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## NOTE

### KNOWLEDGE AND MISFEASANCE: *TIFFANY V. EBAY* AND THE KNOWLEDGE REQUIREMENT OF CONTRIBUTORY TRADEMARK INFRINGEMENT

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#### I. INTRODUCTION

eBay created a new business model, made possible by the internet. The popular legend is that eBay was originally intended as a site at which consumers could offer for sale and sell still useable items sitting in garages and basements. But it blossomed into the world's largest marketplace where anonymous sellers offer unseen and unexamined merchandise to distant buyers. Given such circumstances, it was not long before the counterfeiters and grifters of the world realized that the site

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could be exploited by them without risk.<sup>2</sup>

Although somewhat melodramatic, the above characterization of the online auction site eBay is rooted in fact. Indeed, nearly half of reported online fraud takes place in the form of Internet auction fraud,<sup>3</sup> and an estimated 29% of online auction fraud happens on eBay.<sup>4</sup> As such, eBay accounts for approximately 15% of known fraud on the Internet. Fraud on eBay occurs twice as frequently as online identity theft and credit card fraud put together, and amounts to an estimated annual loss of 32 million dollars.<sup>5</sup> Further, since this amount only represents reported fraud, it is likely that there is considerable fraud that is either undiscovered or unreported, suggesting that the actual cost of this problem is notably higher.<sup>6</sup>

After observing that considerable quantities of counterfeit jewelry were being sold on eBay, the luxury jewelry maker Tiffany & Co (“Tiffany”) wrote to eBay in 2003 in an attempt to curb the problem.<sup>7</sup> After numerous exchanges, Tiffany remained unsatisfied with eBay’s attempts to curtail the counterfeiting problem and filed suit in 2004 claiming that eBay was committing contributory trademark infringement by facilitating the sale of counterfeit Tiffany jewelry on its website.<sup>8</sup>

Part II of this note outlines the purposes of trademark law and the recent history of contributory trademark infringement. It explains the test that courts use to determine liability for contributory infringement, particularly in instances such as a flea market or online auction where the defendant provides a service to the actual infringer. Part III summarizes *Tiffany v. eBay*,<sup>9</sup> a recent

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<sup>2</sup> Plaintiffs’ Post-Trial Memorandum at 1, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (No. 04 Civ. 4607(RJS)), 2007 WL 4837670.

<sup>3</sup> Internet Crime Complaint Center, 2007 Internet Crime Report, at 5 (2007) [hereinafter “ICCC 2007”], available at [http://www.ic3.gov/media/annualreport/2007\\_IC3Report.pdf](http://www.ic3.gov/media/annualreport/2007_IC3Report.pdf) (35.7% of all complaints relate to Internet auction fraud); Internet Crime Complaint Center, 2005 Internet Crime Report, at 7 (2005) [hereinafter “ICCC 2005”], available at [http://www.ic3.gov/media/annualreport/2005\\_IC3Report.pdf](http://www.ic3.gov/media/annualreport/2005_IC3Report.pdf) (62.7% of all complaints relate to Internet auction fraud).

<sup>4</sup> Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (No. 04 Civ. 4607(RJS)), 10, appeal docketed, No. 08-3947-cv (2d Cir. Aug. 11, 2008), available at [http://www.iacc.org/resources/news/IACC\\_Tiffany\\_Amicus\\_Brief.pdf](http://www.iacc.org/resources/news/IACC_Tiffany_Amicus_Brief.pdf) (citing *Quite Possibly Fake*, REUTERS (Aug. 7, 2007); Jenn Abelson, *Grim Competition With Counterfeiters*, BOSTON GLOBE at A-1 (Aug. 21, 2008)).

<sup>5</sup> ICCC 2007, *supra* note 3, at 3-5; ICCC 2005, *supra* note 3, at 6-7.

<sup>6</sup> See generally ICCC 2007, *supra* note 3; ICCC 2005, *supra* note 3.

<sup>7</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 481 (S.D.N.Y. 2008).

<sup>8</sup> Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 17-18. It should be noted that Tiffany’s complaints against eBay list numerous claims beyond that of contributory trademark infringement. This note focuses on the contributory trademark issues raised in the case, and therefore the other claims are not discussed in any depth.

<sup>9</sup> *Tiffany*, 576 F. Supp. 2d.

case where Tiffany sued eBay, arguing that eBay facilitated the sale of counterfeit Tiffany jewelry. This note first summarizes the facts of the case. Then it explains that, because a contributory infringer's duty to prevent infringement is triggered by that party's knowledge of the infringement, it is extremely important that courts fix the requisite level of knowledge correctly. It continues by summarizing the parties' arguments in Tiffany. Finally, it outlines the court's decision that the knowledge requirement of contributory trademark infringement is not satisfied by a general knowledge of infringement, but rather requires specific knowledge.

Part IV analyzes the *Tiffany* decision from multiple viewpoints. First, it looks at the effect of the specific knowledge requirement, finding that it effectively resurrects a requirement of misfeasance for a contributory infringer to be found liable. Next, it examines the case under least cost avoider analysis, concluding that a determination as to which party is the least cost avoider in this situation requires further information. Lastly, it returns to the objectives of trademark law, and finds that they are not furthered by the decision in *Tiffany*.

## II. BACKGROUND

Part II explores the purpose and recent evolution of trademark law. It explains the two primary interests protected by trademark law and proceeds to discuss the test for direct infringement. It goes on to examine the progression of the doctrine of contributory infringement, concluding that, while the doctrine is fairly well-defined for infringement in the physical world, it is unclear how it translates to infringement that takes place through Internet venues.

### A. *The Purposes of Trademark Law*

The twin purposes of trademark law are relatively straightforward. Trademark<sup>10</sup> law exists "to protect consumers who have formed particular associations with a mark" and "the investment in a mark made by the owner."<sup>11</sup> "The protection of trade-marks is the law's recognition of the psychological function of symbols . . . . [The aim is] to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears."<sup>12</sup> Thus, a trademark is infringed if there is a likelihood of consumer confusion regarding the source of the good.<sup>13</sup>

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<sup>10</sup> A "trademark" is a word, name, or phrase used to distinguish a party's good from goods manufactured or sold by others. 15 U.S.C.A. § 1127 (2008).

<sup>11</sup> *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 873 (9th Cir. 1999) (citing *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995)); William M. Landes & Richard A. Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267, 304-05 (1988); J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 2009).

<sup>12</sup> *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942).

<sup>13</sup> *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992) (citing *Brunswick*

### B. *Contributory Trademark Infringement*

The doctrine of contributory trademark infringement is rooted in the common law of torts.<sup>14</sup> Although it is uncontested that a direct trademark infringer is civilly liable,<sup>15</sup> a third party can be held contributorily liable for the infringement of another (a) if it “intentionally induces another to infringe a trademark or [(b)] if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>16</sup> This is the “*Inwood* test” or “*Inwood* standard” and was laid out by the Supreme Court in 1982.<sup>17</sup> The second prong of the *Inwood* standard is particularly important to the instant case because it conditions an accused party’s liability for contributory infringement on that party’s actual or constructive knowledge of another’s actual infringement.<sup>18</sup> This note examines whether general or specific knowledge should trigger contributory trademark infringement liability.

