



Letter From the CEO Regarding the Recent Tiffany Necklace Issue

October 21, 2003

I recount here the facts so far and leave it to you to judge how stand-up we have been:

1. **We stepped up for the customer as soon as we learned of this issue.** On Friday October 3 and continuing over that weekend, a few dozen customers began writing me to say there was a problem in the quality and/or authenticity of a Tiffany pendant we had sold. By Monday night, October 6, we had prepared an email that was sent Tuesday to every customer who had purchase the Tiffany pendant, informing them of the potential problem. I wrote that we had been supplied an invoice that appeared to establish their legitimacy (which I attached), but suggested that, even if the goods appeared genuine, our re-inspection confirmed what some customers said, that some items appeared blemished. So I wrote, "If you are dissatisfied with your purchase in any way, contact our Customer Service department ... to arrange a return. For returns on any of these pendants, blemished or clean, we will waive the returns fees and we will pay the costs of return shipping."

2. **We exercised caution in buying our many thousands of luxury brand goods, devoting a lawyer full-time to man this filter.** In the case of these pendants, samples (flawless, exquisite samples, I might add) of these pendants were shown to us 7 months ago by Canada's premier "jobber," a man with whom we had done previous good business. He came to visit us in Salt Lake City and I jumped up and down on one note: we will never, ever sell fuzgazi, that it is the worst thing that could ever happen. He swore up-and-down-and-sideways to me he would never send us anything about which he was not absolutely certain. He told us he was buying these out of the Tiffany store in Florence, one of three such stores in Italy.

3. **We launched an internal investigation since this happened.** We had bought, I learned, 2000 pieces. When the complaints came in we took the pendants off site, having sold 1,365 of them. In the last 24 hours, however, after a hard talk, I am coming to think that this may be only partially true, that our Canadian in fact got some of the pendants not from the Florence retail store, but from a manufacturer in the Tiffany supply chain he is trying to protect.

4. **We have been fair in our dealings with Tiffany.** On October 10 we responded to a letter from Tiffany, saying, "Overstock.com understands and applauds your vigilance on behalf of your clients. [Yet we do] not believe that it has sold any counterfeit...Tiffany product. While Overstock.com has sold the Open Heart pendant specifically mentioned in your letter, it is with the understanding that the pendant was a genuine Tiffany product. Overstock.com's confidential source has repeatedly assured Overstock.com that the pendant was a genuine Tiffany product and that Overstock.com was authorized to sell it without any restriction on sale. ... Overstock.com does not desire to sell any counterfeit or infringing products... If you have information that indicates that Overstock.com is engaged in such acts or that the enclosed documentation is not accurate, please let us know and we will take corrective action immediately. Overstock.com sincerely wishes to be as cooperative as possible with your clients." We forwarded Tiffany documents we had received with the merchandise, and have been awaiting a response, neither putting the pendants back up on site, nor destroying them, nor returning them to our vendor.

It is hard to imagine how Overstock could have been more stand-up about this issue. We jumped on it as soon as came to our attention, and tried to make good for the customer: we exercised more than reasonable caution in buying the pendants, aggressively investigated their provenance since the issue arose, and supplied to Tiffany the documentation that was driving our decision, with a request that they notify us if they were false. Yesterday I read in the New York Times that Tiffany says the invoice was doctored or fake; that is news to me, as they have never told us this incidentally, there is simply 0 chance that anyone at Overstock would do that or knowingly permit it. On the other hand, the Canadian supplier tells me that he can produce his agent who was physically in the Florence Tiffany store and made the buy. He also tells me that he has taken these into a Tiffany shop and employees there have selected them over known originals as being, "real Tiffany." If it is the case that Tiffany let one of its retailers or manufacturers release these into the marketplace, they can hardly challenge their later sale. But I admit, at this point, the facts are not clear to me.

An offer for customers: Oh, yes. You now know everything I know about this. It is a muddle, but it is a muddle among companies, and consumers should be protected from muddles among companies. So far, I have sought to protect the consumer from this trouhaha by saying, "If you like it, keep it; if not, send it back at our expense for a refund."

What I would love to do is go out and buy 1,365 of the pendants from a Tiffany store with my own wallet, and send them to the concerned customers. I think, alas, that Tiffany is not going to let me do that.

In lieu of that, I have another idea. We will put in the accounts of all who bought this a gift certificate for \$47, equal to the amount that they originally spent; if they return the pendant, Customers can return their pendant, get a full refund, and have another \$47 to spend. That way the customer is twice as well off in this transaction as he was before, and Tiffany sees these sucked out of the market. If it turns out that these pendants were not genuine, then I will have a beef with our Canadian supplier; if they were genuine after all, then I will have a beef with Tiffany. In either case, however, the customer will be insulated. And we will have acted in a stand-up fashion.

Overstock goes to great lengths to verify that all of the goods we sell are genuine and of high quality. We sell thousands of products and have filters in place to protect against counterfeit goods being sold on our website. At this point we don't have all the facts on this Tiffany case; however, should these pendants turn out to have been counterfeit, I sincerely apologize to our customers. In fact, I apologize to them now for putting them through this.

I hope you will agree, however, given the behind-the-scenes history I disclosed here, and our efforts to rectify the situation, we've been stand-up guys in any case.

Sincerely yours,

Patrick M. Byrne