



May 21, 2010



Tiffany v. eBay: Court Shuts The Door On Trademark And Opens A Window For False Advertising

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The Second Circuit recently issued its decision in *Tiffany (NJ) Inc. v. eBay Inc.*, 08-3947 (2d Cir. April 1, 2010), affirming in part the Southern District of New York's decision that eBay was not directly or secondarily liable for trademark infringement or dilution. However, the appeals court remanded Tiffany's false advertising claim to the lower court on the basis that some advertisements on eBay for Tiffany products may have been misleading.

Tiffany provides significant new precedent that firmly places on brand owners the responsibility to police online venues for counterfeit or infringing goods. The Second Circuit found that eBay's use of the Tiffany trademark in online advertising was a nominative or lawful fair use and did not constitute trademark infringement, despite the fact that a significant portion of the jewelry sold on the site as "Tiffany" was actually counterfeit. The Second Circuit also found that eBay was not liable for contributory infringement because, even though it knew generally that some of the Tiffany merchandise sold on its site was not authentic, it did not have knowledge of specific infringers, as is required under the Supreme Court's standard for contributory infringement, established in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). The Second Circuit stopped short of agreeing with all of the lower court's conclusions, remanding Tiffany's false advertising claim for further consideration and thus leaving the door open for a finding that eBay's advertising use of the Tiffany mark could be found as misleading to the public under the false advertising provision of the Lanham Act while being found as not likely to confuse customers under the trademark infringement provisions of the same act.

Background

Tiffany & Co. ("Tiffany") filed suit in New York against eBay Inc. ("eBay") in 2004, after failing to persuade the online marketplace operator to take additional action against knockoff Tiffany goods on its

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Web site. Tiffany sought to hold eBay liable for direct and contributory trademark infringement, trademark dilution, and false advertising, basing its claims on 1) the sale of counterfeit Tiffany merchandise on eBay's site through third-party sellers and 2) eBay's advertising that Tiffany jewelry was available on its site. The Second Circuit accepted the factual findings of the district court, which included information regarding eBay's extensive efforts to work with Tiffany and other trademark owners to promptly remove specific infringing listings and sellers from its Web site upon notification by the brand owner. The appellate court also noted that eBay actively promoted and advertised premium and branded jewelry, including Tiffany merchandise, during the relevant period, using the Tiffany name on its Web site for holiday and price promotions and purchasing sponsored-link advertisements using the Tiffany name through search engines.

Direct Trademark Infringement

Tiffany argued that eBay directly infringed its mark by using it on eBay's Web site as well as in sponsored links purchased from search engines. The Second Circuit agreed with the lower court's finding that eBay's use was lawful because eBay used the Tiffany mark to accurately refer to genuine Tiffany goods. Tiffany attempted to establish that this lawful or nominative fair use defense was not available to eBay because the online service provider knew or had reason to know that there was a substantial problem with the sale of counterfeit Tiffany jewelry on its Web site. However, the Second Circuit found such knowledge irrelevant to Tiffany's direct infringement claim inasmuch as eBay promptly removed the infringing merchandise upon notice from Tiffany.

Contributory Trademark Infringement

Tiffany's arguments that eBay was secondarily liable for infringement of the Tiffany trademark rested primarily on the extensive notice that eBay had of widespread listings of counterfeit Tiffany products on its Web site. In response, the Second Circuit applied the Supreme Court's standard for contributory infringement articulated in *Inwood*:

"[T]here are two ways in which a defendant may become contributorily liable for the infringing conduct of another: first, if the service provider 'intentionally induces another to infringe a trademark,' and second, if the service provider 'continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.'" (emphasis added)

Tiffany argued that, under *Inwood's* second prong, eBay continued to supply its services to sellers of counterfeit Tiffany goods while knowing or having reason to know that such sellers were infringing Tiffany's mark. As evidence, Tiffany pointed to its demand letters to eBay, its buying programs that uncovered counterfeit goods, its thousands of notices of infringement on individual listings, and buyer complaints of

counterfeit Tiffany goods received by eBay. Based upon these factors, Tiffany asserted that the only relevant question, under *Inwood*, was whether the evidence, when taken as a whole, gave sufficient notice to eBay of ubiquitous infringing activity.

