



THINK FORWARD

The Wedding is Off: Second Circuit Vacates Summary Judgment in Tiffany Engagement Ring Case

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In a unanimous decision, the U.S. Court of Appeals for the Second Circuit reversed the U.S. District Court for the Southern District of New York's \$21 million dollar judgment against Costco Wholesale Corp. ("Costco") in a trademark infringement and counterfeiting case. The Court of Appeals held the district court erred in finding, on summary judgment, that Costco had violated federal trademark law by using the term "Tiffany" to identify and sell diamond engagement rings with six-pronged settings. The case is styled, *Tiffany & Co. v. Costco Wholesale Corp.*, No. 17-2798-cv, ___ F.3d ___ (2d Cir. Aug. 17, 2020).

Lower Court Ruling

On Valentine's Day in 2013, Tiffany & Co. ("Tiffany") filed suit under federal and state trademark laws, alleging Costco's use of the term "Tiffany" on point-of-sale signs for unbranded diamond engagement rings was an infringement of its rights in the trademark TIFFANY and an attempt to sell counterfeit TIFFANY engagement rings. In response, Costco argued that the term "Tiffany" was "not only a brand name, but also a widely recognized descriptive term for a particular style of pronged ring setting." Costco maintained that its use of "Tiffany" was not confusingly similar to Tiffany's TIFFANY trademark, and that the use qualified as a fair use of the mark because Costco used "Tiffany" to describe a particular style of ring setting.^[1] On summary judgment, the district court held Costco was liable for willful trademark infringement and counterfeiting, and subsequently awarded Tiffany over \$21 million in damages.^[2]

Second Circuit Decision

On appeal, the Second Circuit reviewed the district court's summary judgment ruling *de novo*. As part of its appeal, Costco argued that the district court resolved "several critical facets of the trademark infringement analysis in Tiffany's favor without sufficiently crediting Costco's contrary evidence." The Second Circuit agreed and determined that Costco had raised "question[s] of material fact as to its liability for trademark infringement and counterfeiting," particularly with respect to whether (1) Costco's consumers were actually confused, (2) Costco adopted the TIFFANY trademark in bad faith, and (3) Costco's consumers were sufficiently sophisticated purchasers. The Second Circuit further determined that there was an outstanding question regarding Costco's "entitlement to present its fair use defense to a jury."

In so holding, the Second Circuit concluded that factual questions remained to be resolved concerning Tiffany's evidence of alleged actual consumer confusion in the marketplace. In support of its assertion of actual confusion, Tiffany identified six Costco consumers who averred they were confused by

Costco's point-of-sale signs that included the term "Tiffany" next to diamond engagement rings. Tiffany also submitted an expert report, which posited that out of 600-odd survey respondents considering the purchase of a diamond engagement ring from Costco, "more than two out of five . . . were likely [to be] confused into believing that Tiffany & Co. was the source of the rings" set next to a point-of-sale sign bearing the term "Tiffany." In response, Costco argued the testimony of six "confused" consumers was a *de minimis* showing when contextualized by the "3,349 customers who purchased Tiffany-set rings at Costco during the relevant period." While the district court viewed Tiffany's evidence of actual confusion as "unrebutted," the Second Circuit determined Costco's evidence presented a question regarding "whether potential buyers of Costco's diamond engagement rings were actually confused by the appearance of the word 'Tiffany' on Costco's signs."

