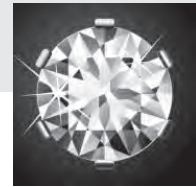




These Diamonds Were Not Forever – Tiffany is Awarded Over \$19 Million in Trademark Infringement Suit Against Costco

By David Roy Ellis



Recently, a federal judge in New York awarded the luxury jeweler Tiffany & Co. over \$19 million in damages from the big box retailer Costco Wholesale Corp. for illegally selling counterfeit diamond engagement rings bearing the Tiffany name.

The judge, Laura Taylor Swain, ruled that Tiffany was entitled to \$11 million, representing three times Costco’s profits from selling counterfeit rings, plus \$8.25 million in punitive damages awarded by a jury in 2016. The judge also enjoined Costco from selling Tiffany branded products not made by Tiffany, unless it made clear that they were in a Tiffany “setting,” “set” or “style.”

Tiffany sued Costco on Valentine’s Day in 2013, and the court ruled in Tiffany’s favor more than two years later. 127 F.Supp.3d 241 (SDNY 2015). According to the judge, Costco sold counterfeit diamond engagement rings bearing the Tiffany name and confused relevant consumers by using the word “Tiffany” in display case signage. The judge rejected Costco’s fair use defense in which it argued that it was using the term in good faith because it had not actually adopted the Tiffany

mark but simply used the term as a generic description of a type of pronged diamond setting for the rings it sold.

Tiffany is the owner of almost 100 trademark registrations for “Tiffany” in the United States, first using the name a century and a half ago. Its complaint included claims for trademark infringement, dilution, counterfeiting, unfair competition, injury to business reputation, false and deceptive business practices, and false advertising under Federal and New York state law. Costco counterclaimed, seeking a declaratory judgment that Tiffany’s federal trademark registrations are invalid because they aim to exclude others from using the term “Tiffany” generically to describe a distinctive type of ring setting.

According to the judge, in order to succeed on its claim of trademark infringement, Tiffany needed to demonstrate that it owned a legally protectable trademark, and that Costco’s use of Tiffany’s mark was likely to cause consumer confusion. Costco did not challenge the validity of Tiffany’s trademarks except to argue that the term “Tiffany” had become generic in the

context of a specific style of pronged ring setting.

As to the issue of likelihood of confusion, the judge said that courts in the federal Second Circuit adhere to a set of factors first articulated in a case involving Polaroid Corporation. These Polaroid factors include the strength of the plaintiff’s mark; the degree of similarity between the plaintiff’s and defendant’s marks; the proximity of the products or services in the marketplace; evidence of actual confusion; the defendant’s good faith in adopting its own mark; the quality of the defendant’s product; and the sophistication of the relevant population of consumers.

As for the first factor, the judge found Tiffany’s trademark very strong, quoting an earlier case attesting to Tiffany’s fame: “Over its 170-year history, Tiffany has achieved great renown as a purveyor of high quality and luxury goods under the Tiffany marks, including jewelry, watches, and home items such as china, crystal, and clocks. The Tiffany marks are indisputably famous, and are a valuable asset owned by Tiffany.”

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As for the similarity of the marks, the judge found them identical. With regard to the proximity of the products, the judge said this factor focuses on whether the two products compete with each other, in which case similar names are more likely to cause confusion. Here, the products were clearly in competition with each other, and were nearly identical in their “content.”

In support of the fourth factor, actual customer confusion, Tiffany had submitted depositions from six customers alleging that they were confused by Costco’s signage. Tiffany also submitted the results of a consumer confusion survey conducted by its expert, who found that a significant number of prospective purchasers of diamond engagement rings at Costco had likely been confused into believing that Tiffany was the source of the rings.

For the fifth factor, whether Costco had acted in good faith, the judge considered whether Costco adopted its mark with the intention of capitalizing on Tiffany’s reputation and goodwill, thereby deceiving purchasers as to the source of the goods. The judge rejected Costco’s argument that it had not adopted the Tiffany mark at all, but simply used the generic term “Tiffany” to describe a particular type of pronged diamond setting on the unbranded rings that it sold.

The sixth factor, the quality of the defendant’s product, is primarily concerned with whether the plaintiff’s

reputation could be jeopardized by the fact that the defendant’s product is of inferior quality. Tiffany had submitted evidence that it maintained comprehensive standards and specifications for diamond quality and jewelry manufacturing, as contrasted with Costco’s substandard products and quality control. This demonstrated the superior quality of Tiffany products and the likelihood that Tiffany’s reputation could be compromised by Costco’s sale of inferior rings under the Tiffany mark.

Regarding the seventh factor, the sophistication of the relevant consumer population, the judge said she had to decide whether ordinary prudent purchasers would likely be misled or confused as to the source of the product in question because of the defendant’s conduct. The more sophisticated the purchaser and the greater the value of the product, the less likely he or she will be confused. The judge said that Tiffany’s survey evidence showing that actual ring buyers were confused by Costco’s signage supported its arguments here.

The judge went on to reject Costco’s fair use defense based on her finding that Costco had failed to establish that it acted in good faith when it adopted the Tiffany mark. She also dismissed Costco’s claim that the Tiffany mark as applied to the relevant goods was generic, finding that a high percentage of the relevant public considered “Tiffany” to be a strong brand name and that its primary significance to consumers was as a source identifier of

Tiffany, not merely a generic descriptive term for its products.

The judge concluded by ruling that Costco was liable for trademark infringement and dilution and that Tiffany was entitled to an accounting for profits, damages, and a jury trial. A year later, the jury awarded Tiffany \$5.5 million in damages, plus an additional \$8.25 million in punitive damages. The judge later reduced the damage award to \$3.7 million based on Costco’s actual profits, but tripled that to \$11.1 million due to Costco’s willful infringement. She then added in the punitive damages, awarding Tiffany a total amount of \$19.4 million.

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