

Second Circuit Holds in *eBay* that Contributory Trademark Infringement Requires Knowledge of Specific Infringers Selling Counterfeit Goods

On April 1, 2010, the Second Circuit issued its long-awaited decision in *Tiffany (NJ) Inc. v. eBay, Inc.* (No. 08-3947), unanimously affirming the district court's decision that "more than a general knowledge or reason to know that [a service provider's] service is being used to sell counterfeit goods" is needed to establish a claim for federal or common law contributory trademark infringement, unfair competition or trademark dilution. 2010 U.S. App. LEXIS 6735, *37, 2010 WL 1236315 (2d Cir. April 1, 2010). Rather, a plaintiff must "demonstrate that [the defendant] was supplying its service to individuals who it knew or had reason to know were selling counterfeit goods." *Id.* at *41. The Court also affirmed the district court's decision that eBay was not liable for direct trademark infringement, but remanded for reconsideration by the district court Tiffany's false advertising claim that eBay falsely implied that the Tiffany goods it offered for sale were genuine. *Id.* at *25, *57.

The case arose out of the widespread and continued sale of counterfeit Tiffany merchandise on eBay's website. The district court found that a "significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website . . . was counterfeit," that "eBay knew 'that some portion of the Tiffany goods sold on its website might be counterfeit,'" and "that 'a substantial number of authentic Tiffany goods are [also] sold on eBay.'" *Id.* at *7 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 509 (S.D.N.Y. 2008)). eBay also maintained and administered a program that allowed intellectual property owners, including Tiffany, to report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings. During the relevant time, eBay's practice was to remove reported listings within twenty-four hours of receiving notice, "but eBay in fact deleted seventy to eighty percent of them within twelve hours of notification." *Id.* at *11-12. Tiffany sued eBay for direct and contributory trademark infringement, and for trademark dilution and false advertising arising from eBay's advertising and listing policies.

With respect to the direct infringement claim, the Second Circuit noted that the district court had rejected Tiffany's claim on the ground that eBay's use of Tiffany's mark was protected by the doctrine of nominative fair use. *Id.* at *20. The Second Circuit held that it was not necessary to address the "viability of the [nominative fair use] doctrine to resolve Tiffany's claim" because the Court of Appeals had previously "recognized that a defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant." *Id.* at *22. Accordingly, the Court held eBay had the right to use Tiffany's mark with respect to the resale of Tiffany merchandise by third parties. *Id.* at *23. The Court rejected Tiffany's argument that "eBay's knowledge *vel non* that counterfeit Tiffany wares were offered through its website is relevant to" a direct infringement claim, as opposed to a contributory infringement claim, "especially inasmuch as it is undisputed that eBay promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods." *Id.* at *24. "To 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 *24-25.

Turning to the key issue on appeal — whether eBay was liable for contributory trademark infringement — because eBay did not maintain on appeal that it was not subject to the Supreme Court’s test for contributory infringement with respect to the sale of goods, *Inwood Laboratories, Inc v Ives Laboratories, Inc.*, 546 U.S. 844 (1982), the Court assumed but did not decide that *Inwood*’s test for contributory infringement applies to one who supplies a service and not goods. 2010 U.S. App. LEXIS 6735, at *31. *Inwood* holds that contributory infringement is established if the defendant “intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” *Id.* at *25 (quoting *Inwood*, 546 U.S. at 854). Tiffany did “not argue that eBay induced the sale of counterfeit Tiffany goods on its website.” *Id.* at *32. As for the second part of the *Inwood* test, the Second Circuit rejected Tiffany’s position that contributory infringement was established because “all of the knowledge, when taken together, put[] [eBay] on notice that there is a substantial problem of trademark infringement.” *Id.* at *37. In particular, the Court held that a plaintiff must show “more than a general knowledge or reason to know that [a service provider’s] service is being used to sell counterfeit goods.” *Id.* at *37. To win, Tiffany was obligated 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 *41. In short, absent actual or constructive knowledge of specific individuals selling counterfeit merchandise, eBay was not liable for contributory trademark infringement.

For similar reasons, the Court rejected Tiffany’s attempt to impose liability on eBay based on a theory of “willful blindness,” holding that knowledge “as a general matter that counterfeit Tiffany products were listed and sold through its website . . . [w]ithout more, . . . is insufficient to trigger liability under *Inwood*.” *Id.* at *45-46. At the same time, the Court agreed with the district court that if eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales sufficient to satisfy *Inwood*’s “knows or has reason to know” prong. *Id.* at *43.

The Court also affirmed the district court’s holding that eBay was not liable for trademark dilution for two reasons — because (1) eBay “did not itself sell the goods at issue, it did not itself engage in dilution,” and (2) Tiffany had conceded that, assuming a claim for contributory dilution exists, its contributory dilution claim would fail if its contributory trademark infringement claim failed. *Id.* at *50-51.

In contrast to its trademark rulings, the Court remanded for reconsideration the district court’s holding that eBay was not liable for false advertising under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). eBay advertised the sale of Tiffany goods on its website in various ways, including providing hyperlinks to “Tiffany,” “Tiffany & Co. under \$150,” “Tiffany & Co.,” “Tiffany Rings,” and “Tiffany & Co. under \$50.” eBay also purchased advertising space on search engines, “in some instances providing a link to eBay’s site and exhorting the reader to ‘Find tiffany items at low prices.’” *Id.* at *53. The Second Circuit agreed with the district court that the ads were not literally false because genuine Tiffany merchandise was, in fact, being sold on eBay’s website. *Id.* at *55. The Court, however, held that the district court had not properly considered Tiffany’s claim that the ads falsely communicated the implied message that the Tiffany goods offered for sale were genuine. The Court remanded the case to the district court to reevaluate the record to determine if there was sufficient evidence to establish a claim of implied false advertising. In this connection, the Court stated that online advertisers “need not cease [their] advertisements for a kind of goods only because [they] know[] that not all of those goods are authentic,” and further stated that a disclaimer “might suffice.” *Id.* at *57.

The Second Circuit's decision is a significant ruling regarding the principles of secondary trademark liability. It suggests that if an online service provider (or distributor of goods as well) takes steps, when notified of specific instances of infringing activity, to eliminate the specific activity as to which it has received notice, it will be insulated from a claim of contributory infringement based on generalized knowledge that others are engaged in the same conduct where the identities of such individuals are not known to the service providers. The decision also provides great incentive to trademark owners to beef up their policing efforts and to maximize their efforts to provide online marketers with actual notice of specific individuals or entities infringing their marks, as well as to proceed against direct infringers themselves.

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