

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Second Circuit Decides Two Counterfeiting Cases

The Lanham Act protects trademarks by providing mark holders with remedies for the unauthorized use of registered marks and by providing heightened statutory penalties in cases involving counterfeit marks. Recently, in *Tiffany and Co. v. Costco Wholesale*, 971 F.3d 74 (2d Cir. 2020), the U.S. Court of Appeals for the Second Circuit provided guidance as to the circumstances that may give rise to liability for counterfeiting, as distinct from mere infringement. And in *Omega SA v. 375 Canal*, 984 F.3d 244 (2d Cir. 2021), the Second Circuit addressed liability for contributory infringement for counterfeiting. We report here on these cases.

The Lanham Act

The Lanham Act provides trademark holders with remedies for the unauthorized use of any “reproduction, counterfeit, copy, or colorable



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imitation of a registered mark in connection with” the sale or offer for sale “of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. §1114(a).

Under the Lanham Act, a counterfeit mark is “is a spurious designation that is identical with, or substantially indistinguishable from,” a registered mark. *Id.* §§1116(d)(1)(B)(ii), 1127. The act provides heightened statutory penalties for counterfeiting. Instead of the profits and damages available for infringement under §1117(a), in counterfeiting cases a mark holder may elect to recover, “an award of statutory damages ... not less than \$1,000 or more than \$200,000 per counterfeit mark per type of goods

or services sold, offered for sale, or distributed.” *Id.* §1117(c)(1).

Whichever category of damages the mark holder elects, the act also provides additional penalties for willful infringement. If a mark holder elects to recover profits and damages, upon a finding that a defendant “intentionally us[ed] a mark or designation, knowing that such

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mark or designation is a counterfeit mark,” “the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever amount is greater, together with a reasonable attorney’s fee.” *Id.* §1117(b). If the mark holder elects to pursue statutory damages, the act provides that for willful infringement a court may award “not more than \$2,000,000 per counterfeit mark per type of goods or services sold,

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offered for sale, or distributed, as the court considers just.” Id. §1117(c) (2).

‘Tiffany v. Costco’

Tiffany produces jewelry, notably including engagement rings, and owns trademarks related to the company name, including registrations for the use of “Tiffany.” *Tiffany*, 971 F.3d at 81. In the late nineteenth century, Tiffany developed and sold an engagement ring incorporating a six-prong diamond setting. Id. Since then, diamond settings reminiscent of that style have been referred to as “Tiffany settings.” Id. Costco operates a chain of membership-only warehouse stores. Costco sold otherwise-unbranded diamond engagement rings, each of which was identified by small point-of-sale signs containing the word “Tiffany,” “Tiffany setting,” “Tiffany set,” or “Tiffany style” and providing other information about each ring. Id.

Tiffany sued, alleging that Costco was liable for, among other causes of action, trademark infringement and counterfeiting in violation of the Lanham Act for the use of “Tiffany” (without “setting,” “style,” or “set”). Id. at 82. The district court granted Tiffany’s motion for summary judgment, “concluding that Costco had failed to raise a genuine issue of material fact as to any of the factors relevant to the infringement analysis, that Costco’s fair use defense failed as a matter of law, and that Costco’s infringement constituted counterfeiting as a matter of law.” Id. at 82–83.

The district court then held a jury trial to determine Tiffany’s entitle-

ment to statutory damages under 15 U.S.C. §1117. The jury awarded Tiffany \$3.7 million of Costco’s profits pursuant to §1117(a), an additional \$1.8 million on the grounds that the award of profits was inadequate, and \$8.25 million in punitive damages for Tiffany’s claims under New York law. Id. at 83. The district court revised the award and awarded Tiffany trebled profits of \$11.1 million, for a total of approximately \$21 million

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including prejudgment interest and punitive damages. Id.

On appeal, Costco argued that the district court “resolv[ed] several critical facets of the trademark infringement analysis in Tiffany’s favor without sufficiently crediting Costco’s contrary evidence” and improperly rejected Costco’s fair use defense. Id.