As infringers under *Inwood* do not infringe themselves but rather contribute to another’s infringement, contributory trademark infringement is a form of indirect infringement.<sup>19</sup> Under the *Inwood* standard, a distributor’s mere suggestion to pharmacists that they might substitute a distributor’s drug for a physically identical, but more expensive, competing product constitutes contributory trademark infringement.<sup>20</sup> Extending this theory, the Third Circuit held that manufacturing a generic drug that is visibly indistinguishable from the non-generic version may constitute infringement because it is likely to cause confusion even in the absence of inducement.<sup>21</sup>

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Corp. v. Spinit Reel Co., 832 F.2d 513, 516-17 (10th Cir. 1987)); *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 201 F. Supp. 861, 863 (D.C.N.Y. 1962) (“The essential element of a trade-mark is the exclusive right of its owner to use a word or device to distinguish his product.”) (citing 1 Nims, UNFAIR COMPETITION AND TRADE MARKS § 1 (4th ed. 1947)); 15 U.S.C.A. § 1114 (2008).

<sup>14</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992) (To answer questions of indirect liability “we have treated trademark infringement as a species of tort and have turned to the common law to guide our inquiry into the appropriate boundaries of liability.”) (citing *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir.1989)).

<sup>15</sup> 15 U.S.C.A. § 1114 (2008).

<sup>16</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982).

<sup>17</sup> *See, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

<sup>18</sup> *Inwood*, 456 U.S. at 853-54.

<sup>19</sup> *See generally Inwood*, 456 U.S.

<sup>20</sup> *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 532-33 (1924).

<sup>21</sup> *Ciba-Geigy Corp. v. Bolar Pharm. Co., Inc.*, 747 F.2d 844, 860 (3d Cir. 1984) (“Although duplication of a trade dress is not, in itself, infringement of a trademark, the imitative appearance might induce a pharmacist to place a generic drug in a bottle bearing the brand name. Since the brand name is generally a registered trade-mark, the manufacturer can be held liable for contributory infringement of the inducement of passing off under this section.”). *But cf. Inwood*, 456 U.S. (holding that the district court was not

The cases cited thus far have involved infringing products – goods whose design and/or distribution were ultimately likely to confuse consumers as to their source.<sup>22</sup> Other important cases are those where the defendant provides a service to a direct infringer.<sup>23</sup> The early service cases such as *Hard Rock* and *Fonovisa* found operators of flea markets liable for the infringements of their sellers.<sup>24</sup> The theory was that the operators knew or had reason to know that they were facilitating the infringement of others and, by an extension of the law of tort, were responsible for the tortious actions of those they allow on their property.<sup>25</sup> Later cases scrutinized companies that provided services on the Internet, analogizing them to flea market operators.<sup>26</sup>

In cases where the plaintiff claims contributory infringement through provision of a service rather than a product, the court asks: (1) did the defendant provide a venue for third-party trademark infringement; and (2) did the defendant have direct control over means for infringement?<sup>27</sup> The implications of the *Inwood* test are not clear, and the concurrence in *Inwood* expresses concern that the decision may expand contributory infringement from requiring active inducement (misfeasance)<sup>28</sup> to merely having reason to anticipate others' infringement (nonfeasance).<sup>29</sup>

Cases after *Inwood* have removed the requirement of misfeasance and expanded contributory infringement to include the case of willful blindness, finding that operators of a flea-market or swap-meet can be held liable for the infringement of their vendors.<sup>30</sup> However, the courts have declined to find

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clearly erroneous in finding that virtually indistinguishable capsules did not constitute trademark infringement on their face).

<sup>22</sup> See, e.g., *Inwood*, 456 U.S.; *Ciba*, 747 F.2d.

<sup>23</sup> See J. THOMAS MCCARTHY, 4 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:20 (4th ed. 2009).

<sup>24</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992).

<sup>25</sup> *Hard Rock*, 955 F.2d at 1149-50 (citing RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979)).

<sup>26</sup> *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004); *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).

<sup>27</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (citing *Fonovisa*, 76 F.3d at 265; *Hard Rock*, 955 F.2d at 1148-49).

<sup>28</sup> "Hence there arose very early a difference, still deeply rooted in the law of negligence, between 'misfeasance' and 'nonfeasance' – that is to say, between active misconduct working positive injury to others and passive inaction or a failure to take steps to protect them from harm." Nonfeasance, BLACK'S LAW DICTIONARY 1080 (8th ed. 2004) (quoting W. Page Keeton et al., PROSSER AND KEETON ON THE LAW OF TORTS § 56 (5th ed. 1984)).

<sup>29</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 860 (1982) (White, J., concurring) ("*Ives IV* was satisfied merely by the failure to 'reasonably anticipate' that illegal substitution by some pharmacists was likely. In my view, this is an erroneous construction of the statutory law governing trademark protection.")

<sup>30</sup> *Hard Rock*, 955 F.2d at 1149 (holding a flea-market operator "is responsible for the

infringement where a domain registrar registers a domain name including a registered trademark, concluding that the registrar neither induced infringement nor exercised the requisite amount of control over the infringement of its customers.<sup>31</sup>

The doctrine of contributory trademark infringement is very young, with all of the seminal cases having been decided within the last thirty years.<sup>32</sup> Apart from being a recent and somewhat amorphous doctrine, courts have struggled to apply the contributory trademark infringement doctrine to transactions on the Internet.<sup>33</sup> Accordingly, when the luxury jeweler Tiffany & Co. sued eBay in 2004, it was unclear exactly how far the doctrine of contributory trademark infringement would go toward requiring an online auction site to proactively prevent the sale of counterfeits.<sup>34</sup>

### III. CONTRIBUTORY TRADEMARK INFRINGEMENT IN ONLINE AUCTIONS

The rapid expansion of the Internet in the last few decades has completely changed the way that people do business and live their lives.<sup>35</sup> Unfortunately, the peddling of counterfeit goods is prevalent on the Internet,<sup>36</sup> with fraud and misrepresentation through online auctions posing a particular problem.<sup>37</sup> Tiffany is a world-famous jeweler, and eBay is a leading Internet

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torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortiously’”) (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979)); *Fonovisa*, 76 F.3d at 265 (agreeing with *Hard Rock*).

<sup>31</sup> *Lockheed*, 194 F.3d at 984-85 (citing *Hard Rock*, 955 F.2d at 1149; *Fonovisa*, 76 F.3d at 265).

<sup>32</sup> Emily Favre, Note, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL’Y 165, 180 (2007) (“The standard for contributory trademark infringement originates in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*”).

<sup>33</sup> *See id.* at 180-81.

<sup>34</sup> Deborah J. Peckham, *The Internet Auction House and Secondary Liability – Will eBay Have to Answer to Groksier?*, 95 TRADEMARK REP. 977, 994 (2005) (“[I]t is not clear . . . whether a service provider like an auction site has a duty to actively police activities of users over whom it arguably exercises some control just because it has reason to know that some of those activities are likely to be illegal.”).

