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Tiffany V. eBay: Trademark Owners Beware

Wednesday, Jul 16, 2008 --- In the landmark case of Tiffany (NJ) Inc. and Tiffany and Company v. eBay Inc., No. 04 Civ. 4607 (July 14, 2008), the Southern District of New York ruled in favor of the popular online auction site eBay in an action brought by Tiffany's for trademark infringement and related claims concerning the sale of counterfeit TIFFANY jewelry on eBay's website.

Most notably, the Court held that the auction site could not be held liable for contributory infringement because although it had generalized knowledge that some of the TIFFANY jewelry sold on its website was counterfeit, it did not have specific knowledge of any individual auction selling counterfeit TIFFANY jewelry.

Because eBay took affirmative steps to stop the auction of counterfeit products when it had specific knowledge of the infringement and took other steps to prevent the sale of counterfeit TIFFANY items on its website (including use of a "fraud engine" which searched for terms in auction listings like "knock-off" and "replica", and where appropriate, removed these listings), the Court also held that eBay was not liable on a theory of being willfully blind to the infringement.

eBay's Proactive Measures To Prevent The Sale Of Counterfeit TIFFANY Jewelry

No one can question, and the Court certainly made clear, that eBay took significant steps to reduce the sale of counterfeit TIFFANY jewelry on its website. In addition to the steps discussed above, namely:

- (1) eBay's policy of promptly terminating an auction after receiving notice from the trademark owner of a good faith belief that goods being sold through the particular auction were counterfeit; and
- (2) eBay's "fraud engine," eBay also encouraged trademark owners to create an "About Me" webpage on eBay to inform users about the owner's "products, intellectual property rights and legal positions."

Indeed, Tiffany's "About Me" page indicated that "most of" the TIFFANY jewelry on eBay is counterfeit and warned that Tiffany "rigorously" protects its intellectual property rights.

eBay's Promotion Of The Sale Of "TIFFANY" Jewelry And Assistance To Sellers

Although eBay took active steps to prevent the sale of counterfeits on its website, since eBay's profits are dependent on auction listings and completed sales, eBay "works closely" with sellers to increase sales.

In addition to "general" assistance initiatives, such as seminars and workshops about growing one's auction business, eBay engaged in other activities specifically designed to encourage and increase the sale of TIFFANY items on its website, including:

- (1) actively advertising the availability of TIFFANY merchandise on its website and in various publications;

(2) purchasing, directly or indirectly, sponsored link advertisements for TIFFANY on major search engines such that when a user typed in the word “TIFFANY” on the search engine, the results page would include an advertisement for the sale of TIFFANY merchandise and a link to the relevant page of eBay’s website; and

(3) encouraging sellers to auction TIFFANY items by, for example, advising them that TIFFANY was a keyword frequently used by perspective purchasers in searching eBay’s website, and providing sellers with a “Holiday Hot List” of anticipated “big sellers,” including TIFFANY jewelry.

Highlights Of The Court’s Opinion

No Direct Infringement Despite eBay’s Promotion Of TIFFANY Items On Its Website And eBay’s Activities To Encourage Sellers To Sell TIFFANY Items

Although Tiffany argued that eBay was liable for trademark infringement because it advertised the availability of TIFFANY items on its website and other publications, and purchased sponsored links on search engines using “TIFFANY” as a keyword, the Court found that these uses were protected under the nominative fair use doctrine.

This doctrine allows a user to accurately describe a branded product by name, so long as the user does not create confusion by implying an affiliation with the owner. The doctrine provides an important limitation on trademark owners rights, since otherwise, as a practical matter, individuals could not resell authentic goods.