The Second Circuit rejected Tiffany's broad interpretation of *Inwood*, noting that the Supreme Court's standard depends on specific knowledge of one infringer, and not on a broad knowledge that some infringement is being committed by unidentified third parties. Under this high standard, eBay's knowledge of infringement was simply too generalized. Where Tiffany identified specific infringers, eBay promptly took down the counterfeit merchandise, usually within hours of the notification, and it took steps to cancel transactions involving counterfeit merchandise or provide refunds to buyers.

Tiffany also argued that eBay was "willfully blind," or that it purposefully avoided knowing the truth about the sale of counterfeit goods on its site. Tiffany claimed that if eBay were found not liable for infringement because its knowledge was general rather than specific, eBay would be disincentivized to discover and root out the sale of counterfeit merchandise. The appellate court was unconvinced, emphasizing that it was not in eBay's own business interest to sell counterfeit merchandise, the sale of which inevitably leads to dissatisfied users hesitant to make future purchases. The court further noted that eBay had invested millions of dollars to identify and remove counterfeit listings, both through its take-down notification program and through its own fraud engine. For these reasons, eBay was not "willfully blind," and thus not secondarily liable.

False Advertising

While the Second Circuit's affirmation of the lower court's trademark ruling turned on the question of general versus specific knowledge of infringement, that same distinction has not yet saved eBay from liability for false advertising. Federal false advertising and trademark infringement claims both stem from the Lanham Act and are often each raised in the same cases. To establish liability for a false advertising claim, a plaintiff must prove that 1) a false or misleading statement was made 2) in commercial advertising or promotion that 3) creates a likelihood of harm to the plaintiff. Here, the lower court found that the same factors that save eBay from liability for direct and contributory trademark infringement – namely, that it makes a fair use of the Tiffany trademark in its online advertising in order to refer to the authentic Tiffany merchandise auctioned on its site, that it did not have knowledge of any one specific seller of counterfeit Tiffany merchandise against whom it hesitated to act, and that any fault lay with the parties selling counterfeit merchandise and not with eBay – also meant that eBay had not engaged in false advertising. The Second Circuit's disagreement, and remand of the claim back to the lower court, signals a possible separation between these seemingly

closely related claims.

The appellate court found that eBay's advertisements, which contained hyperlinks such as "Tiffany Rings" and "Tiffany & Co. under \$50," may imply to the public that all of the Tiffany merchandise on the auction site is genuine, when in fact eBay knows that a substantial percentage of the jewelry is counterfeit. While the lower court applied to the false advertising claim the same defenses that tilted the scale in eBay's direction in the infringement claims, the Second Circuit found such application to be in error, maintaining that eBay's affirmative advertising of Tiffany merchandise, when it *knew* that at least some of the listings to which it directs shoppers are for counterfeit goods, may very well be misleading consumers.

The appellate court gave guidance but did not decide the issue, noting that the lower court is better situated to decide the claim in light of its close familiarity with the facts of the case. The Second Circuit did suggest that a relatively minor step such as a disclaimer on the eBay advertisements might suffice to cure the misleading ads. Disclaimers are a hotly debated issue in trademark law, with many courts finding that they increase confusion as or more often than they decrease it. Although the court was not specific, we imagine that an appropriate disclaimer might notify consumers that eBay does not authenticate merchandise sold on its site and that shoppers should purchase items only from trusted resellers.

Implications of This Ruling

The *Tiffany* opinion has several important ramifications. First, it allows eBay and other online marketplace operators to continue their business model. According to eBay, more than 100 million listings appear on the site at any one time, and approximately 6 million new listings are posted each day. eBay does not see or possess merchandise at any time – it simply provides the platform for individual sellers and buyers to find each other. If eBay had to somehow warranty that all of its merchandise is authentic, it arguably would have to change its business methods significantly. (Interestingly, eBay may face such a pressure in France, where eBay is appealing losses in similar lawsuits brought by Hermes and Moët Hennessy Louis Vuitton.) Second, the *Tiffany* decision validates eBay's (and by extension other similar third parties') notice-and-take-down procedures as effective safeguards against infringement liability, offering an important guide both to trademark owners who must police online venues for infringements and to online service providers who must respond expeditiously to notices of infringement. Third, some trademark infringement defendants in keyword advertising cases now have additional support for fair use defenses, precedent that has not been present in the keyword cases decided thus far. Finally, if the ultimate ruling finds false advertising liability on eBay's part, online advertisers will have to tread far more cautiously in their use of third-

party brand names, even when they are making fair uses under trademark law.

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