

Tiffany & Co. Cracks Down On eBay Counterfeiters

Kate Spade And Prada Join Fight To Protect Their Brands

BY CATHLEEN FLAHARDY

"SHE MAY BE A phony, but she's a real phony." This famous line delivered in *Breakfast at Tiffany's* was in reference to Audrey Hepburn's pseudo-sophisticated and materialistic character, Holly Golightly. Upon the movie's release in 1961, New York-based Tiffany & Co. likely found its association with a phony such as Golightly amusing, if not flattering. But on the Internet, phony merchandise is the star of the show, and Tiffany is no longer laughing.

The world's most famous jewelry company filed suit June 21 in the U.S. District Court of the Southern District of New York against eBay Inc., the world's largest online auction site. Tiffany claims eBay facilitates and participates in the counterfeiting, infringement and false advertising of the jewelry company's federally registered trademarks in violation of the Lanham Act. The Act allows trademark owners to recover damages against infringers.

Filing suit wasn't a rash decision for Tiffany. The company had approached California-based eBay several times in the past few years in an effort to thwart potential counterfeiters. But it was unhappy with eBay's response. And it wasn't the only one. Other luxury-goods companies, such as Kate Spade and Prada, also have been working to eradicate purveyors of counterfeit goods from eBay.

"It became apparent that this was a substantial problem that was growing," says James Swire, Tiffany's lead counsel in this suit and a partner in Dorsey & Whitney's New York office. "And when we were unable to work anything out with eBay on

LITIGATION

a voluntary basis, the litigation followed."

But experts are unsure whose side the courts will be on in this fight. The case is among the first of its kind in the United States and will set the precedent for other cases, which—depending on the outcome of this case—may follow.

A Bit Of A Tiff

Counterfeit merchandise has been a problem for luxury-goods companies such as Tiffany for years. But online auctioneers have taken the problem to a new level. For instance, the FBI seized more than \$90,000 worth of counterfeit Tiffany jewelry in 2003 from the operators of www.star-glam.com, a New York-based web retailer that tried to pass off phony Tiffany jewelry as genuine.

And that's nothing compared to the

quantity of counterfeit Tiffany merchandise being sold on eBay.

The jewelry company recently conducted an experiment of its own. In a five-month period between 2003 and 2004, it purchased 186 pieces of "Tiffany" jewelry from eBay. In all, 73 percent of those pieces were counterfeit—even though the sellers described them as genuine—and the pieces bore Tiffany's famous trademark. Only 5 percent were genuine. The other 22 percent fell into a gray area of whether or not they actually were advertised as genuine Tiffany products.

When Tiffany first asked eBay in 2002 to stem the flow of counterfeit merchandise, Tiffany says eBay refused.

"eBay pretty much just relegated Tiffany to use a standard software program, which it designed to help stop counterfeiters," Swire says. But he adds it wasn't enough.

That program, Verified Rights Owner (VeRO), allows companies to search eBay for keywords that could indicate potentially infringing activity. If suspected counter-



PHOTO BY OSKAR MARTINEZ

Tiffany & Co. filed suit against eBay in June claiming the auction site infringes its trademarks by allowing users to sell fake Tiffany jewelry. "The 1837 Collection," which includes a ring (pictured), cuff and bangle, is popular among counterfeiters.

feiters are found, Tiffany reports them to eBay, which then shuts down the auction. But eBay's not doing the work. Tiffany is.

According to Swire, Tiffany spends thousands of dollars each month trying to track down these auctions. In fact, Tiffany has two employees who monitor eBay full-time.

Furthermore, Swire says eBay has purchased links to its site on Google and Yahoo when users conduct searches for Tiffany merchandise. For example, if a user types in "Tiffany" on Google, a sponsor link to eBay appears on the screen.

"That is direct infringement because that link likely takes you to counterfeit auction sites," he says.

In its lawsuit, Tiffany asks the court to force eBay to account for its profits arising from counterfeit sales, and enter a judgment for as much as \$1 million for each counterfeit piece of Tiffany merchandise sold on eBay. Tiffany also asks for punitive damages and attorney's fees.

