Starbucks v. Charbucks: Substantial similarity is not required to prove dilution by blurring

By David J. Shannon

I. Introduction

In a potentially significant decision, the Second Circuit U.S. Court of Appeals recently held that proof of "substantial similarity" between two marks is not required to establish dilution by blurring. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2nd Cir. 2009). The Second Circuit held that the Trademark Dilution Revision Act of 2005 ("TDRA") does not require that an infringing mark be "substantially similar" to the famous mark.

II. Factual History of the Dispute

Starbucks is one of the world's largest coffee retailers with more than 8,700 retail stores around the world.[1] Starbucks was originally founded in Seattle, Wash., in 1971. Besides operating retail stores, Starbucks supplies coffee to thousands of restaurants, supermarkets, airlines and other distributors. Starbucks has always conducted its commercial activities by prominently displaying its registered "Starbucks" marks on its products and areas of business. Starbucks has spent more than $136 million dollars displaying, promoting and protecting its products and activities exclusively under its famous marks. The Starbucks marks include the trademark "Starbucks" and its logo, which is circular and generally contains a mermaid-like siren surrounded by the phrase "Starbucks Coffee." Starbucks has held a U.S. trademark registration continuously since 1985 and has more than 60 U.S. trademark registrations. Starbucks also has foreign trademark registrations in more than 130 countries.

Wolfe's Borough Coffee Inc., d/b/a Black Bear Micro Roastery, is a family-run company that is engaged in the sale of coffee products with its principal place of business in Tuftonboro, N.H. Black Bear is a relatively small company owned by a husband and wife. Black Bear sells its products through the mail and Internet orders and in a small number of New England supermarkets and coffee shops. In April 1997, Black Bear began selling a "dark roasted blend" of coffee called "Charbucks Blend" and then "Mister Charbucks." The packages for the coffee depicted a black bear with large-font words "BLACK BEAR MICRO ROASTERY" on the front of the packaging. Other Black Bear tag lines and logos also appeared on the packaging.

In August 1997, Starbucks sent its first cease-and-desist letter to Black Bear and demanded that the owners stop the use of the Charbucks marks. Black Bear continued to sell its Charbucks coffee. Ongoing negotiations between the parties failed to resolve the matter. In July 2001, Starbucks filed a complaint in the Southern District of New York, alleging trademark infringement and dilution, unfair competition and other violations of the Lanham Act and state law. In 2005, after a two-day bench trial, the Southern District Court found in favor of Black Bear on all counts. Not surprisingly, Starbucks appealed the decision.

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During the initial appeal period, Congress amended the dilution provisions of the Lanham Act by enacting the TDRA. The TDRA was enacted in response to the Supreme Court's decision in *Moseley v. V Secret Catalogue, Inc.*, 537 US 418 (2003). The Supreme Court held that dilution plaintiffs must prove "actual dilution." The TDRA revised the dilution statutes to state that a cause of action for federal trademark dilution only requires proof of "likelihood of dilution." As a result of the TDRA, the Second Circuit vacated the District Court's judgment on appeal and remanded the *Starbucks v. Charbucks* matter for further proceedings. Injunction matters need to be determined under the prevailing law. The District Court then determined that even under the new TDRA dilution standard, Starbucks could still not prove a likelihood of dilution. Judgment was entered once again in favor of Black Bear on all counts. Again, not surprisingly, Starbucks appealed the decision, which lead to the Second Circuit Court of Appeals' decision.

The Second Circuit affirmed all of the District Court's decision except for the federal dilution by blurring claim. The Second Circuit held that the District Court had erred by not taking into full account the revisions to the TDRA federal dilution statute.

III. Legal Analysis of the Second Circuit's Decision

Under federal law, an owner of a famous and distinctive mark is entitled to an "injunction against the user of the mark that is 'likely to cause dilution' of the famous mark." *Starbucks v. Wolfe's Borough Coffee, Inc.* 477 F. 3d 765, 766 (Second Circuit 2007). (quoting 15 USC § 1125 (c)(1)). No dispute existed that the "Starbucks" marks were famous within the meaning of 15 USC §1125 (c). Rather the

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focus of the appeal was on dilution itself. Federal dilution is actionable in two situations: 1. Dilution by blurring; and, 2. Dilution by tarnishment. 15 USC §1125 (c).

