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Trials & TRIBULATIONS

Luxury versus a wholesale giant— Costco's 20 million dollar mistake

The saga between Tiffany and Co., the luxury manufacturer and retailer of jewelry and other goods, and Costco, the wholesale giant, began in November 2012 when a Costco customer informed Tiffany that she was disappointed to see that Costco was selling Tiffany diamond engagement rings.

After investigating this complaint, Tiffany discovered that the particular Costco store about which the customer complained was actually promoting the sale of "Tiffany" rings through signage in its display cases. It found that diamond engagement rings were being displayed next to signs describing them as "Tiffany" as a standalone term, without using the word "setting" or "style" after it.

In addition, the investigation uncovered that a Costco salesperson referred to the rings as "Tiffany" rings. Interestingly, Tiffany learned that Costco was not utilizing the term "Tiffany" in connection with the sale of engagement rings through its website, preventing Tiffany from actually discovering the misuse of its trademark unless Tiffany was informed, as it was, by someone who actually visited the store.

Tiffany owns 97 trademarks, including a trademark for the term "Tiffany," which provides protection for "decorative art objects made in whole or in part of precious or semi-precious metals ... [including] jewelry." Tiffany also owns a trademark for the "stylized mark 'Tiffany,'" which also relates to jewelry. Both of the trademarks are longstanding, having been used in commerce since 1868. In order to protect its brand, Tiffany only sells its merchandise at its own retail stores and through its website.



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After learning of Costco's marketing tactic, Tiffany commenced an action against Costco in February 2013 in which it alleged eight causes of action, including claims under the Lanham Act for trademark infringement and counterfeiting, as well as similar claims under New York law. In addition, Tiffany alleged punitive damages under both federal and state law. Finally, Tiffany sought a permanent injunction prohibiting Costco's future use of any Tiffany trademark.

In response, Costco asserted a counterclaim against Tiffany for a declaratory judgment that Tiffany's federal trademarks related to the word "Tiffany" are not valid because they effectively prevent the use of the word "Tiffany" to identify a generic type of ring setting that is standard in the jewelry industry. Costco sought to alter Tiffany's trademarks to provide that the word "Tiffany" describes a generic type of pronged ring setting, and a determination that its use of the word "Tiffany" never infringed on Tiffany's trademarks because the term "Tiffany" had become generic.

In early 2015, the parties cross-moved for summary judgment, with Tiffany seeking judgment on its claims for trademark infringement and counterfeiting and seeking to dismiss Costco's counterclaim regarding the purported generic nature of the term "Tiffa-

ny." Costco sought judgment in its favor on several grounds, including but not limited to striking Tiffany's punitive damages claim and demand for a jury trial.

The standard for establishing trademark infringement under the Lanham Act is twofold: A plaintiff is required to demonstrate that it holds a valid trademark and defendant's use of the mark is likely to cause customer confusion. Tiffany met the first prong of the test easily because it possesses registered trademarks.

In order to satisfy the second prong to prove infringement, Tiffany provided side-by-side photographs of Tiffany and Costco rings, which demonstrated the similar appearance of the rings. In addition, Tiffany submitted an email from a Costco employee indicating that Costco's jewelry boxes should "have a more 'Tiffany' or upscale look." Tiffany also provided deposition testimony from several Costco customers who purchased the rings at issue and who testified that they believed they had purchased Tiffany rings.

In its defense, Costco claimed that it simply took the word "Tiffany" off of the vendor-supplier forms and used that for the signage displayed with the rings, and, therefore, it was only a descriptive term. It also claimed that it used the word "Tiffany" to describe a particular type of ring setting sold at its store. Despite Costco's efforts, the court granted summary judgment on Tiffany's trademark infringement claim.

Furthermore, the court found in Tiffany's favor on its claim for counterfeiting under the

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Lanham Act, which defines a counterfeited mark as a “spurious mark which is identical with, or substantially indistinguishable from, a registered mark.” Tiffany demonstrated that the signs near the rings reading “Tiffany” were displayed in the same manner as the manufacturer’s names for other luxury Costco merchandise. Costco unsuccessfully argued that the rings did not bear any type of Tiffany markings on the inside, they were not packaged in Tiffany boxes and did not come with Tiffany authenticating documents.

In addition to granting Tiffany’s motion for summary judgment on its Lanham Act trademark infringement and counterfeiting claims, while the Lanham Act does not provide for punitive damages, the court found that Tiffany had established that Costco’s actions were “gross, wanton or willful,” thus entitling Tiffany to punitive damages under New York law. The court ordered a jury trial on damages.

Damages under the Lanham Act are steep, providing that a party who has established a willful violation of the act is entitled to recover defendant’s profits, any damages sustained by the plaintiff and the cost of the action. In addition, where a party has established counterfeiting of its mark, it is entitled to three times defendant’s profits or damages, and at-

torneys’ fees.

A jury trial was held in the fall of 2016, wherein the jury determined that Costco’s profits from the sale of the rings was \$3.7 million, but believed this award insufficient to compensate Tiffany, so it awarded \$5.5 million for profits. The jury also awarded \$2 million in statutory damages and \$8.25 million in punitive damages.

After the trial, the court made its own findings of fact regarding the issues addressed by the jury to determine the propriety of the damages awarded. The court found that Costco established that a “Tiffany setting” is a generic type of pronged setting used in the jewelry industry. It also found that Costco used signage displaying just the word “Tiffany,” and used signage saying “Tiffany setting” and “Tiffany style” to describe its displayed rings. In relation to this issue, the court determined that Tiffany could recover profits related to rings sold where the standalone term “Tiffany” was used in the signage, as well as where the word “set” was on a different line than the word “Tiffany.” Finally, the court determined that the signage used by Costco was an intentional marketing ploy.

In the end, the court reduced the jury’s finding with respect to Costco’s profits to \$3.7 million. However, the court also held

that Tiffany was entitled to three times the \$3.7 million in profits (\$11.1 million) under the Lanham Act if it chose not to recover the \$2 million in statutory damages. Finally, the court agreed that \$8.25 million in punitive damages was appropriate.

There are several lessons to be gleaned from this litigation. First, if you are a defendant in litigation involving claims for counterfeiting under the Lanham Act, it is very important to be aware that a plaintiff is entitled to three times any profits it establishes a defendant earned through the misuse of a plaintiff’s mark. As is demonstrated by this case, these treble damages can be staggering. In addition, to the extent a plaintiff asserts a claim for punitive damages, while they are not recoverable under federal law, a plaintiff can make a claim for them under state law.

Finally, from a merchandiser’s perspective, it is imperative to pay careful attention to the signage describing your goods and the advertising of your merchandise. Clearly, running afoul of an established trademark can be a costly mistake.

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