Likewise, when assessing Costco's bad faith, the Second Circuit emphasized that the correct "question is whether the defendant attempted to exploit the good will and reputation of a senior user by adopting the mark with the intent to sow confusion between the two companies' products." The Second Circuit was quick to clarify that merely knowing about a senior user's trademark "does not necessarily give rise to an inference of bad faith." In support of Costco's alleged bad faith use of the TIFFANY trademark, Tiffany submitted Costco's emails stating a desire to emulate Tiffany's "upscale look" and efforts to copy Tiffany's ring designs. In response, Costco asserted that its point-of-sale signs used the term "Tiffany" "as a brand-independent description of a particular style of diamond setting." Costco argued its signs were intended to offer consumers the same information provided by Costco's suppliers. The Second Circuit found that "a jury could reasonably draw the conclusion that Costco's interest in emulating Tiffany's designs spilled over into an intent to mislead buyers as to the origins of its own jewelry;" but went on to point out that a jury could just as easily determine that Costco was borrowing "successful features from Tiffany's product without implying that Tiffany actually produced or endorsed the jewelry." The Second Circuit emphasized that an "intent to copy a product's useful, non-protected attributes" does not "automatically" mean "an intent to deceive," and that Costco's admission that it intended to sell Tiffany-esque rings is not enough to determine Costco acted in bad faith. On this basis, the Second Circuit concluded that a reasonable jury could find Costco "did not intend to mislead its customers," but was merely making a "good-faith attempt to communicate to its customers the setting style of certain rings that it sold."

Finally, when considering the sophistication of Tiffany's and Costco's consumers, the Second Circuit cited Costco's "affirmative evidence" tending to show consumer sophistication, which weighs against likelihood of confusion. The Second Circuit pointed to both Tiffany's and Costco's submissions of dueling expert reports as the "principal evidence" of consumer sophistication, as well as its previous recognition of the "discriminating," "carefu[l]," and "deliberat[e]" nature of a "purchaser of a diamond ring, particularly of a[n]...engagement ring."^[3] The Second Circuit found that the district court's conclusion that Costco's evidence spoke only to "the weight that Tiffany's evidence should be accorded" "erroneously shifted Tiffany's [evidentiary] burden onto Costco." The Second Circuit concluded a reasonable jury could accept Costco's evidence of consumer sophistication just as easily as it could accept the evidence provided by Tiffany; therefore, a triable issue remained.

The Second Circuit ultimately held there was a genuine issue of fact as to whether Costco's use of the TIFFANY trademark created a likelihood of confusion, and vacated the district court's ruling. The Second Circuit likewise vacated the district court's judgement that Costco was liable for counterfeiting because the finding was rooted in the district court's determination that Costco was liable for trademark infringement.^[4] The Second Circuit further held that a triable question regarding Costco's defense of fair use remained, reasoning that "[t]here is nothing inherently absurd about a single word's being both a source identifier and a descriptive term within the same product class."

Lessons Learned

In clear-cut cases, a motion for summary judgment can secure a relatively prompt and efficient resolution of a dispute. On the other hand, many cases are not appropriate for disposition by way of summary judgment. For example, if a case is not free from doubt, or if it has a number of factual issues in dispute, it may not be susceptible to summary judgment. The *Tiffany v. Costco* case illustrates that it is not advisable to file a motion for summary judgment where there are several genuine issues of

material fact to be resolved. If the motion for summary judgment is denied at the district court level, or if the Court of Appeals reverses the grant of summary judgment on appeal, proceedings must be resumed and the parties must go through trial and perhaps another appeal. This path prolongs the case and causes inefficiency and increased cost associated with the proceeding. As such, parties should be selective in deciding which cases are well suited for possible disposition on summary judgment.

[1] Costco and the Second Circuit both agreed that a “Tiffany-setting” refers to a six-pronged diamond solitaire ring setting.

[2] The jury awarded Tiffany \$3.7 million in profits, which the district court trebled, and \$8.25 million in punitive damages. The district court’s trebling of Costco’s profits and addition of prejudgment interest resulted in an award of \$21,010,438.35.

[3] *J.R. Wood & Sons, Inc. v. Reese Jewelry Corp.*, 278 F.2d 157, 159 (2d Cir. 1960).

[4] In vacating the district court’s judgment of counterfeiting, the Second Circuit observed “that it is likely inappropriate to impose liability for trademark counterfeiting when a defendant is able to establish...it used a term identical to the registered mark otherwise than as a mark.” The Second Circuit emphasized that “[i]n order to qualify as ‘counterfeit’...it must be a spurious mark.”