The Second Circuit agreed, holding that Costco had raised factual disputes as to certain prongs of the infringement inquiry and certain fair use factors. Id. at 86–95. As to Tiffany’s counterfeiting claim, the court concluded that because “it was inappropriate to hold Costco liable for trademark *infringement* at the summary judgment stage—and because counterfeiting is merely an aggravated form of infringement—

we vacate the district court’s judgment as to counterfeiting as well.” Id. at 95. Notably, the court also affirmed the district court’s denial of Costco’s motion for summary judgment as to counterfeiting, but explained that because Costco did not actually use “Tiffany” as a mark or to suggest the origin of the rings, liability for counterfeiting was likely not appropriate:

We cannot conclude on the record here that no reasonable jury could find in favor of Tiffany on the counterfeiting claim.... We do note that it is likely inappropriate to impose liability for trademark counterfeiting when a defendant is able to establish ... that it used a term identical to the registered mark otherwise than as a mark. In order for material to qualify as “counterfeit” under the Lanham Act, it must be a “spurious mark.” A “spurious” mark, in turn, is one that is “fake” and “[d]eceptively suggest[s] an erroneous origin.” We fail to see how a term can be a “fake” mark if it is not actually *used* as a mark, or how a term can “deceptively suggest an erroneous origin” if it is not used as a means to indicate origin in the first place.

Id. at 95 n.18 (citations omitted). The Second Circuit thus remanded the case for trial. Id. at 96.

‘Omega v. 375 Canal’

Canal, a landlord, owns the property located at 375 Canal Street in Manhattan. *Omega*, 984 F.3d at 248. The property has a history of litigation involving counterfeiting and

trademark violations, including suits by the City of New York and a suit by Louis Vuitton Malletier. *Id.* Following multiple sales of counterfeit Omega watches at the property, including during a police sting and to an Omega private investigator, Omega sued Canal in New York federal court for contributory trademark infringement, alleging that Canal “continued to lease space at 375 Canal Street despite knowing that vendors at the property were selling counterfeit Omega goods.” *Id.* at 249.

At trial, the court instructed the jury that to prove contributory infringement “Omega would need to show that Canal ‘continue[d] to supply its services’ even though it ‘either knew or had reason to know that a tenant, subtenant or other occupant of its premises was selling, offering for sale, or distributing products bearing counterfeits of Omega’s trademarks.’” *Id.* at 250. The district court further instructed the jury that the scienter requirement could be satisfied by willful blindness, which, according to the court’s instructions, means that “Canal or its agents had reason to suspect that trademark infringing merchandise was being offered or sold but deliberately failed to investigate or looked the other way to avoid seeing such activity.” *Id.*

The jury found that Canal had contributorily infringed four of Omega’s trademarks, and had done so willfully. *Id.* The jury awarded \$275,000 in statutory damages for each infringed mark, and the district court permanently enjoined Canal from infringing or facilitating the infringement of Omega’s marks. *Id.*

Canal appealed, arguing that the district court erroneously instructed the jury that Omega was not required to “demonstrate that Canal continued to lease space to a specific, identified vendor who Canal knew or should have known was infringing Omega’s trademarks.” *Id.*

The Second Circuit affirmed, holding that the district court properly instructed the jury as to willful blindness and that its decision in *Tiffany (NJ) v. eBay*, 600 F.3d 93 (2d Cir. 2010), precluded Canal’s willful-blindness arguments. *Omega*, 984 F.3d at 248. There, the Second Circuit affirmed a bench trial verdict that eBay had not contributorily infringed Tiffany’s trademarks where eBay promptly removed listings that it identified as selling counterfeit Tiffany products and worked to identify and remove such listings proactively but was unable to eliminate all such listings. *Id.* at 254. Under *Tiffany v. eBay*, the court explained, “a defendant may be held liable for contributory trademark infringement despite not knowing the identity of a specific vendor who was selling counterfeit goods, as long as the lack of knowledge was due to willful blindness.” *Id.*

In so holding, the Second Circuit rejected Canal’s argument that “the verdict below portends widespread liability even for innocent actors,” explaining that while there “is no inherent duty to look for infringement by others on one’s property,” one’s conduct in response to actual or constructive notice of possible infringement can be significant:

[W]here a defendant knows or should know of infringement, whether that defendant may be liable for contributory infringement depends on what the defendant does next. If it undertakes bona fide efforts to root out infringement, such as eBay did in *Tiffany*, that will support a verdict finding no liability, even if the defendant was not fully successful in stopping infringement. But if the defendant decides to take no or little action, it will support a verdict finding liability.

Id. at 255. The court concluded that “[t]he jury, properly instructed, reasonably found that the latter scenario occurred here.” *Id.*