The Court found that eBay’s use of “TIFFANY” satisfied the elements of the nominative fair use defense for the following reasons:

(1) TIFFANY jewelry is not readily identifiable without the use of the word “TIFFANY”;

(2) eBay used only so much of the mark as reasonably necessary to identify TIFFANY jewelry. It did not, for example, use Tiffany’s distinctive lettering or coloring; and

(3) eBay did not do anything that would suggest sponsorship or endorsement by Tiffany. The Court based its conclusion regarding this final element on the fact that there was scant evidence of actual confusion (indeed, the evidence showed a lack of actual confusion, since three of Tiffany’s consumer witnesses testified that they chose to buy TIFFANY jewelry on eBay because they hoped to buy the jewelry for less than it would cost at a Tiffany store), and the fact that Tiffany’s “About Me” page acted as a disclaimer of association with eBay.

Although, as noted above, the Court found that eBay’s use of “TIFFANY” in connection with sponsored links was protected under the fair use doctrine, in dicta, the Court distinguished a Second Circuit case, *1-800 Contacts Inc. v. Whenu.com Inc.*, 414 F.3d 400 (2d Cir. 2005) in which the Court held that defendant’s purchase of a trademark keyword on software, which would trigger a pop-up advertisement to appear on the user’s website when the user typed in the keyword, did not constitute “use” of the mark in commerce, and was therefore, not actionable under the Lanham Act.

In *1-800 Contacts*, the use of the keyword was purely internal - meaning the user did not know that use of the keyword would trigger the pop-up ad. In the instant case, on the other hand, as a result of eBay’s keyword purchase, when a user typed in “TIFFANY” on a search engine, the results page would show a sponsored link that said, for example, “TIFFANY for sale.”

However, the Court shied away from affirmatively stating that eBay’s use of “TIFFANY” as a keyword constituted “use”

of the mark in commerce.

The Court found that the nominative fair use doctrine also protected eBay's use of "TIFFANY" in connection with its communications to sellers advising them of the popularity of TIFFANY jewelry.

No Contributory Infringement Despite eBay's Generalized Knowledge Of Counterfeiting

As noted above, the Court found that eBay was not liable for contributory infringement since it only had a generalized knowledge that some counterfeit TIFFANY items were being sold on its website, and when it obtained specific information about counterfeit TIFFANY jewelry on its website, it terminated the relevant auction.

Essential to the Court's finding on the contributory infringement issue was its determination that the correct standard for contributory infringement is the standard articulated by the Supreme Court in *Inwood Laboratories Inc. v. Ives Laboratories Inc.*, 546 U.S. 844 (1982), i.e., whether a defendant "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."

The Court specifically rejected the less stringent standard urged by Tiffany and espoused by the Restatement (Third) of Unfair Competition Sec. 27 (1995), which finds contributory infringement where "the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated."

While eBay may have been held liable under the Restatement view since eBay arguably could "reasonably anticipate" that counterfeit TIFFANY jewelry would be sold on its website, particularly given the high number of reported incidents, under *Inwood*, eBay was not liable, since it did not know, nor have reason to know of a particular infringer unless advised by the trademark owner.

It is important to note that although the Court found for eBay on the contributory infringement issue, it held for Tiffany on many elements of the claim. For example, although the *Inwood* Court found contributory infringement liability based on continued sale of a product to a primary infringer, the eBay Court expanded the holding to include instances, like the case at bar, in which the defendant provides a service rather than a product.

This expansion was supported by other cases, such as *Hard Rock Café Licensing Corporation v. Concession Services Inc.*, 955 F.2d 1143 (7th Cir. 1992) involving the operator of a flea market where counterfeit goods were sold and *Fonavisa Inc. v. Cherry Auction Inc.*, 76 F.3d 259 (9th Cir. 1996), involving the operator of a swap meet where counterfeit goods were sold.

The Court also found that eBay exercises sufficient control and monitoring over its website to be analogous to the operator of the flea market in *Hard Rock Café*, which, among others things, charged an admission fee to consumers to enter the flea market and advertised the market.

This conclusion was based on the fact that eBay actively promoted the sale of TIFFANY jewelry on its website and advised sellers that "TIFFANY" was a frequently searched term on its website, as well as on eBay's use of its "fraud engine" and its total ban on the sale of certain items, such as firearms and alcohol.