<sup>35</sup> *See, e.g.*, Dusan Belic, *Nokia bets on Internet for the future; Extends partnership with Yahoo*, INTOMOBILE, Nov. 29, 2006, <http://www.intomobile.com/2006/11/29/nokia-bets-on-internet-for-the-future-extends-partnership-with-yahoo.html> (quoting Nokia’s CEO as saying: “[t]he Internet has transformed the way we live our lives . . .”); Jonathan J. Darrow & Gerald R. Ferrera, *The Search Engine Advertising Market: Lucrative Space or Trademark Liability?*, 17 TEX. INTELL. PROP. L.J. 223, 266 (2009) (“[T]he Internet can – and is – revolutionizing the way consumers and businesses buy and sell products.”).

<sup>36</sup> Peckham, *supra* note 34, at 977 (citations omitted).

<sup>37</sup> ICCC 2007, *supra* note 3, at 5 (“During 2007, Internet auction fraud was by far the most reported offense, comprising 35.7% of referred crime complaints.”).

marketplace.<sup>38</sup> In 2004, Tiffany sued eBay claiming that eBay facilitated the sale of hundreds of thousands of counterfeit items of jewelry, and Tiffany sought redress under a number of theories including contributory trademark infringement.<sup>39</sup> This section summarizes the facts of *Tiffany*, explores the question of what level of knowledge is required for contributory trademark infringement, outlines each side's argument, and concludes with a summary of the court's decision.

A. *The Facts of Tiffany v. eBay*

Tiffany has a long history of selling luxury goods such as jewelry and watches under the TIFFANY Marks.<sup>40</sup> The TIFFANY Marks are "indisputably famous," and maintaining the integrity of Tiffany's brand is essential to the company's reputation and success.<sup>41</sup> In an effort to retain its reputation for quality, Tiffany requires its goods to pass exacting quality checks and closely controls its distribution channels.<sup>42</sup> In fact, since 2000, new Tiffany goods must be purchased directly through Tiffany, and are never sold at a reduced price.<sup>43</sup>

eBay is a global online marketplace "where practically anyone can sell practically anything at any time."<sup>44</sup> eBay's approximately 88 million users constitute a market that has been described as "nothing less than a virtual, self-regulating global economy."<sup>45</sup> A seller on eBay can sell items through auctions that have set end-times, use the "Buy It Now" feature to allow a buyer to execute the purchase immediately, or use a combination of the two.<sup>46</sup> A listing may be for one or many items, and sellers are free to list identical, similar, or separate items as they see fit.<sup>47</sup> A seller can place a listing in a number of categories, and buyers can view items based on categories, keywords, or searches.<sup>48</sup>

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<sup>38</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008); eBay: Who We Are, <http://www.ebayinc.com/who> (last visited Oct. 19, 2009) (eBay is "the world's largest online marketplace").

<sup>39</sup> *Tiffany*, 576 F. Supp. 2d at 469; First Amended Complaint, *Tiffany (NJ) Inc., v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (No. 04 Civ. 4607), 2004 WL 2237672.

<sup>40</sup> The TIFFANY Marks include TIFFANY, TIFFANY & CO., and T & CO. and were used to distinguish the brand as early as 1868. *Tiffany*, 576 F. Supp. 2d at 471-72; First Amended Complaint, *supra* note 39.

<sup>41</sup> *Tiffany*, 576 F. Supp. 2d at 471-72.

<sup>42</sup> *See id.* at 472-73.

<sup>43</sup> *Id.*

<sup>44</sup> eBay: Who We Are, *supra* note 38.

<sup>45</sup> *Id.*; *Meg Whitman, eBay*, BUS. WK., Sep. 29, 2003, at 118, available at [http://www.businessweek.com/magazine/content/03\\_39/b3851602.htm](http://www.businessweek.com/magazine/content/03_39/b3851602.htm).

<sup>46</sup> *Tiffany*, 576 F. Supp. 2d at 474.

<sup>47</sup> *See id.*

<sup>48</sup> *Id.* at 474-75.

eBay acts as an intermediary between buyer and seller, who contact each other after the close of a listing to handle the specifics of payment and shipping.<sup>49</sup> Through this arrangement, eBay is never in physical possession of the items for sale; it generates profits by charging sellers a fixed fee for facilitating the listing as well as a percentage of the closing price of any sale.<sup>50</sup> Despite never taking possession of goods sold through its website, eBay does exercise a degree of control over its online marketplace by requiring buyers and sellers to register and to agree to the User Agreement.<sup>51</sup> The User Agreement requires users to comply with all applicable laws and to refrain from selling prohibited items such as counterfeits, drugs, and firearms.<sup>52</sup>

eBay has invested heavily in anti-counterfeiting measures, with over two hundred employees dedicated to combating infringement.<sup>53</sup> eBay has also implemented an automated fraud engine to help eliminate infringing listings, and uses the Verified Rights Owner (“VeRO”) Program<sup>54</sup> to streamline the notice-and-takedown process.<sup>55</sup> The VeRO Program relies on rights owners to report infringing listings, which are reviewed by eBay and generally eliminated within a few hours.<sup>56</sup>

When a listing is terminated through the VeRO Program, eBay refunds all associated fees and notifies the seller and any bidders or buyers that the listing has been terminated and that they should not complete the transaction if the listing had completed prior to termination.<sup>57</sup> The court further found that eBay reviews sellers in terminated listings, and often takes remedial action such as suspending the seller’s account.<sup>58</sup>

During the relevant times, eBay made substantial profit from the sale of “Tiffany” items.<sup>59</sup> In an effort to protect the Tiffany brand, Tiffany has sued

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<sup>49</sup> *Id.* at 475.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.* at 476.

<sup>52</sup> *Id.*; eBay.com, Your User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Oct. 18, 2008).

<sup>53</sup> *Tiffany*, 576 F. Supp. 2d at 476.

<sup>54</sup> Further information about eBay’s Verified Rights Owner Program is available on eBay’s website. *See, e.g.*, How eBay Protects Intellectual Property Rights (VeRO), <http://pages.ebay.com/help/tp/programs-vero-ov.html> (last visited Oct. 18, 2008); Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Oct. 18, 2008); What is VeRO and why was my listing removed because of it?, <http://pages.ebay.com/help/policies/questions/vero-ended-item.html> (last accessed Oct. 18, 2008).

<sup>55</sup> *Tiffany*, 576 F. Supp. 2d at 477-78.

<sup>56</sup> *Id.* at 478.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.* at 478-79.

<sup>59</sup> *Id.* at 481 (“eBay’s Jewelry & Watches category manager estimated that, between April 2000 and June 2004, eBay earned \$4.1 million in revenue from completed listings with “Tiffany” in the listing title in the Jewelry & Watches category.”).

counterfeiters, including sellers on eBay, and has conducted numerous “enforcement actions” such as customs seizures.<sup>60</sup> Nonetheless, by 2003 Tiffany stopped suing individual eBay sellers and decided to pursue the issue of counterfeiting directly with eBay.<sup>61</sup> In May 2003, Tiffany wrote to eBay demanding that it remove all listings for counterfeit Tiffany merchandise and take action to deter sale of counterfeits via eBay.<sup>62</sup> In response to Tiffany’s letter, eBay suggested that Tiffany use the VeRO Program to report counterfeit auctions, noted that eBay removes auctions that facially appear to be counterfeit, and invited Tiffany to suggest ways that the two companies could work together to address the issue of counterfeiting.<sup>63</sup>

Approximately one year later, Tiffany sent eBay another demand letter stating that sales of counterfeit items continued despite Tiffany’s use of eBay’s VeRO Program,<sup>64</sup> and that Tiffany’s buying programs suggested that 73% of “Tiffany” goods sold on eBay were in fact counterfeit.<sup>65</sup> The letter also made a

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<sup>60</sup> *Id.*

<sup>61</sup> *Id.* (noting that failure to pursue individual sellers for trafficking in counterfeits does not constitute abandonment of the TIFFANY Marks).

