to Nike's marks.<sup>100</sup> To support this proposition, the district court cited the Supreme Court's Circumstantial Evidence sentence in *Moseley*, as well as the *Pinehurst* decision mentioned above.<sup>101</sup>

The Middle District of Florida visited the *Moseley* standard of actual dilution in *HBP, Inc. v. American Marine Holdings, Inc.*<sup>102</sup> The marks at issue were plaintiff's DAYTONA family of marks for use in connection with promoting, organizing and conducting stock car and motorcycle races, such as the widely-known Daytona 500; and defendant's mark DONZI DAYTONA for recreational power boats. The district court dismissed plaintiff's dilution claim, finding that plaintiff had "not introduced evidence demonstrating that its customers and potential customers have, as a result of [defendant's] use of the . . . mark . . . formed any different impression of [plaintiff's] products and services."<sup>103</sup> Plaintiff argued that it had lost licensing revenue and royalty value, but the district court did not consider the arguments as plaintiff had failed to file any such evidence as part of the record on summary judgment.<sup>104</sup> If plaintiff had been able to show such evidence, the decision may have turned out differently.

In *Four Seasons Hotels & Resorts B.V. v. Consorcio Barr, S.A.*,<sup>105</sup> in the Southern District of Florida, the plaintiff, the famous Four Seasons Hotel chain, sued defendant, one of plaintiff's licensees, for, *inter alia*, breach of the license agreement, as well as for trademark infringement and dilution. Four Seasons contended that defendant's hotel was of inferior quality to Four Seasons' hotels and that customers complained directly to plaintiff about the "substandard nature, incomplete construction and inferior furnishings and finishings."<sup>106</sup> After trial, the district court noted

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99. 274 F. Supp. 2d 1352 (S.D. Ga. 2003).

100. *Id.* at 1372.

101. *Id.*

102. 290 F. Supp. 2d 1320 (M.D. Fl. 2003), *appeal docketed*, No. 03-15782 (11th Cir. Nov. 17, 2003).

103. *Id.* at 1339.

104. *Id.*

105. 267 F. Supp. 2d 1268 (S.D. Fl. 2003), *appeal docketed*, No. 03-16189 (11th Cir. Dec. 17, 2003).

106. *Id.* at 1332.

that the *Moseley* decision stands for the proposition that evidence of actual “harm” is required to establish trademark dilution.<sup>107</sup> The district court concluded that the anecdotal evidence of complaining customers constitutes evidence of “actual harm to establish trademark dilution under the Lanham Act” in that “[t]hese customers, therefore, plainly formed a different, negative impression of the chain.”<sup>108</sup> Therefore, it appears from this decision that instances of consumer complaints to a plaintiff due to defendant’s use of plaintiff’s mark may be sufficient proof to show a lessening of a mark’s capacity under the *Moseley* “actual dilution” standard. It remains to be seen whether other courts will adopt this seemingly low proof requirement.

### *I. In the Federal Circuit*

In *Nitro Leisure Products, LLC v. Acushnet Co.*,<sup>109</sup> the Federal Circuit was faced with the issue whether the *Moseley* holding of “requiring actual dilution,” which was in the context of a motion for summary judgment, also applied to a litigant moving for a preliminary injunction. The court applied Eleventh Circuit law because the case came up from the Southern District of Florida, and noted that in the Eleventh Circuit on a motion for preliminary injunction the movant must establish a substantial likelihood of success on the merits of its case.<sup>110</sup> The Federal Circuit held that Acushnet, the counterclaim plaintiff, had failed to meet the requirement of “a showing of actual dilution under *Moseley*,” but the court did not elaborate on what proof had been tendered at the district court level.<sup>111</sup> Accordingly, in the Federal Circuit, when moving for preliminary injunctive relief, the movant must come forth with some evidence of actual dilution.

## IV. CONCLUSION

On balance, the decisions discussed above illustrate that a claim for dilution under the FTDA is certainly difficult to prove. Courts are openly struggling to understand the kinds of proof necessary to demonstrate “actual dilution.” Although the courts have difficulty articulating the precise type, amount or character of proof that is necessary to succeed on a dilution claim, there appears to be an easier recognition of when a party has failed to

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107. *Id.*

108. *Id.* at 1332 n.8.

109. 341 F.3d 1356 (Fed. Cir. 2003).

110. *Id.* at 1359.

111. *Id.* at 1366.

present enough evidence. The unfortunate lesson is that the more evidence a plaintiff has to demonstrate that its famous mark has lost some of its selling power or consumer recognition, the better its FTDA claim will be. This may include, as in the *Four Seasons* case, anecdotal evidence of disgruntled or offended customers, or, as in the *Pinehurst* case, evidence of lost Internet traffic, which may be measurable. In other words, be creative and cover as many bases as possible.