Dilution by blurring is 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 USC § 1125 (c)(2)(B). Dilution by blurring may be found regardless of the presence or absence of actual or likely confusion, of competition or of actual economic injury. 15 USC § 1125 (c)(1).

The court listed several classic examples of blurring "hypothetical anomalies such as DuPont Shoes, Buick's Asprin Tablets, Schlitz Varnish, Kodiak Pianos, Bulova Gowns, and so forth." The TDRA created the first federal statutory definition of dilution by blurring. The TDRA set forth six non-exhaustive factors for courts to consider when determining whether a likelihood of dilution exists.

1. The degree of similarity between the allegedly infringing mark and the famous mark;
2. The degree of inherent or acquired distinctiveness of the famous mark;
3. The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark;
4. The degree of recognition of the famous mark;
5. Whether the user of the allegedly infringing mark intended to create an association with the famous mark;
6. Any actual association between the allegedly infringing mark and the famous mark.

The District Court had found that the second, third and fourth factors all favored Starbucks. Starbucks did not challenge those findings on appeal.

However, when reviewing the first factor, the District Court held that the marks were not substantially similar and this fact "alone is sufficient to defeat ("Starbucks") blurring claim, and in any event, this factor at a minimum weighs strongly against ("Starbucks") dilution analysis." The Second Circuit overruled the District Court. The Second Circuit found that "substantial similarity" is not required under the TDRA. The Second Circuit opined that "it is significant that the federal dilution statute does not use the words 'very' or 'substantial' in connection with the similarity factor to be considered in examining a federal dilution claim."

In addition, the Second Circuit held that consideration of the 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. The Second Circuit was concerned that placing undue significance on the similarity factor would minimize the relevance of the other five statutory factors and was at odds with the federal dilution statute, which listed a degree of similarity as only one of several factors.

The Second Circuit felt that the District Court erred by merely focusing on substantial similarity, which likely affected its view of the importance of the other factors in analyzing the blurring claim. Ultimately, the court must focus on whether the association arising from the similarity between the subject marks impairs distinctiveness of the famous marks.

The Second Circuit also questioned the District Court's analysis of the fifth factor, which states an alleged infringer "intended to create an association" with the famous mark. The District Court had found in favor of Black Bear even though Black Bear admitted it did intend to associate "Charbucks" with "Starbucks." The District Court reasoning was that Black Bear did not act with "bad faith." However, the Second Circuit found that the "intent to associate" does "not require the additional consideration of whether bad faith corresponded with that intent."

Finally, the Second Circuit also held that the District Court had misapplied the sixth factor. The District Court found no "actual association between" Charbucks and Starbucks, because no actual confusion existed between them. However, the Second Circuit noted that actual confusion has little to do with actual association. Evidence presented by Starbucks indicated that about 30 percent of the consumers who were surveyed associated the word "Charbucks" with the brand "Starbucks." The Second Circuit found that the absence of actual, or even the likelihood of, confusion does not undermine evidence of trademark dilution. Consequently, the Second Circuit vacated the District Court's ruling on dilution by blurring claim but affirmed the District Court's decision regarding all other claims and remanded the case for further proceedings.

The "Charbucks" case and the Second Circuit's analysis of the factors in determining dilution by blurring have significance for owners of both famous marks and non-famous marks. Based on the Second Circuit's findings that "substantial similarities" and "bad faith" are not requirements of dilution, owners of famous marks should be able to rely on dilution claims for marks in certain cases even though they were previously unable to do so. Owners of smaller marks could also see themselves being sued because the famous mark owners do not need to prove "substantial similarity" or even bad faith "intent to associate the marks."

A large corporation with a famous trademark may be more inclined to pursue small business owners then to simply abandon its rights when they do not need to prove "substantial similarity." Certainly, trademark practitioners will come down on both sides of the fence on this issue. Those who strongly encourage the protection of famous marks will be pleased with the Second Circuit's decision. Practitioners who represent small entities that are pursued by "big bad corporations" will not look favorably on the court's decision. ■

[1] (All facts and quotes in this article are cited from *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2nd Cir. 2009), unless otherwise noted).