

To: Our Clients and Friends

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Tiffany Blue: eBay Not Liable For Sale of Counterfeit Goods

In *Tiffany Inc. v. eBay Inc.*, 08-3947-cv (April 1, 2010), the United States Court of Appeals for the Second Circuit affirmed the trial court's ruling that eBay had neither directly nor contributorily infringed Tiffany's trademark rights through the sale of counterfeit Tiffany merchandise on eBay's site. The court remanded, however, Tiffany's false advertising claim, since the trial court had not adequately considered whether eBay's advertising of Tiffany's products was likely to mislead consumers insofar as not all of the Tiffany products sold on eBay's site were genuine.

Tiffany brought suit against eBay in New York in late 2004. Tiffany identified widespread sales of counterfeit Tiffany merchandise, upwards of \$4.1 million in four years, through the eBay auction site. In its complaint, Tiffany alleged direct and contributory trademark infringement, dilution, and false advertising. Following a bench trial, the court found in favor of eBay on all claims.

On appeal, the Second Circuit initially emphasized eBay's efforts to combat the sale of counterfeit merchandise. Specifically, eBay spent "as much as \$20 million each year on tools to promote trust and safety," hired thousands of employees devoted to trust and safety to monitor the site, and "implemented a 'fraud engine'...principally dedicated to ferreting out illegal listings, including counterfeit listings." *Tiffany* at *9.

The court readily found that eBay's use of Tiffany's marks to promote eBay did not directly infringe Tiffany's rights. According to the court, "eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. And none of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website." *Id.* at *19. The court held that "[t]o impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods." *Id.* at *20.

The court further held that eBay did not contributorily infringe Tiffany's rights. Applying the test set forth by the US Supreme Court in *Inwood Labs., Inc. v. Ives Labs, Inc.*, the Second Circuit held that "a service provider must have more than a general knowledge or reason to know that its service is being

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used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary." *Id.* at *29. It found support for its reading of *Inwood* in the Supreme Court's subsequent copyright case interpreting contributory infringement, *Sony Corp. v. Universal City Studios*, in which the Court in dicta had referred to the *Inwood* test as requiring knowledge of "identified individuals." In this case, Tiffany "failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods." *Id.* at *32.

Regarding Tiffany's claim of willful blindness, the court found that eBay had "a strong incentive to minimize the counterfeit goods sold on [its website]." *Id.* at *33. While eBay acknowledged that "it knew as a general matter that counterfeit Tiffany products were listed and sold. . . . eBay did not ignore the information it was given about counterfeit sales on its website." *Id.* at *35. The court viewed eBay's efforts as far exceeding those of others in other contexts who had been found willfully blind and hence liable.

The court summarily rejected Tiffany's dilution claim. The court held that there was no dilution because eBay "never used the Tiffany marks in an effort to create an association with its own product." *Id.* at *38. To the extent the counterfeiting could dilute Tiffany's marks, the court observed that "insofar as eBay did not itself sell the goods at issue, it did not itself engage in dilution." *Id.*

The Second Circuit reversed and remanded the trial court only with respect to Tiffany's false advertising claim. It found actionable "an advertisement that implies that all of the goods offered on a defendant's site genuine when in fact, ... a sizeable proportion of them are not." *Id.* at *44. Thus, it remanded to the trial court consideration of whether eBay's advertising, while not literally false, misled consumers "insofar as they implied the genuineness of Tiffany goods on eBay's site." *Id.* at *43. The court also noted, however, that a disclaimer might suffice to avoid eBay's future liability for false advertising.

As the Second Circuit noted, its decision represents the latest in a series of decisions by courts in different countries on eBay's potential liability for the sale of counterfeit merchandise on its site. To the extent that these decisions are inconsistent with one another, that will continue to generate litigation over the issue.

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