

News & Types: Intellectual Property & Technology Update

# Second Circuit Reverses Tiffany & Co.'s \$21 Million Judgment Against Costco Wholesale Corporation

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On August 17, 2020, in *Tiffany & Co. v. Costco Wholesale Corp.*, Case No. 17-2798, the United States Court of Appeals for the Second Circuit vacated Tiffany & Co.'s ("Tiffany") \$21 million judgment against Costco Whole Corporation ("Costco"), stating that Costco had raised a genuine issue of material fact as to its liability for trademark infringement and counterfeiting as a matter of law, and, relatedly, its entitlement to present a fair use defense to a jury.

In 2013, Tiffany initiated a lawsuit against Costco, alleging that Costco's use of the word "Tiffany" to describe the setting styles of certain, unbranded engagement rings that Costco was selling in its stores constituted trademark infringement, dilution, counterfeiting, unfair competition, false and deceptive practices, and false advertising in violation of the Lanham Act and New York law. In response, Costco, among other things, asserted a "fair use" affirmative defense under the Lanham Act, arguing that its use of the term "Tiffany" did not constitute infringement because it was not using the term as a trademark, but only as a description of the setting style used in certain rings, i.e. to indicate that a ring has a Tiffany setting. After the completion of discovery, Tiffany filed a motion for summary judgment, which the district granted in its entirety. After a subsequent jury trial on Tiffany's entitlement to recover profits and statutory damages under the Lanham Act, the district court entered its final judgment and damages award against Costco, totaling approximately \$21 million.

The Second Circuit reversed the decision of the district court. Under the Lanham Act, a defendant may be liable for trademark infringement if its actions are "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of the defendants or services with those of the plaintiff." In determining whether Costco's use of the word "Tiffany" was likely to cause confusion with Tiffany's registered mark, the district court evaluated eight factors: (1) the strength of the trademark; (2) the degree of similarity between the plaintiff's mark and the defendant's allegedly imitative use; (3) the proximity of the products and their competitiveness with each other; (4) the likelihood that the plaintiff will "bridge the gap" by developing a product for sale in the defendant's market; (5) evidence of actual consumer confusion; (6) evidence that the defendant adopted the imitative term in bad faith; (7) the respective quality of the products; and (8) the sophistication of the relevant population of consumers. On appeal, Costco contested the district court's

analysis of three of these factors: whether Costco's customers were actually confused, whether Costco adopted Tiffany's mark in bad faith, and whether the relevant population of consumers was sufficiently sophisticated to avoid confusion.

The Second Circuit held that Costco raised a triable question as to all three factors. With respect to whether Costco's customers were actually confused, the district court held that Costco failed to raise a genuine issue of material fact because, although Costco attacked the evidence presented by Tiffany's expert based on the expert's flawed survey methodology, Costco's criticisms only went to the weight, not the admissibility, of Tiffany's evidence, and Costco did not perform its own survey to affirmatively demonstrate that Costco's customers were *not* confused by Costco's use of the term "Tiffany." The Second Circuit disagreed, stating that the "weight to be given to a particular piece of evidence can be determinative of whether the moving party is entitled to summary judgment or whether a jury could find a material fact favorable to the non-moving party." Taking into consideration Costco's rebuttal of Tiffany's evidence of confusion, the Second Circuit held that Tiffany failed to present sufficiently persuasive evidence to meet its burden on the actual confusion factor.

The Second Circuit held that the district court similarly erred on the issue of whether Costco's consumers were sufficiently sophisticated such that Costco's use of the word "Tiffany" would not create confusion. Again, the district court concluded that Costco failed to raise a triable question on this issue because Costco's attack on the evidence presented by Tiffany's expert went to weight, not admissibility, and Costco did not provide competing affirmative evidence regarding the sophistication of the relevant population of customers. The Second Circuit again emphasized that the weight of a piece of evidence can be determinative as to whether summary judgment is appropriate. Moreover, the Second Circuit noted that Costco had in fact presented affirmative evidence regarding customer sophistication through the declaration of its own expert. A jury could therefore reasonably conclude, by crediting Costco's evidence and rejecting Tiffany's, that the relevant population of customers would be sufficiently attentive and discriminating to recognize that Tiffany had nothing to do with Costco's engagement rings.

