

## Second Circuit Addresses Proof of Dilution Under Federal Trademark Dilution Revision Act

In a significant decision addressing the proof necessary to establish trademark dilution under the 2005 Federal Trademark Dilution Revision Act (“TDRA”), the Second Circuit Court of Appeals recently construed the federal dilution statute to permit dilution claims even when the marks at issue are not substantially similar, and endorsed the use of “association” surveys to prove likelihood of dilution. *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 2009 WL 4349537, No. 08-3331 (2d Cir. Dec. 3, 2009). In so holding, the Second Circuit has confirmed that the TDRA remains a useful tool for trademark owners seeking to protect their famous marks.

In *Starbucks*, the Court of Appeals considered an appeal by Starbucks from a decision rejecting, after a bench trial, Starbucks’ claims for trademark dilution and infringement arising from defendant’s use of the name CHARBUCKS for one of its coffee blends. Although Starbucks appealed the district court’s holding with respect to the absence of a likelihood of both dilution and confusion, the Second Circuit’s dilution analysis was the focus of its ruling, and is of greatest interest to trademark litigants.

In reversing the district court’s dismissal of Starbucks’ dilution claim, the Court of Appeals held, most significantly, that a defendant’s mark need not be “substantially” similar to a plaintiff’s famous mark for dilution to occur. The Court noted that its prior holdings that required “substantial” similarity were decided under the dilution law in effect prior to enactment of the TDRA, which did not define dilution or provide guidance as to the importance of similarity.<sup>1</sup> The TDRA, in contrast, includes a list of six factors relevant to assess dilution by blurring:

- (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).

Noting that this list of factors refers to “degree of similarity” but does not require “substantial” similarity, the Court of Appeals expressly rejected the district court’s conclusion that the lack of substantial

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<sup>1</sup> See, e.g., *Playtex Prods., Inc. v. Georgia-Pacific Corp.*, 390 F.3d 158 (2d Cir. 2004) (requiring substantial similarity under pre-TDRA law). The Court of Appeals also explained in *Starbucks* that its previous substantial similarity requirement likely was borrowed from state dilution laws that required substantial similarity.

similarity between STARBUCKS and CHARBUCKS “alone is sufficient” to defeat Starbucks’ blurring claim, and held that it was error to require “substantial similarity.” Rather, “degree of similarity” is one factor, among several others, to assess in deciding likelihood of dilution by blurring.

Turning to the “actual association” factor, the Court reversed the district court’s rejection of Starbucks’ survey evidence on dilution by blurring, and provided valuable guidance in constructing dilution surveys. Starbucks’ consumer survey had asked, among other things, “What is the first thing that comes to mind when you hear the name “Charbucks?” to which 30.5% of consumers responded “Starbucks.” The district court had referred to this evidence as not supporting “actual confusion.” The TDRA, however, lists evidence of “actual association” (rather than “actual confusion”) as one factor in the dilution by blurring analysis. Remanding to the district court for consideration of the dilution by blurring claim, the Court of Appeals effectively held that Starbucks’ survey showing that “Starbucks” “comes to mind” for 30.5% of consumers who hear “Charbucks” is evidence of actual association that supports a dilution claim.

As for the remainder of the blurring analysis, the Court of Appeals held that another statutory blurring factor — intent to create an association with plaintiff’s famous mark — does not require bad faith on the part of a defendant, as the district court had held. In light of the district court’s erroneous rulings on three of the statutory blurring factors, the Court of Appeals reversed the dismissal of Starbucks’ dilution by blurring claim.

The Second Circuit’s decision is also significant in its discussion of Starbucks’ dilution by tarnishment claim. In contrast to the blurring claim, the Court affirmed the dismissal of Starbucks’ tarnishment claim, agreeing that Starbucks’ survey — which did show an association between “Charbucks” and “Starbucks” — was insufficient to show likelihood of tarnishment. Although most survey respondents who thought of Starbucks when they heard “Charbucks” also said that they would have a negative impression of a coffee called “Charbucks,” the Court reasoned that this impression had little relevance to whether consumers’ view of the reputation of the STARBUCKS mark would be harmed. Rather than measure consumers’ views of a coffee called “Charbucks,” the Court held, the survey should have tested whether the association of “Charbucks” with “Starbucks” harmed the reputation of the famous STARBUCKS mark.

Lastly, with respect to dilution, the Court of Appeals rejected defendant’s parody defense and, in doing so, distinguished the Fourth Circuit’s decision in *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007). Explaining that the TRDA’s fair use exclusion applies only where a defendant uses a famous mark “other than as a designation of source” for its own goods or services, the Court held that the use of CHARBUCKS to designate defendant’s own goods precluded reliance on the statutory fair use defense. *See* 15 U.S.C. § 1125(c)(3) (providing that “[a]ny fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person *other than as a designation of source for the person’s own goods or services*” shall “not be actionable as dilution”) (emphasis added). To the extent *Louis Vuitton* held differently, the Second Circuit held, it was inapposite because it was decided prior to enactment of the TDRA.

Nor, the Second Circuit held, did the claimed parodic nature of the CHARBUCKS mark avert likelihood of dilution by blurring, again distinguishing the Fourth Circuit’s *Louis Vuitton* decision. The Fourth Circuit had rejected plaintiff’s dilution claim in that case because, in essence, the defendants’ parody of plaintiff’s marks was “successful” and drew a distinction between defendants and plaintiff’s marks, thereby *increasing* public identification of plaintiff’s marks with plaintiff. The CHARBUCKS mark, by contrast, was “at most, a subtle satire” and was promoted not as a commentary on Starbucks, but “as a beacon to identify Charbucks as a coffee that competes on the same level as Starbucks in producing dark-

roasted coffees.” As such, defendant’s “incantation of parody does nothing to shield it from Starbucks’ dilution claim in this case.”

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The Second Circuit’s decision in *Starbucks* confirms that federal dilution law remains a potentially significant tool for trademark owners to protect the value of famous marks. Even when a junior mark is not substantially similar, a famous mark owner still can prevail on a federal dilution claim if the statutory blurring factors tip in its favor — particularly if the plaintiff has a strong, unique mark and can show actual association by survey evidence or otherwise. At the same time, the decision highlights the difficulty in establishing dilution by tarnishment when the defendant’s use of a mark is not connected with goods or services that are unwholesome or unsavory.

Finally, the decision arguably clouds the issue of how a parody defense impacts a dilution claim. With the Fourth Circuit decision in *Louis Vuitton* holding that the “successful” parody there precluded a dilution claim, and the Second Circuit holding that CHARBUCKS is too “subtle” a parody to provide a defense in that case, the trademark litigant is left with little clear guidance on whether parody is or is not a defense in a particular dilution case.

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