

Starbucks Episode VI: The Second Circuit's Latest Decision in the CHARBUCKS Battle

On November 15, 2013, the United States court of Appeals for the Second Circuit handed down its latest decision in Starbucks Corp. v. Wolfe's Borough Coffee, Inc., No. 12-364-cv, 2013 WL 6037227 (2d Cir. Nov. 15, 2013) ("Starbucks VI"). It held that a defendant's use of a mark that was intended to create an association with plaintiff's famous and distinctive mark does not dilute the famous mark, where the marks were "minimally similar" and the evidence of actual association weighed only "minimally" in plaintiff's favor. In reaching its conclusion, the court emphasized the importance of considering the marks at issue as they are actually used in the marketplace.

At issue in the case was whether defendant's use of MISTER CHARBUCKS and CHARBUCKS BLEND was likely to dilute, by blurring, Starbucks Corp.'s STARBUCKS marks. The case's long history began in 2001, when Starbucks sued Wolfe's Borough for dilution under the Lanham Act and New York statutory law, trademark infringement under the Lanham Act, and unfair competition under the Lanham Act and New York statutory and common law. Eventually all of the claims except for the federal dilution claim were dismissed.

The district court held a bench trial in March 2005 and found there was no actual dilution—the standard for federal dilution claims in the Second Circuit at that time. See Starbucks Corp. v. Wolfe's Borough Coffee, Inc., No. 01 Civ. 5981, 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005) ("Starbucks I"). While Starbucks' first appeal was pending, the Trademark Dilution Revision Act of 2006 (the "TDRA") was passed. The TDRA amended federal dilution law to, among other things, make clear that the applicable standard was a likelihood of dilution, rather than actual dilution. The Second Circuit thus remanded the case back to the district court for consideration of Starbucks' claim under the TDRA. See Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 477 F.3d 765 (2d Cir. 2007) ("Starbucks II").

On remand in 2008, the district court considered the six statutory factors for dilution by blurring, namely:

- (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.

See 15 U.S.C. § 1125(c)(2)(B).

Once again, the district court ruled for defendant after a bench trial. See Starbucks Corp. v. Wolfe’s Borough Coffee, Inc., 559 F. Supp. 2d 472 (S.D.N.Y. 2008) (“Starbucks III”). Once again, Starbucks appealed.

In 2009, the Second Circuit vacated the district court’s judgment and remanded for reconsideration of three of the statutory factors—similarity of the marks, defendant’s intent, and actual association. See Starbucks Corp. v. Wolfe’s Borough Coffee, Inc., 588 F.3d 97 (2d Cir. 2009) (“Starbucks IV”).

On remand in 2011, the district court found that four of the statutory dilution-by-blurring factors (*i.e.*, the distinctiveness of the mark, the exclusivity of use, the recognition of the mark, and defendant’s intent) weighed in favor of Starbucks. The district court also found, however, that the similarity of the marks and evidence of actual association weighed against Starbucks, and concluded that they outweighed the other factors. See Starbucks Corp. v. Wolfe’s Borough Coffee, Inc., No. 01 Civ. 5981, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011) (“Starbucks V”).

Starbucks then filed the appeal that led to the Second Circuit’s most recent decision. On appeal, Starbucks challenged the district court’s factual findings as to the similarity and association factors.

On the most recent appeal, as to the similarity of the marks, the Second Circuit noted that in its 2009 Starbucks IV decision it had determined the marks were “minimally similar.” The court then held that “Starbucks advances no compelling reason for us to revisit our ruling on the issue of similarity. It urges that the holding in Starbucks IV applied only to our ‘likelihood of confusion’ analysis, and that the District Court erred by considering the contexts in which consumers encounter the Charbucks Marks. We reject such a crabbed view of the holding and adhere to our prior ruling that the District Court did not clearly err in finding minimal similarity.”

As to actual association between the marks, the Second Circuit began its analysis by holding that defendant’s admitted intent to create an association with Starbucks “does not constitute per se evidence that the actual association factor weighs in favor of the owner of the famous mark.”

The court next held that the district court properly discounted the telephone survey upon which Starbucks relied for two reasons. First, the court noted that the survey did not show respondents the CHARBUCKS marks and accompanying logos and other contextual clues as they were actually used in commerce, nor did it include all of the words in those marks (*i.e.*, MISTER CHARBUCKS and CHARBUCKS BLEND). Instead, the survey asked respondents only about the CHARBUCKS element of the marks. The Second Circuit therefore held that “the District Court was within its rights to conclude that the . . . survey had limited probative value because the defendant’s marks were not presented to survey respondents as they are actually ‘presented and packaged’ in commerce.”

Second, the court found no error in the district court’s conclusion that the 30.5% rate of association shown by the survey was “relatively small,” given the fact that the CHARBUCKS mark was presented to survey respondents “outside of its marketplace context.”