The Second Circuit also determined that the district court erred when it determined that no rational finder of fact could conclude that Costco acted in good faith in using the term "Tiffany." In coming to its determination, the district court relied on several pieces of evidence proffered by Tiffany that indicated that Costco wanted its jewelry boxes to have a more "Tiffany or upscale look" and that suggested efforts by Costco to "copy Tiffany's designs by making references to Tiffany's designs and sharing links to Tiffany's website...", among other things. The Second Circuit held that this evidence was insufficient to show bad faith by Costco because a defendant's "intent to copy a product's useful, nonprotected attributes should not be equated automatically with an intent to deceive," and, therefore, Costco's "admitted intent to sell jewelry that *looks like* Tiffany's - as opposed to an intent to have its jewelry pass as Tiffany's - cannot be enough to justify a finding that Costco acted in bad faith in connection with Tiffany's trademark infringement claim." The Second Circuit further observed that the district court had also overlooked substantial evidence presented by Costco that it did not attempt to confuse its consumers in bad faith.

The Second Circuit further ruled that Costco was entitled to present its "fair use" affirmative defense at trial because, among other things, Costco provided extensive evidence showing that the term "Tiffany" is also widely understood to refer to a particular type of pronged diamond setting. Tiffany argued that its "Tiffany"

trademark could not be “bisected” to allow “Tiffany” to be used as a source identifier and as a descriptive term within the same product class, i.e. jewelry, but the Second Circuit expressly rejected Tiffany’s argument, holding that “[t]here is nothing inherently absurd about a single word being both a source identifier *and* a descriptive term within the same product class” and that “the public’s right to use descriptive words or images in good faith in their ordinary descriptive sense must prevail over the exclusivity claims of the trademark owner.”

On appeal, Costco also contested the district court’s determination that Costco’s purported trademark infringement also constituted counterfeiting as a matter of law under the Lanham Act. Having decided that Costco had infringed Tiffany’s trademark, the district had concluded that, because Costco had used a trademark identical to the one that Tiffany had registered and had done so with the intent to confuse consumers as to the source of the rings being sold at Costco, Costco’s use of Tiffany’s trademark was “spurious as a matter of law” and therefore constituted counterfeiting under the Lanham Act. Although the Second Circuit did not provide much insight into the relationship between infringement and counterfeiting claims under Lanham Act, or the whether the district court’s analysis of the counterfeiting claim was correct, the Second Circuit vacated the districting court’s judgment as to the counterfeiting claim (1) on the fact that it was inappropriate for the district court to have held Costco liable for trademark infringement at the summary judgment stage, and (2) on the fact that counterfeiting was “merely an aggravated form of infringement.”

While the legal fight between Tiffany and Costco is likely far from over, the Second Circuit’s recent decision may impact the rights of trademark owners in several ways. First and foremost, a trademark initially used as an indicator of source may also later acquire descriptive meaning in the same industry, and use of the trademarked term in a descriptive sense may be protected under the “fair use” doctrine. In short, once a trademarked term acquires a descriptive meaning in an industry, a party other than the trademark owner may be able to use the mark as long as the use is for a descriptive purpose. Second, at least in the Second Circuit, a trademarked term can be a source indicator and a descriptive term at the same time, in the same industry. Third, an alleged infringer’s intent to copy a product’s useful, unprotected attributes may not be sufficient, at least not at the summary judgment stage, to conclusively show bad faith. Finally, a non-movant may be able to raise a genuine issue of material fact at the summary judgment stage without necessarily presenting any affirmative evidence of its own. As the Second Circuit emphasized in its decision, the weight to be given to evidence presented can be determinative of whether the moving party is entitled to summary judgment or whether a jury could find a material fact favorable to the non-moving party.