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Second Circuit Clarifies the Standard for Establishing "Blurring"-Type Dilution under Federal Trademark Dilution Statute

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On December 3, 2009, the U.S. Court of Appeals for the Second Circuit clarified federal trademark dilution law, at least as practiced in that Circuit, by explaining the degree of "similarity" required for dilution by "blurring" to be established between the diluting mark and the plaintiff's mark. The Second Circuit reversed-in-part a decision of the U.S. District Court for the Southern District of New York (Swain, J.) holding that a small coffee distributor's use of the marks "Mister Charbucks" and "Charbucks Blend" for coffee blends (collectively, the "Charbucks marks") did not dilute Starbucks Corp.'s family of "Starbucks" marks either by blurring or tarnishment. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 08-3331-cv, 2009 WL 4349537 (2d Cir. Dec. 3, 2009) (slip op.).

The Second Circuit affirmed the lower court's decision, following a bench trial, that the Charbucks marks did not constitute (a) dilution by tarnishment of the Starbucks' marks, (b) protectable parody, (c) dilution under New York state law, nor (d) federal or state trademark infringement. However the Court of Appeals vacated and remanded the lower court's dismissal of Starbucks' Lanham Act dilution-by-blurring claim on the ground that the lower court erred in holding that proof of "substantial similarity" between the parties' marks is required to establish blurring-type dilution under the Lanham Act.

Prior History Between Starbucks and Black Bear

Since its founding in 1971, Starbucks has grown to over 8,700 retail locations in the U.S., Canada, and 34 other countries in connection with coffee and other merchandise. Starbucks owns over sixty registered trademarks in the U.S. Defendant Black Bear Micro Roastery ("Black Bear") is a family-owned, New Hampshire-based coffee company that makes and sells roasted coffee beans via mail order, internet order and in New England supermarkets and coffee shops. Many years ago, Black Bear began selling a dark-roasted blend of coffee under the Charbucks marks. Black Bear's packaging includes the words "BLACK BEAR MICRO ROASTERY" along with Black Bear taglines and logos.

After Starbucks learned of Black Bear's Charbucks marks, it sent Black Bear a cease-and-desist letter. Some time later, after negotiations broke down, Starbucks sued Black Bear under the Lanham Act for trademark infringement and dilution, and also asserted various related state claims. After a two-day bench trial in March 2005, Judge Swain issued an opinion and order dismissing Starbucks' complaint, and Starbucks appealed. *Starbucks*, slip op. at 5. While Starbucks' initial appeal was pending, Congress amended the dilution provisions of the Lanham Act by enacting the Trademark Dilution Revision Act of 2005 ("TDRA"). Enacted in response to the Supreme Court's decision in *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003) requiring dilution claimants to prove "actual dilution," the TDRA codified that a cause of action for federal trademark dilution only requires proof of a "likelihood of dilution."

The Second Circuit initially vacated the district court's judgment in favor of Black Bear in light of the TDRA, and remanded for further proceedings. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 477 F.3d 765, 766 (2d Cir. 2007) (per curiam). On June 5, 2008, the district court again entered judgment in favor of Black Bear, finding that even in light of the TDRA, Starbucks had failed to demonstrate any entitlement to relief. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 559 F. Supp. 2d 472, 481 (S.D.N.Y. 2008). Starbucks appealed again, which led to the Second Circuit's second decision in this case.

The TDRA

The TDRA protects "famous, distinctive mark[s]" against "the user of a mark that is 'likely to cause dilution' of the famous mark." 15 U.S.C. § 1125(c)(1). There are two types of actionable dilution: (1) dilution by "blurring" and (2) dilution by "tarnishment."

1. Dilution by "Blurring"

"Blurring"-type dilution involves "an association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." 15 U.S.C. § 1125(c)(2)(B). Courts faced with "blurring"-type dilution claims apply a six-factor analysis set forth in the statute:

> (i) The degree of similarity between the mark or trade name and the famous mark.
>
> (ii) The degree of inherent or acquired distinctiveness of the famous mark.

(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

(iv) The degree of recognition of the famous mark.

(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

(vi) Any actual association between the mark or trade name and the famous mark.