<sup>62</sup> *Id.* Tiffany also requested that any auction selling a lot of five or more pieces of Tiffany jewelry be removed as the absence of authorized resellers means any such lot is “almost certainly” counterfeit. *Id.* eBay refused to “consider listings ‘apparently infringing’ simply because the seller [was] offering multiple Tiffany items,” and the Court explicitly rejected Tiffany’s suggestion, noting that lots of five or more *authentic* Tiffany items have been sold on eBay. *Id.* at 482.

The court in this case speculated that by sending the letter, Tiffany wanted to preclude eBay from selling Tiffany products in their entirety. However, the court found unequivocally that Tiffany cannot prevent eBay from facilitating the sale of *legitimate* Tiffany goods under a trademark claim. *Id.* at 508-09 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (1982) (White, J., concurring)).

<sup>63</sup> *Tiffany*, 576 F. Supp. 2d, at 481-82.

<sup>64</sup> The Court devotes approximately a page to discussion of Tiffany’s use of the VeRO Program, noting that Tiffany was among the top ten entities to report infringing listings through the VeRO Program. *Id.* at 483-84. Despite this, the Court goes on to comment that Tiffany “invested relatively modest resources to combat the problem,” consisting of approximately \$750,000 yearly, less than 0.05% of its annual net sales, and less than two full-time-equivalent employees. *Id.* at 484. The Court concludes that due to “the limited resources that Tiffany was willing to devote to eBay review, Tiffany simply could not review every Tiffany listing.” *Id.* at 485.

<sup>65</sup> The Court concluded “that a significant portion of the ‘Tiffany’ sterling silver jewelry listed on the eBay website during the Buying Programs was counterfeit,” and eBay conceded that a substantial percentage of “Tiffany” items sold on eBay were counterfeit. *Id.* at 486. Still, the Court finds substantial problems with Tiffany’s buying programs in both their design and implementation, noting that the data should not be “extrapolated to any day outside the specific dates of the programs.” *Id.* Finally, the Court notes that Tiffany suspended its VeRO submissions during buying programs, and thus we cannot know what proportion of the purchased counterfeits would have been flagged and removed by Tiffany’s participation in the VeRO Program. *Id.* at 486 n.17.

number of other demands.<sup>66</sup> In addition, both Tiffany and eBay received numerous customer complaints regarding counterfeit items purchased on eBay.<sup>67</sup>

eBay responded to Tiffany's notifications by promptly removing the listings that Tiffany had flagged.<sup>68</sup> Although Tiffany routinely requested that eBay suspend the seller account associated with a reported listing, eBay typically declined to do so.<sup>69</sup> eBay did, however, institute changes specific to "Tiffany" listings such as reminding sellers that items must be authentic, and implementing technological fraud-prevention measures.<sup>70</sup>

Despite eBay's efforts, Tiffany found that the number of takedown requests that it issued to eBay continued to climb.<sup>71</sup> Tiffany became increasingly frustrated as the effort needed to keep counterfeiting on eBay under some semblance of control continued to increase.<sup>72</sup> Convinced that eBay was not fulfilling its legal obligations to prevent the sale of counterfeit items through its website, Tiffany filed suit alleging, among other things, that eBay was guilty of contributory trademark infringement.<sup>73</sup>

#### B. *The Knowledge Standard in Contributory Trademark Infringement*

One central question in *Tiffany* is what standard of knowledge is required for a contributory infringer to incur a duty to proactively prevent the infringement of a third party.<sup>74</sup> This question is largely unsettled and is important because its answer will affect the behavior of potential litigants moving forward.<sup>75</sup> Indeed, if the court sets the knowledge requirement too low it might eliminate perfectly legal secondary markets for legitimate trademarked goods.<sup>76</sup> Alternatively, if it sets the bar too high it might allow culpable parties to escape liability, thereby undermining the twin purposes of trademark law.<sup>77</sup>

According to *Inwood*, a contributory infringer is liable when "it continues to supply its product to one whom it knows or has reason to know is engaging in

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<sup>66</sup> *Id.* at 481.

<sup>67</sup> *Id.* at 487.

<sup>68</sup> *Id.* at 487-88.

<sup>69</sup> *Id.* at 488-89.

<sup>70</sup> *Id.* at 492.

<sup>71</sup> Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 17.

<sup>72</sup> *Id.* at 16-18.

<sup>73</sup> *Id.*

<sup>74</sup> See, e.g., Carrie A. Hanlon & Laura A. Chubb, *Tiffany Can't Sell Trademark Suit Against eBay; Judge Says Auction Site Not Responsible for Halting Counterfeit Jewelry Sales*, 34 CONN. L. TRIB. 41 (Oct. 13, 2008).

<sup>75</sup> See *Peckham*, *supra* note 34, at 994.

<sup>76</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 508-09 (S.D.N.Y. 2008) (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (1982) (White, J. concurring)).

<sup>77</sup> See *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 873 (9th Cir. 1999) (citing *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995)).

trademark infringement.”<sup>78</sup> The question addressed in *Tiffany* is whether general knowledge of infringement satisfies the *Inwood* test.<sup>79</sup> In *Tiffany*, a generalized knowledge requirement would trigger a duty for eBay to proactively prevent sellers’ infringement “at the very moment that it knew or had reason to know that the infringing conduct was generally occurring, even without specific knowledge as to individual instances of infringing listings or sellers.”<sup>80</sup> Alternatively, a requirement of specific knowledge would only trigger a duty for eBay as to any seller for whom it has specific knowledge of infringement.<sup>81</sup> Thus, if the court found that a plaintiff must show specific knowledge, an alleged contributory infringer would have absolutely no duty to proactively prevent others’ infringement unless it knew or had reason to know that that specific person or company was committing trademark infringement.<sup>82</sup>

### C. eBay’s Argument

eBay argued that “the governing case law instructs that there is no obligation on eBay’s part to proactively monitor its site.”<sup>83</sup> eBay opened by noting that Tiffany has a duty to proactively protect its marks,<sup>84</sup> in part because Tiffany reaps the economic benefit of the marks and is in the best position to distinguish between legitimate and counterfeit goods.<sup>85</sup> eBay stated that it agreed with Tiffany that the *Inwood* standard for contributory trademark infringement should be applied.<sup>86</sup> Under the *Inwood* standard, courts have declined to shift the responsibility for policing trademarks to “innocent third parties,” as the “contributory infringement doctrine . . . does not extend so far as to require non-infringing users to police the mark for a trade name owner. The owner of a trade name must do its own police work.”<sup>87</sup> eBay argued that

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<sup>78</sup> *Inwood*, 456 U.S. at 854.