"I think we have an excellent case," Swire says. "And I hope the outcome of this case will benefit other companies that I know are suffering similarly."

Tarnished Trademarks

Barbara Kolsun hopes so too. As senior vice president and general counsel at New York-based Kate Spade, she also has been asking eBay to take a greater responsibility for the illegal activity that occurs on its web site.

"We have a huge problem," Kolsun says. "We monitor eBay everyday. We spend thousands of dollars every month on this problem. We've closed thousands and thousands of eBay sites over the past couple of years. I don't think there is a luxury-goods company out there that doesn't have a problem with eBay."

Kolsun believes if Tiffany wins this suit, the court will force eBay to find a solution to the problem. "There are certainly plen-

ty of things eBay could be doing to pre-screen many of the sites," she says. "And if Tiffany wins, we'll all benefit."

Although Tiffany's case is the first significant lawsuit of its kind in the United States, eBay has managed to get itself out of hot water in Europe. For instance, Switzerland-based Montres Rolex SA filed two suits in 2001 against eBay in Germany, claiming auctioneers were selling fake Rolex watches. eBay won the first round of that case, but the German Supreme Court currently is deciding whether or not it will revisit the suit.

Ronald Coleman, partner at Coleman & Weinstein in New York, predicts more suits against eBay both in Europe and the United States because the site serves as the perfect place for counterfeiters to unload their wares. Coleman has represented several clients against eBay in an effort to persuade the company to assist in halting the sale of counterfeit merchandise. But he says the company always has the same excuse.

"They claim they *would* be responsible and address the problem, except the number of participants in online auctions is too large," Coleman says. "It should not be enough for them to say that."

Going Once...

There's no arguing with eBay about the number of participants being large (see "Tiffany vs. eBay"). Millions of customers peruse its more than 25 million listings each day.

"eBay obviously has developed a very important new source of commerce, and should be recognized for that," says Tony Keats, partner at Keats McFarland & Wilson in Beverly Hills, Calif. His firm represents several clients in suits against eBay.

"But when a company creates a new industry, process or product, that company should live with the consequences," he

adds. "The marketplace eBay has created lends itself to the problem of counterfeiting. And I don't think those issues have been successfully dealt with by eBay to the extent they need to be."

Coleman believes the Tiffany suit may pave the way for companies outside the luxury-goods industry as well.

"What Tiffany is doing has the potential to be the proxy for many mid-market brand owners who can't afford to bring this type of lawsuit against a mammoth company like eBay, but who also are being damaged by the wanton abuse of trademarks in this context," he says.

eBay refused to comment about the specifics of the case, but believes Tiffany's claims have little chance of holding up in court.

"We are disappointed that Tiffany filed the suit, given that we have cooperated with its brand-protection efforts for several years through our VeRO program," says Hani Durzi, senior manager of corporate communications at eBay. "Through VeRO, we have worked with Tiffany to develop substantial proactive monitoring efforts and given them the tools to report problem listings, which we promptly remove. While we will continue to cooperate with Tiffany in these efforts, we will fight the legal action because its claims are without merit."

Swire says eBay does perform some policing of its own, and for that he applauds them. But he says the company needs to take more of an initiative in curbing the growing problem.

"You have a company that is being damaged by the sale of counterfeit goods bearing its name, and another company that is making money on that," Swire explains. "There is clearly something wrong with that picture."

At press time, a court date hadn't yet been set. ♦

Tiffany vs. eBay

TIFFANY

2003 Revenue – \$1.7 billion

2003 Customers – N/A

NYSE – TIF

Founded – 1837

General Counsel – Patrick B. Dorsey

CEO – Michael J. Kowalski

Headquarters – New York

eBAY

2003 Revenue – \$2.165 billion

2003 Customers – 41 million

NASDAQ – EBAY

Founded – 1995

General Counsel – Michael R. Jacobson

CEO – Margaret C. Whitman

Headquarters – San Jose, Calif.