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Legal experts react to appeal court's \$21 million damages decision in Tiffany v Costco

- Appeals court overturns \$21 million damages decision in *Tiffany v Costco*
- Tiffany senior VP hits out at decision but legal experts concur with court
- Brand owners urged to pay clear attention to how marks are used in the market

This week the [US Second Circuit Court of Appeals](#) overturned a \$21 million damages judgment against Costco. The decision highlights the importance of controlling a trademark's use in the marketplace, with one legal expert warning: "Don't take an overly formalistic view of your rights merely by dint of a trademark registration."

Tiffany had been awarded the sum after a summary judgment in a case that stems back to 2013. Tiffany [originally filed suit](#) after Costco began advertising for sale engagement rings, none of which were manufactured or licensed by Tiffany, next to signs advertising them as platinum 'Tiffany' rings. Tiffany claimed that this was an infringement on its TIFFANY trademark, while Costco argued that it was using the word to refer to a popular style of pronged diamond settings that was not exclusive to Tiffany rings. The question of whether the term 'Tiffany' had become descriptive to this extent was then sent to the courts.

The US District Court for the Southern District of New York granted a [summary judgment](#) which found Costco liable for trademark infringement. The following two-week jury trial returned a verdict awarding \$5.5 million in damages. [Consequent decisions](#) by the district court increased the damages awarded to \$21,010,438. Costco appealed on three factors – namely:

- whether Costco customers were actually confused by its use of 'Tiffany';
- whether Costco adopted the TIFFANY mark in bad faith; and
- whether the relevant population of consumers were sufficiently sophisticated to avoid confusion.

This week the appeals court [decided](#) that, on all three factors, a reasonable jury could conclude in Costco's favour. The court then considered Costco's arguments for fair use of the word 'Tiffany'. Here, the court decided that Costco had not used the word as a trademark and instead had demonstrably used it "in the exact same manner that it displayed setting information for other engagement rings". It then held that Costco had used the term descriptively. Importantly, it found that 'Tiffany' could be both a source identifier and a descriptive term within the same product class.

[Leigh Harlan](#), Tiffany senior vice president, secretary and general counsel, said: "We are disappointed in the court's ruling, which finds that a jury, rather than the judge, should have decided the question of liability in the first trial. We continue to believe that the district court was correct in its findings, and that the jury's finding on damages, which resulted in a \$21 million award for Tiffany & Co, is a clear indicator of the strength of the Tiffany brand, and of the jury's outrage over Costco's actions." She added that Tiffany has "no qualms" about trying the case again.

However, [Julia Anne Matheson](#), partner at Potomac, states: "I think the Second Circuit's decision to vacate the opinion was the right result. This was not a case that was appropriate for summary resolution." She also notes her surprise at the original decision, which was "seemingly inconsistent with the huge quantity of evidence on both sides", as well as raising the question of why the district court "had the jury decide on damages not liability" given that "damages in the trademark context are largely equitable".

Concurring with Matheson, Haynes and Boone associate [Joseph Lawlor](#) says: "The ruling is a helpful reminder to practitioners and litigants that these issues can be factually intensive, and not subject to summary judgment in certain circumstances."

The court's conclusion about descriptive use is an important lesson for brands, continues Lawlor: "Don't take an overly formalistic view of your rights merely by dint of a trademark registration, because the real test of infringement requires a comparison of trademark use in the marketplace and the impact of that use on consumers." He adds that the focus on the marketplace is a crucial factor that works both ways. For instance, in other cases where a defendant is not using the exact term in a different industry, "the overall impression of the defendant's marketing could nonetheless cause consumer confusion".

Another lesson from the dispute, for Matheson, centres on how brand owners control and manage the use of a brand. "Over many years, Tiffany allowed its brand to be widely used by the industry to identify a type of setting rather than solely a brand for its jewellery," she says. Noting how social media has affected the evidence of the case, she adds: "The growing informality of communication increases exponentially the risk of trademark misuse and intensifies the burden on trademark owners to actively police both their own communications and the larger marketplace."

In such cases of word marks being used descriptively, she concludes: "Google is a trademark unicorn... The fact that the Google brand endures despite widespread marketplace misuse and daily variation in its logo is an anomaly arising out of the unique position Google occupies in the marketplace. The rules on proper trademark use continue to apply and the role that proper use plays in consumer perception is undeniable."

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