<sup>79</sup> *Tiffany*, 576 F. Supp. 2d at 507-08.

<sup>80</sup> *Id.* at 507.

<sup>81</sup> *Id.* at 469-70.

<sup>82</sup> *Id.* at 507-08.

<sup>83</sup> Defendant eBay’s Post-Trial Memorandum at 14, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. Dec. 7, 2007) (No. 04 Civ. 4607(RJS)), 2007 WL 4837669 (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1095 (C.D. Cal. 2001) (holding that eBay “has no affirmative duty to monitor its own website” for potential intellectual property violations)).

<sup>84</sup> Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 4 (citing J. THOMAS MCCARTHY, 2 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:91 (2009)).

<sup>85</sup> *Id.* at 4-5 (citing *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 61 (2d Cir. 1997)).

<sup>86</sup> *Id.* at 8.

<sup>87</sup> *Id.* at 5 (quoting *MDT Corp. v. N.Y. Stock Exch.*, 858 F. Supp. 1028, 1034 (C.D. Cal. 1994)).

this makes sense as Tiffany “has the necessary expertise and resources – including tools, trained evaluators, access to catalogues, and so on – to distinguish between authentic and counterfeit Tiffany products,” and eBay “has no comparable expertise, particularly without the ability to examine the physical item.”<sup>88</sup>

eBay argued that *Inwood* requires the alleged contributory infringer to have specific knowledge of infringement, and yet continue to provide its services to the infringer.<sup>89</sup> Thus, to be held liable, eBay argued it must have failed to act on knowledge of specific infringements (characterized for the purposes of this case as counterfeit listings).<sup>90</sup> As the “record is uncontroverted that, once notified by Tiffany that a listing may contain infringing merchandise, eBay has removed that listing from its site,” eBay argues it cannot be held liable for infringing third-party listings,<sup>91</sup> and claims that Tiffany wants to use a “reasonable anticipation” standard that was explicitly rejected in *Inwood*.<sup>92</sup>

eBay defended its actions in response to Tiffany’s demands by noting that Tiffany’s letters did not provide any specific information, and stating that general notice does not satisfy the knowledge requirement of *Inwood*.<sup>93</sup> Further, eBay stated that it does not automatically suspend users after a receiving single takedown request because such requests are based on the good faith of the rights holder, and thus are not definitive.<sup>94</sup> This is evidenced by requests from Tiffany to reinstate auctions that were misreported as infringing.<sup>95</sup>

eBay stated that courts have uniformly “held that entities like eBay have no affirmative duty to take precautions against the sale of counterfeits” and that “the reason to know part of the standard for contributory liability . . . does not impose any duty to seek out and prevent violations.”<sup>96</sup> Thus, the determinative factor in this case must be eBay’s response to reports of specific infringing listings, which eBay claimed easily exceed the duty that such reports impose upon it.<sup>97</sup>

#### D. Tiffany’s Argument

Tiffany argued that the “doctrine of contributory infringement has

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<sup>88</sup> *Id.* at 5-6 (internal citations omitted).

<sup>89</sup> *Id.* at 8-9 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982)).

<sup>90</sup> *Id.* at 10.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* at 16 (citing *Inwood*, 456 U.S. at 854 n.13).

<sup>93</sup> *Id.* at 19 (citing *Gucci Am., Inc. v. Hall & Accocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001)).

<sup>94</sup> *Id.* at 30 n.23.

<sup>95</sup> *Id.* at 33.

<sup>96</sup> *Id.* at 24-25 (quoting *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)) (internal quotations omitted).

<sup>97</sup> *Id.* at 38.

developed to deal with businesses such as eBay who profit off the sale of illegal merchandise by others.”<sup>98</sup> Tiffany claimed that because “eBay had reason to know that there was pervasive and fundamental misuse of its system for the sale of counterfeit[s],” eBay was on notice that a problem existed and thus had a duty to investigate and resolve any problems uncovered.<sup>99</sup>

eBay exercises control over who has access to its services by requiring users to register, and also controls what items are allowed to be listed.<sup>100</sup> Further, as much of eBay’s revenue is tied to the success of sellers’ listings, eBay “feel[s] that [it is] very much in the business of trying to help [its] sellers succeed,” and takes “affirmative steps designed to increase its sellers’ sales.”<sup>101</sup> Tiffany asserted that the VeRO Program was inadequate because it was possible that listings would close before Tiffany was able to review them, as Tiffany did not have access to listings before the public.<sup>102</sup> Further, when Tiffany submitted takedown requests eBay removed the listings; however, there is no evidence that eBay took any actions against the sellers (such as suspending the sellers’ accounts) or investigated Tiffany’s or eBay customers’ complaints.<sup>103</sup>

Tiffany argued that the court’s inquiry should be “whether ‘a reasonable person in the defendant’s position would realize either that [it] had created a situation’ likely to result in infringement, or ‘was dealing with a customer whom [it] should know would be peculiarly likely to use the defendant’s product wrongfully.’”<sup>104</sup> Thus, Tiffany contended that to avoid liability for contributory infringement, a party must proactively take effective measures to remedy the problem as soon as it knows or has reason to know that it is facilitating infringing conduct.<sup>105</sup> Tiffany claimed a party that fails to investigate whether it is in fact facilitating infringing activity is guilty of willful blindness, and thus has constructive knowledge of its responsibility for aiding infringement.<sup>106</sup>

Tiffany argued that in *Inwood* the knowledge requirement was satisfied by general knowledge.<sup>107</sup> Thus, a defendant’s generalized knowledge that it is likely to be facilitating infringement satisfies the *Inwood* test’s knowledge

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<sup>98</sup> Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 2.

<sup>99</sup> *Id.* at 1-2.

<sup>100</sup> *Id.* at 5.

<sup>101</sup> *Id.* at 6-7 (internal citations omitted).

<sup>102</sup> *Id.* at 15 (internal citations omitted).

<sup>103</sup> *Id.* at 16 (internal citations omitted).

<sup>104</sup> *Id.* at 19 (quoting *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946)).

<sup>105</sup> *Id.* at 20 (citing *Snow Crest*, 64 F. Supp., at 989; *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984)).

<sup>106</sup> *Id.* at 21 (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

<sup>107</sup> *See id.* at 23 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 851-55 (1982)).

requirement.<sup>108</sup> In numerous cases, such as *Hard Rock* and *Fonovisa*, courts have extended this doctrine to find defendants contributorily liable for knowingly supplying a marketplace for the sale of infringing goods.<sup>109</sup> A defendant is particularly culpable when it exercises control and monitoring over the infringing activity.<sup>110</sup>

Tiffany argued that eBay is comparable to the marketplaces in *Hard Rock* and *Fonovisa*, as it retains complete control over who can sell items through its services.<sup>111</sup> Further, because eBay's profits are directly linked to successful sales by its sellers, it is incentivized to allow sellers great leeway.<sup>112</sup> This is evidenced by, for example, a PowerSeller<sup>113</sup> who eBay allowed to retain both an active account and PowerSeller status despite Tiffany submitting takedown notices for over 3,000 of the seller's listings in a single month.<sup>114</sup>

According to Tiffany, the evidence established that eBay knew or had reason to know that a significant proportion of the "Tiffany" items sold by its sellers were counterfeit.<sup>115</sup> As eBay possessed generalized knowledge of infringement through eBay listings and exercised complete control over who may list items and what items may be listed, eBay had an obligation to investigate for and correct any findings of infringement.<sup>116</sup> As eBay failed to

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<sup>108</sup> *Id.* at 23 (citing *Inwood*, 456 U.S. at 851-52, 854-55).