When the diluting mark is identical to the plaintiff's mark, the chances of success appear better in many jurisdictions. It is not surprising that courts seem to be looking for a way to keep FTDA claims alive and a more flexible reading of the Circumstantial Evidence sentence has been one way to do so. However, a split in the circuits is clearly brewing over a more expansive reading of the Circumstantial Evidence sentence, and this variance in interpretation of the Circumstantial Evidence sentence will undoubtedly lead to forum shopping.

Perhaps courts will ultimately develop a multifactor test for establishing actual dilution, just as the Second Circuit had developed a multifactor test for establishing a likelihood of dilution and courts have developed multifactor tests for establishing a likelihood of confusion. However, the two circuit courts (Fourth and Fifth) that required a showing of actual dilution before *Moseley* was decided had not established such a test, and in the authors' opinion, the Sixth Circuit was off-base in the *Autozone* case to suggest that the *Nabisco* factors might still apply to a FTDA claim. These factors were specifically developed for a likelihood of dilution analysis, and, as the Sixth Circuit conceded, several of them (*e.g.*, product proximity, shared consumers and actual confusion) on their face would seem to have nothing to do with proving actual dilution. However, as the Sixth Circuit pointed out, at least one of them, namely, similarity of the marks, is obviously relevant.

Survey evidence directly addressing the question of actual dilution has not been tested at all in any of the above cases.<sup>112</sup> Although there is no clear reason for this, perhaps dilution is such an elusive concept that it cannot be empirically tested in an accurate way. In addition, one can imagine that funding a trademark infringement survey and a dilution survey (to say nothing of possibly also funding a survey to show that a mark is famous) can be extremely expensive and time-consuming. Given the uncertainty of an FTDA claim, plaintiffs may naturally be placing greater reliance on their more traditional trademark infringement claims and state dilution claims.

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112. The authors are unaware of any decision, either before or after *Moseley*, that has accepted a survey as credible evidence of actual dilution.

A much more viable claim than an FTDA claim is provided under several of the state dilution statutes. Fourteen state statutes require only a showing of a “likelihood of dilution” for relief.<sup>113</sup> An additional advantage of these laws is that unlike the FTDA, none requires a plaintiff’s mark to be famous; it need only be “distinctive.” Finally, all of these state statutes also explicitly provide for a dilution claim based on injury to business reputation, which *Moseley* put in doubt. Thus, if personal jurisdiction can be obtained over a defendant in one of these states, a plaintiff would probably be much better off asserting a state dilution claim.<sup>114</sup> The only potential downside is that an injunction might be limited to activities taking place within the border of that state.<sup>115</sup> As a practical matter, however, this might suffice, since a defendant would probably not want to sell and advertise the goods or services at issue under two different trademarks. This would be especially true for a product that is nationally distributed. And, of course, if a defendant’s product is only distributed locally, a one-state injunction would be perfectly adequate.

Lastly, the above cases also lead to the conclusion that an owner of a famous mark will have even greater difficulty obtaining a preliminary injunction or temporary restraining order under the FTDA before a defendant’s use has began. It is nearly impossible to demonstrate that a defendant’s mark has caused actual dilution if one is attempting to obtain preliminary relief before the damage is done. This dilemma may be the single most important reason necessitating an amendment to the FTDA. Meanwhile, a famous mark owner should consider using other claims, including state dilution claims where appropriate, as the basis for a preliminary injunction claim in addition to, or in lieu of, an FTDA claim.

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113. The following states have a “likelihood of dilution” standard: Alabama, California, Delaware, Florida, Georgia, Louisiana, Maine, Massachusetts, Missouri, New Hampshire, New York, Oregon, Rhode Island and Texas.

114. In *Pfizer, Inc. v. Y2K Shipping & Trading, Inc.*, 70 U.S.P.Q.2d 1592, 1600 n.8 (E.D.N.Y. 2004), the Eastern District of New York confirmed that the *Moseley* decision did not change the prevailing state test for dilution, which “focuses on the ‘likelihood’ of dilution rather than ‘actual’ dilution.”

115. Most pre-FTDA decisions that issued injunctions based on state dilution laws did not limit the geographic scope of the injunction. See, e.g., *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830 (7th Cir. 1963). But see *Deere & Co. v. MTD Prods., Inc.*, 94 Civ. 2322, 1995 U.S. Dist. LEXIS 2278 (S.D.N.Y. Feb. 28, 1995) (limiting injunction to New York State).