In finding that eBay's generalized knowledge that some of the TIFFANY items sold on its website were counterfeit did not constitute contributory infringement, the Court distinguished *Hard Rock Café*, since in that case, the *Hard Rock*

Café Court simply reversed the lower court's dismissal and suggested that the evidence might support a finding that the flea market operator had knowledge or was willfully blind, since he had seen the allegedly infringing shirts, noticed they "had cut labels and were being sold cheap," and declined to ask further questions. *Id.* at 47 (citations omitted).

No False Advertising

The Court found that eBay was not liable for false advertising in connection with its promotion of the sale of "TIFFANY" jewelry on its website and sponsored links.

In order to be liable under this theory, Tiffany had to prove that the challenged advertisements were either: (1) literally false; or (2) literally true, but nonetheless likely to misled or confuse consumers.

The Court held that eBay was not liable under the first prong, since some authentic TIFFANY jewelry was sold on the website.

The Court concluded that eBay was also not liable under the second prong, since, as indicated above, eBay did not have specific knowledge as to the illicit nature of individual listings, and "to the extent that the advertising was false, the falsity was the responsibility of third party sellers, not eBay." *Id.* at 59.

It is in this last analysis that the Court's reasoning appears the most strained. The false advertising claim concerns eBay's own affirmative acts of advertising, not the third party sellers, and therefore, the emphasis on the standard of generalized knowledge applicable to Tiffany's claims for contributory trademark infringement seems misplaced.

Similarly, the Court does not cite to any precedent for the proposition that the "literally true, but likely to misled or confuse consumers" standard is only met where the advertiser is directly involved in the activity which makes the statement misleading or confusing.

Although the Court pointed to *Gentry v. eBay*, 99 Cal. App. 4th 816, 834, 836 (Cal. Ct. App. 2002), in support of its conclusion on this issue, as the Court itself acknowledges, *Gentry* involved California state law and was decided in part based on the Communications Decency Act.

Moreover, a review of *Gentry* reveals that the case concerned eBay's dissemination of representations made by the infringing defendants and/or the posting of compilations of information generated by those defendants and other third parties (*Id.* at 832), not eBay's own advertising.

Indeed, courts have specifically held that an intent to deceive is not a required element of a false advertising claim. See *Grant Airmass Corp. v. Gaymar Industries, Inc.*, 645 F. Supp. 1507 (S.D.N.Y. 1986)

Although holding eBay liable for false advertising would have deterred eBay from actively advertising the sale of luxury brands like TIFFANY, it would not, of course, directly stop the sale of counterfeits on its website.

Dilution And Contributory Dilution

The Court held that eBay was not liable under a theory of dilution under the Lanham Act or New York State law since eBay's use of the TIFFANY mark was protected under the nominative fair use doctrine - i.e., eBay only used the TIFFANY mark to refer to what was advertised as genuine TIFFANY jewelry.

A claim for contributory liability for dilution was also dismissed based on the same grounds as the claim for

contributory liability for trademark infringement - i.e., eBay's generalized, rather than specific knowledge about infringements was insufficient for contributory liability.

The eBay Decision In France

A June 30, 2008 decision by the Commercial Court of Paris, France, which also involved the sale of counterfeit goods on eBay, reached a very different result than the Southern District of New York, ordering eBay to pay the U.S. equivalent of \$61 million to the luxury goods group LVMH for allowing the sale of fake merchandise.[1]

Although Tiffany requested that the Court recognize the French decision (which eBay has already appealed[2]) and give preclusive effect to the factual determinations, it subsequently withdrew this request.

Conclusion

The Court's decision is a wake up call to trademark owners that they have the initial burden to prevent the sale of counterfeit goods on eBay and other interest websites.

It is also a wake up call to online retailers that they must act to prevent counterfeiting when they have specific knowledge of its occurrence.

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[1] See "LVMH Wins compensation From eBay Over Counterfeits," The New York Times, June 30, 2008.

[2] See n.1, above.