<sup>109</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) ("a swap meet can not disregard its vendors' blatant trademark infringements with impunity"); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (swap market operator contributorily liable for supplying marketplace for sale of substantial quantities of counterfeit goods); *Habeeba's Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714-15 (S.D. Ohio 2006) (infringing party's landlord contributorily liable because landlord had notice of and allowed property to be used for infringing activity).

<sup>110</sup> *Lockheed Martin Corp. v. Network Solutions Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) ("Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab's* 'supplies a product' requirement for contributory infringement."); *Hard Rock*, 955 F.2d at 1148-49; *Fonovisa*, 76 F.3d at 265; *Habeeba's Dance*, 430 F. Supp. 2d at 714.

<sup>111</sup> Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 32 (citing *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001)).

<sup>112</sup> *Id.* at 33.

<sup>113</sup> PowerSellers are "among the most successful sellers in terms of product sales and customer satisfaction on eBay." *Becoming a PowerSeller*, <http://pages.ebay.com/help/sell/sell-powersellers.html> (last visited Oct. 31, 2008); *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 476 (S.D.N.Y. 2008) (internal citations omitted). eBay provides (or, at the relevant times, provided) PowerSellers with additional resources such as dedicated account managers, newsletters, education, insurance and other benefits, as well as lines of credit. *Tiffany*, 576 F. Supp. 2d, at 476.

<sup>114</sup> Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 34.

<sup>115</sup> *Id.* at 21.

<sup>116</sup> *Id.* at 20 (citing *Snow Crest*, 64 F. Supp., at 989; *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984)).

do so, it facilitated the infringement of its sellers, and therefore is contributorily liable.<sup>117</sup>

*E. The Holding*

In brief, the court concluded that “the burden of policing the Tiffany mark appropriately rests with Tiffany.”<sup>118</sup> The court, applying the *Inwood* standard, identified the question as whether eBay knew or had reason to know of infringement and not whether eBay could reasonably anticipate the infringement.<sup>119</sup> The court held that *Inwood’s* knowledge requirement is satisfied only by knowledge of specific infringements, and found that Tiffany had failed to communicate any such specific knowledge to eBay.<sup>120</sup> Although eBay possessed generalized knowledge of infringement, it was not willfully blind, and it took reasonable steps to correct any (alleged) infringement.<sup>121</sup>

In full, the court found that “eBay clearly falls on the ‘service’ side of the product/service distinction,” and thus “the Court will look not only to whether eBay provided the necessary marketplace for the counterfeiting (which it clearly did), but further to whether eBay had direct control over the means of infringement.”<sup>122</sup> It found that eBay “is analogous to a flea market like those in *Hard Rock Café* and *Fonovisa*” because: (i) eBay facilitates transactions between its buyers and sellers; (ii) eBay actively promoted the sale of Tiffany jewelry; (iii) eBay’s profits relate directly to the successful completion of listings; eBay “maintains significant control” over its website, and thus the *Inwood* standard applies.<sup>123</sup> Under *Inwood*, the correct question of knowledge is whether eBay knew or had reason to know of the infringement.<sup>124</sup> Thus, the court held that the “reasonably anticipate” test is a “‘watered down’ and incorrect standard” that was explicitly rejected by the Supreme Court in *Inwood* and is therefore not applicable.<sup>125</sup>

The court noted that “[t]he Second Circuit has not defined how much knowledge or what type of knowledge a defendant must have to satisfy the ‘know or reason to know’ standard set forth in *Inwood*,” and discussed a number of reasons for concluding that “generalized knowledge is

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<sup>117</sup> *Id.* at 21.

<sup>118</sup> *Tiffany*, 576 F. Supp. 2d, at 518.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

<sup>122</sup> *Id.* at 506.

<sup>123</sup> *Id.* at 506-07 (citing *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001)).

<sup>124</sup> *Id.* at 503 (“the plain language of *Inwood* forecloses the application of the ‘reasonable anticipation’ standard”).

<sup>125</sup> *Id.* at 502-03 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 n.13 (1982)).

insufficient.”<sup>126</sup> First, the court emphasized the Supreme Court’s use of the singular in articulating the test as finding liability where a defendant “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>127</sup> The court reasoned that this language illustrates the Supreme Court’s focus on individual infringers, thus suggesting a requirement of specific knowledge.<sup>128</sup> Second, the court stated that it agrees with another district court in the Second Circuit that “trademark plaintiffs bear a high burden in establishing ‘knowledge’ of contributory infringement,” suggesting that generalized knowledge is too easy for such a plaintiff to show.<sup>129</sup> Third, the court argued that it should not extend liability to defendants, like eBay in the instant action, where the extent of infringement is unclear, particularly since finding for Tiffany would greatly expand the scope of Tiffany’s trademark rights and potentially restrict eBay sales of legitimate Tiffany items.<sup>130</sup> Lastly, the court found that neither the precedent of *Hard Rock* nor of *Fonovisa* supported Tiffany’s contention that generalized knowledge is sufficient, as neither case addressed the question of knowledge.<sup>131</sup>

The court concluded that, while eBay had generalized knowledge of infringement, it did not have specific knowledge.<sup>132</sup> The court found that Tiffany’s buying programs were flawed such that their evidentiary value was minimal at best, its letters to eBay failed to identify specific infringers, and its takedown requests represented good-faith belief in the identified listings’ infringement rather than evidence of actual infringement.<sup>133</sup> The court noted that it was unconvinced that eBay failed to take reasonable actions to prevent infringement of Tiffany’s marks; however, it ultimately found this to be irrelevant “because without specific knowledge or reason to know, eBay is under no affirmative duty to ferret out potential infringement.”<sup>134</sup> Willful blindness requires more than negligence, and therefore should only be found if eBay intentionally avoided learning of the infringement facilitated by its services.<sup>135</sup> As eBay was not only generally aware of infringement, but also

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<sup>126</sup> *Id.* at 508.

<sup>127</sup> *Id.* (quoting *Inwood*, 456 U.S. at 854).

<sup>128</sup> *Tiffany*, 576 F. Supp. 2d, at 508.

<sup>129</sup> *See id.* (quoting *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001)).

<sup>130</sup> *Id.* at 508-09 (citing *Inwood*, 456 U.S. at 861 (White, J., concurring)).

<sup>131</sup> *Id.* at 510 (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996)).

<sup>132</sup> *Id.* at 511.

<sup>133</sup> *Id.* at 511-13.

<sup>134</sup> *Id.* at 514-15.

