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THE SECOND CIRCUIT CONCLUDES THAT eBAY IS NOT LIABLE FOR THE SALE OF COUNTERFEIT GOODS ON ITS WEBSITE

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In our Fall 2009 *Focus on Intellectual Property* Newsletter, we discussed the 2008 New York decision in which the trial court denied claims for contributory trademark infringement made by Tiffany versus eBay in *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp2d 463 (S.D.N.Y. 2008). On April 1, 2010, the Second Circuit Court of Appeals affirmed this decision which declined to find eBay liable for contributory trademark infringement for the sale of counterfeit Tiffany goods on its website. *Tiffany (NJ), Inc., v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).

The case arose when Tiffany filed a lawsuit against eBay in 2004 asserting a range of claims arising out of the sale of counterfeit Tiffany merchandise on eBay, including a claim that eBay's conduct in participating in the sale and advertising of "Tiffany" goods that turned out to be counterfeit constituted contributory trademark infringement. In 2008, the trial court denied the claims for trademark infringement made by Tiffany and Tiffany appealed.

Tiffany alleged that over 70 percent of the "Tiffany" goods on the eBay site were counterfeit and that eBay profited from such sales. However, in denying Tiffany's claims, the trial court focused on the actions taken by eBay to protect the trademark owner. Rather than turn a blind eye to infringement, eBay regularly pulled listings about which it received complaints, and had a state of the art program to affirmatively seek out infringements. eBay's efforts to address fraud on its website are detailed at length in the opinions.

On appeal, one important issue the Court addressed was whether eBay was liable for contributory trademark infringement—that is for facilitating the infringing conduct of the counterfeiting vendors. To date, the law of contributory trademark infringement has been "ill-defined" and the Second Circuit Court was the first Federal appellate court to consider

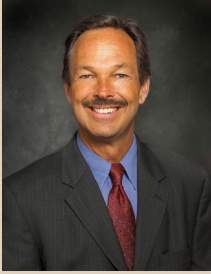
how contributory infringement might apply to an online marketplace.

Tiffany's primary argument was that eBay was a contributory infringer because it continued to supply its services to the sellers of counterfeit Tiffany goods while knowing or having reason to know that such sellers were infringing Tiffany's mark. Tiffany argued that eBay knew, or at least had reason to know, that counterfeit Tiffany goods were being sold far and wide on its website based upon the significant pre-litigation record of communications between the parties regarding the issue. It was not disputed that eBay was aware that some counterfeit Tiffany merchandise, as well as some legitimate Tiffany merchandise, was sold on its site. The issue became whether eBay's generalized knowledge of trademark infringement on its website was to be construed as knowledge or constructive knowledge of the infringing activity sufficient to support a claim for contributory trademark infringement.

The Second Circuit found it was not and determined that for contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary for liability to attach.

Tiffany could not demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods. The factual record established that in each instance where Tiffany gave eBay notice that certain sellers had been selling counterfeits, those sellers' listings were removed and repeat offenders were suspended from the eBay site. The Court declined to find that eBay was liable for the trademark infringement of other non-terminated sellers of whom Tiffany had not provided notice to eBay.

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eBay's victory clearly resulted in significant part from its ability to demonstrate to the Court that eBay had taken specific steps to address the counterfeiting problem Tiffany complained of in the years leading up to the filing of the lawsuit. Beyond its general efforts to combat infringement, eBay took specific steps to address Tiffany's concerns. While Tiffany argued that eBay's efforts did not go far enough, the Court found that eBay's actions established eBay did not turn a blind eye to the infringing actions of the users of its website. As between Tiffany and eBay, if one party was to bear the cost of additional policing efforts, the Court expressed that the burden should fall on the holder of the trademark, and not on a third party. However, ISPs who are made aware that users of its service are infringing upon a protected mark may not ignore the fact, but must take concrete action to investigate and address the infringing activity.

This case may continue to make news as the Appeals Court sent a false advertising claim Tiffany asserted against eBay back to the trial court for further consideration. Tiffany's false advertising claim arises out of eBay's use of the Tiffany name on its website and in advertisements designed to drive traffic to its website. Tiffany argued that because eBay advertised the sale of Tiffany goods on its website and because eBay knew that many of the Tiffany goods sold on its website were in fact counterfeit, eBay should be liable for false advertising. The issue the trial court has been instructed to consider is whether eBay's use of the Tiffany name was likely to mislead or confuse consumers, particularly with regard to the authenticity of the merchandise available on eBay.

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