15 U.S.C. § 1125(c)(2)(B)(i)-(vi).

In *Starbucks*, the parties only disputed the first ("degree of similarity"), fifth ("intent") and sixth ("actual association") factors of the analysis. As to the first factor, the appeals court ruled that, "the District Court did not clearly err in finding that the Charbucks Marks were minimally similar to the Starbucks Marks," pointing out that the marks, as presented to consumers, are dissimilar. The "Charbucks" marks were presented either as "Mister Charbucks" or "Charbucks Blend" in packaging that prominently displayed Black Bear's name, logos, and taglines, all of which differed from Starbucks' marks. *Starbucks*, slip. op. at 8. The Court of Appeals ruled that it was error, however, for the district court to conclude that "[t]his dissimilarity alone is sufficient to defeat [Starbucks'] blurring claim, and [that it] weighs strongly against [Starbucks] in the dilution analysis." *Starbucks*, slip op. at 10.

In analyzing the "degree of similarity" factor, the Second Circuit held that "substantial similarity" between the marks under comparison was not required. Initially, the appeals court found "it significant that the federal dilution statute does not use the words 'very' or 'substantial' in connection with the similarity factor." *Starbucks*, slip op. at 11. Moreover, the Court of Appeals noted that "[c]onsideration of a 'degree' of similarity as a factor in determining the likelihood of dilution does not lend itself to a requirement that the similarity between the subject marks must be 'substantial' for a dilution claim to succeed." *Id.* at 11-12. Finally, the court cautioned that requiring "substantial similarity" would materially diminish the remaining five statutory factors "because they would have no relevance unless the degree of similarity between the marks are initially determined to be 'substantial.'" *Id.* at 12. The Court was unwilling to adopt an interpretation that minimized the relevance of the remaining statutory factors.

For the fifth and sixth statutory factors, intent and actual association, the appeals court noted that "intent" does not require "bad faith," but merely "intent to associate with the famous mark." The owner of Black Bear testified that Starbucks was the inspiration for the "Charbucks" marks. The Second Circuit also credited Starbucks' consumer survey, in which 30.5% responded that Starbucks was the first thing that came to mind when they heard the word "Charbucks," as relevant to the existence in consumers' minds of an "association" between the marks. The Second Circuit also noted that absence of actual or likely consumer confusion does not undermine the existence of consumer *association* between the marks and, thus, dilution.

2. Dilution by Tarnishment

"Tarnishment"-type dilution involves an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." 15 U.S.C. § 1125(c)(2)(C). Typically, tarnishment occurs when the tarnishing mark causes the famous mark to be "linked to products of shoddy quality, or the famous mark is portrayed in an unwholesome or unsavory context, with the result that the public will associate the lack of quality or lack of prestige" with the famous mark or goods. *Starbucks*, slip op. at 14 (quoting *Hormel Foods Corp. v. Jim Henson Prod'ns, Inc.* 73 F.3d 497, 507 (2d Cir. 1996)).

The Second Circuit affirmed the district court's finding of no "tarnishment"-type dilution, holding that "a mere association between 'Charbucks' and 'Starbucks,' coupled with a negative impression of the name 'Charbucks,' is insufficient to establish a likelihood of dilution by tarnishment." *Starbucks*, slip op. at 15. Instead, the court's tarnishment analysis examined the goods underlying each mark, finding that, because the goods offered under the "Charbucks" name would not lead consumers to attribute unfavorable characteristics with Starbucks' coffee, no tarnishment was likely. The appeals court noted that, if anything, the "Charbucks" name might actually improve consumers' perception of Starbucks because consumers might believe Starbucks' coffee is not "charred," and therefore, superior, to the Black Bear brands bearing the Charbucks marks. Because Starbucks was not able to establish the inferiority of coffee sold under the "Charbucks" marks, the Second Circuit affirmed the lower court's reasoning and conclusion in dismissing Starbucks' tarnishment claim.

3. Other Defenses

The Second Circuit also affirmed the district court's determination that the "Charbucks" marks did not constitute a First Amendment-protected "parody" of the Starbucks marks in part because Black Bear used the "Charbucks" marks to designate Black Bear's coffee. Moreover, testimony from Black Bear's owner that Starbucks inspired the "Charbucks" name to demonstrate to consumers the high-quality of Black Bear's coffee (in competition with Starbucks') also negated the parody defense.