<sup>135</sup> *Id.* at 515 (citing *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F.Supp.2d 1352, 1369-70 (S.D. Ga. 2003)).

took substantial steps to curb it, eBay was not willfully blind.<sup>136</sup> The court held that were it to find eBay willfully blind, it would be extending *Inwood's* "reason to know" to create an affirmative duty to take precautions against counterfeiting even if the defendant had no specific knowledge thereof – a duty that, the court says, precedent agrees does not exist.<sup>137</sup>

Assuming *arguendo* that Tiffany's takedown requests did in fact constitute knowledge of specific infringement, Tiffany conceded that eBay always acted in good faith and removed any identified listings.<sup>138</sup> Thus, the court found that Tiffany's argument must be that eBay failed to suspend sellers whose listings had been flagged by Tiffany.<sup>139</sup> Because a takedown request only represents a good faith belief by Tiffany that a listing infringes upon its trademarks, the court held that eBay was justified in declining to automatically suspend all accounts on the first notice from Tiffany.<sup>140</sup> As such, the court found that eBay responded properly to the information that it received from Tiffany and therefore was not liable for contributory trademark infringement.<sup>141</sup> Tiffany promptly appealed the judgment.<sup>142</sup>

It is important to note here that there is an important ambiguity in the court's opinion. The court only explicitly examined the knowledge requirement with respect to eBay's refusal to automatically suspend sellers because Tiffany conceded "that eBay always acted in good faith and never refused to remove a listing after a NOCI [VeRO submission] had been filed."<sup>143</sup> As such, the opinion is unclear as to whether the knowledge threshold is the same with regards to eBay's response to a VeRO submission and its decision about suspending a seller. One plausible reading of the case is that the knowledge requirement was implicitly satisfied with regards to VeRO submissions, and eBay's actions were appropriate in response.<sup>144</sup> The consensus in the written discussion and analysis of the case is that the court applied a uniform higher standard of knowledge, requiring actual knowledge to trigger the potential of contributory liability, throughout the opinion.<sup>145</sup> Accordingly, this note

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<sup>136</sup> *Id.* at 515.

<sup>137</sup> *Id.* (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); *Hendrickson v. eBay Inc.*, 165 F.Supp.2d 1082, 1095 (C.D. Cal.2001)).

<sup>138</sup> *Id.* at 516.

<sup>139</sup> *Id.* at 516-17.

<sup>140</sup> *Id.* at 517.

<sup>141</sup> *Id.* at 518.

<sup>142</sup> See Notice of Appeal, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. Aug. 11, 2008) (No. 04 Civ. 4607 (RJS)), available at [http://www.counterfeitchic.com/Images/tiffany\\_appeal\\_notice\\_7-11-08.pdf](http://www.counterfeitchic.com/Images/tiffany_appeal_notice_7-11-08.pdf).

<sup>143</sup> *Tiffany*, 576 F. Supp. 2d at 516.

<sup>144</sup> *Id.*

<sup>145</sup> E.g. Valerie Walsh Johnson & Laura P. Merritt, *Tiffany v. eBay: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, 1 No. 2 LANDSLIDE,

operates under the same understanding of the *Tiffany* opinion.

#### IV. AN ANALYSIS OF *TIFFANY*: THE *INWOOD* STANDARD, LEAST COST AVOIDER AND POLICY ANALYSIS

This section analyzes the decision in *Tiffany* from different angles, with a focus on the court's conclusion that contributory trademark infringement requires that the defendant have specific knowledge of direct infringement. It begins by looking at the effect of the new knowledge bar. It continues to apply least cost avoider analysis to the *Tiffany* fact pattern, and concludes by examining whether or not the decision furthers the twin aims of trademark law.

##### A. *Tiffany and the Inwood Standard: Effectively Resurrecting the Requirement of Misfeasance?*

In 1982, the Supreme Court articulated the current test for contributory trademark infringement in *Inwood*.<sup>146</sup> The *Inwood* standard holds a party contributory liable when the party (a) “intentionally induces another to infringe a trademark or [(b)] if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>147</sup> Thus, under *Inwood* a party must commit misfeasance after gaining knowledge of another's infringement to be held contributorily liable.<sup>148</sup> Because misfeasance requires an affirmative act, this means that under *Inwood*, a person sitting idly by and failing to reasonably prevent the infringement of another cannot be held liable.<sup>149</sup>

While this does not impart a duty on members of the general public to proactively prevent trademark infringement barring some relationship with the infringer, courts after *Inwood* have extended the doctrine of contributory trademark infringement to include situations where a party provides a venue for another's infringement and exercises direct control over the means of infringement.<sup>150</sup> This includes situations where the contributory infringer

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Nov.-Dec. 2008, at 22, 24-5 (“the *Tiffany* court determined that eBay's general knowledge that infringement occurred on its site was not sufficient”); Elizabeth Varner, Note, *Tiffany Inc. v. eBay, Inc.: Justice White's Outdated Guild to Trademark Infringement Will Likely Result in Appeals*, 11 TUL. J. TECH & INTELL. PROP. 157, 170-74 (*Tiffany* court held that “specific knowledge of each individual infringer is required to establish that eBay knew or had reason to know of infringement”).

<sup>146</sup> See, e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264-65 (9th Cir. 1996).

<sup>147</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982) (Generic drug manufacturer may be liable for pharmacists mistaking generic for competitor's non-generic drug.).

<sup>148</sup> See *id.*

<sup>149</sup> Misfeasance, BLACK'S LAW DICTIONARY 1021 (8th ed. 2004).

<sup>150</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992); *Fonovisa*, 76 F.3d at 265).

knew or should have known of the actual infringement, including cases of willful blindness.<sup>151</sup> While this extension of *Inwood* has been most frequently applied to landlords and operators of flea markets or other attractions, it has also been extended to include website operators who facilitate others' infringement.<sup>152</sup>

In a case like *Hard Rock* or *Fonovisa*, where a landlord or operator rents a space to a seller and then fails to ensure that the seller's goods are legitimate, the only affirmative action taken by the landlord is the initial rental.<sup>153</sup> As this rental takes place before the operator had reason to know of the infringer's conduct, the rental itself is not improper, and thus does not constitute misfeasance.<sup>154</sup> As the operator may nonetheless be liable, it must be due to the operator's nonfeasance.<sup>155</sup> Indeed, a landlord/operator's constructive or actual knowledge of infringement creates a duty to take reasonable steps to prevent such infringement, and a failure to satisfy this duty constitutes contributory trademark infringement.<sup>156</sup> As such, misfeasance is presently not a requirement for a finding of contributory trademark infringement,<sup>157</sup> and it is extremely important that we set the knowledge bar at the proper level.<sup>158</sup>

In *Tiffany*, the court correctly found that in the absence of knowledge or

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<sup>151</sup> *Hard Rock*, 955 F.2d at 1149 (Flea-market operator "is responsible for the torts of those it permits on its premises 'knowing or having reason to know that the other is acting or will act tortiously.'") (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979)); *Fonovisa*, 76 F.3d at 265 (agreeing with *Hard Rock*).

<sup>152</sup> See generally RESTATEMENT (SECOND) OF TORTS § 877 (1979); *Fonovisa*, 76 F.3d; *Gucci Am., Inc., v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001); *Gov't Employees Ins. Co., v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

<sup>153</sup> The knowledge requirement in *Fonovisa* was clearly satisfied by repeated notifications of infringement to the defendant. *Fonovisa*, 76 F.3d at 261 ("There is also no dispute for purposes of this appeal that Cherry Auction and its operators were aware that vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa's trademarks and copyrights. . . . Between 1991 and 1993, the Fresno County Sheriff's Department raided the Cherry Auction swap meet and seized more than 38,000 counterfeit recordings[. . .] the Sheriff sent a letter notifying Cherry Auction of the on-going sales of infringing materials, and . . . Fonovisa itself sent an investigator to the Cherry Auction site and observed sales of counterfeit recordings."). In *Hard Rock*, the defendant was found to be willfully blind, and thus the knowledge requirement was met despite no notification whatsoever. *Hard Rock*, 955 F.2d at 1147 ("At no point before filing suit did Hard Rock [the plaintiff] warn Harry's or CSI [the defendant] . . . that the shirts were counterfeits.").

<sup>154</sup> See Misfeasance, BLACK'S LAW DICTIONARY 1021 (8th ed. 2004).

<sup>155</sup> See *id.*; Nonfeasance, BLACK'S LAW DICTIONARY 1080 (8th ed. 2004) ("Hence there arose very early a difference, still deeply rooted in the law of negligence, between 'misfeasance' and 'nonfeasance' – that is to say, between active misconduct working positive injury to others and passive inaction or a failure to take steps to protect them from harm.") (internal citation omitted).

<sup>156</sup> *Hard Rock*, 955 F.2d at 1149.

<sup>157</sup> See *Hard Rock*, 955 F.2d at 1148-49; *Fonovisa*, 76 F.3d. at 264-265.

<sup>158</sup> See discussion *supra* Part III.B.

constructive knowledge of infringement eBay has no duty to prevent counterfeiting.<sup>159</sup> The key issue in *Tiffany*, however, is determining the correct standard of knowledge.<sup>160</sup> Setting the bar too low creates an undue burden on eBay, effectively preventing eBay from providing a secondary market for Tiffany goods.<sup>161</sup> However, setting the bar so high that Tiffany cannot realistically convey knowledge to eBay effectively resurrects the requirement that eBay commit misfeasance in order to be liable for contributory trademark infringement.

The court in *Tiffany* found that to pass the knowledge threshold, eBay must know of actual infringement by a specific seller.<sup>162</sup> Because Tiffany's submission of a counterfeit listing to eBay through VeRO is based on Tiffany's good-faith belief that the listed item is fake, it does not provide eBay with actual knowledge of infringement.<sup>163</sup> Thus, to provide eBay with actual knowledge of infringement, Tiffany would likely have to purchase a suspected counterfeit item from a seller and verify that it is in fact fake.<sup>164</sup>

The problem here is that confirming that a specific seller is selling counterfeits is extremely expensive for Tiffany. First, Tiffany must decide if an authenticity determination requires it to purchase an item on eBay, often at considerable expense.<sup>165</sup> If it must purchase the item, Tiffany must employ a specialist to inspect it to determine its authenticity.<sup>166</sup> As this determination may require considerable resources such as tools, training, and access to information about previous Tiffany products, it is likely to be quite expensive.<sup>167</sup> Further, as a significant proportion of the products purchased are likely to be legitimate or non-actionable, the cost of examining the non-actionable items must be amortized across the counterfeits discovered.<sup>168</sup> This leaves Tiffany with a high average cost per counterfeit discovered.

The procedure above must be replicated for each and every suspected infringing listing.<sup>169</sup> Given that Tiffany submitted almost 60,000 listings to

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<sup>159</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 508 (S.D.N.Y. 2008); *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>160</sup> Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4.

<sup>161</sup> *Tiffany*, 576 F. Supp. 2d, at 508-09 (citing *Inwood*, 456 U.S. at 861 (White, J. concurring)).

<sup>162</sup> *Id.* at 511.

<sup>163</sup> *Id.* at 515 n.38.

<sup>164</sup> *Id.* at 472 n.7.

<sup>165</sup> *Id.* A cursory examination suggests that Tiffany sterling routinely sells for in excess of \$50 per item, and often for over \$100 per item. <http://www.ebay.com> (search for "tiffany sterling").

<sup>166</sup> *Tiffany*, 576 F. Supp. 2d, at 472 n.7.

<sup>167</sup> See Defendant eBay's Post-Trial Memorandum, *supra* note 83, at 5-6.

<sup>168</sup> See *Tiffany*, 576 F. Supp. 2d, at 482 ("73% of the sterling silver Tiffany merchandise on eBay was counterfeit, and [] only 5% was genuine").

<sup>169</sup> See *Tiffany*, 576 F. Supp. 2d at 511.

eBay as suspected counterfeits in 2005,<sup>170</sup> Tiffany's overall cost to verify that a substantial portion of suspected counterfeits are indeed fake would be staggering.<sup>171</sup> To add insult to injury, the record does not indicate that eBay has an automated system such as VeRO through which Tiffany can report confirmed counterfeits.<sup>172</sup> Accordingly, Tiffany must submit all such notifications to eBay outside of the VeRO system, likely in the form of a formal letter.<sup>173</sup> Thus, Tiffany's cost to communicate confirmed counterfeits to eBay will also be high.

If we assume that Tiffany individually inspects 40,000 individual items over the course of a year,<sup>174</sup> paying an average of \$75 per item on eBay<sup>175</sup> and costing an additional \$325 per item in labor and testing costs to determine its authenticity and to report back to eBay,<sup>176</sup> it would cost Tiffany about \$16,000,000 annually.<sup>177</sup> This number amounts to between five and ten percent of Tiffany's annual net earnings.<sup>178</sup> Further, this only represents Tiffany's cost to police eBay; it follows that the cost to police the entire Internet, let alone trafficking and sales of goods through more traditional channels is bound to be considerably higher. As such, the cost to Tiffany to meaningfully provide specific knowledge to secondary infringers is almost certainly prohibitively high. Thus, the court in *Tiffany* has effectively resurrected the requirement of misfeasance for contributory trademark infringement liability,<sup>179</sup> thereby undoing over fifteen years of legal change.<sup>180</sup>

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<sup>170</sup> *Id.* at 484.

<sup>171</sup> It should be noted that the approximately 60,000 listings reported do not indicate 60,000 unique sellers. Many sellers will host subsequent auctions under different usernames, and it is impossible for Tiffany to tell that two usernames belong to the same seller before confirming that the items are counterfeit and seeking the sellers' information from eBay. See Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 18-29.

<sup>172</sup> *See id.*

<sup>173</sup> *See id.*

<sup>174</sup> This assumption has Tiffany inspecting approximately two-thirds of the suspected counterfeits from 2005. See *Tiffany*, 576 F. Supp. 2d, at 484.

<sup>175</sup> *See supra* note 165.

<sup>176</sup> This reflects a very rough estimate of the average cost for a skilled (and thus well-compensated) technician to authenticate an item, plus the cost of testing equipment and the labor costs associated with finding the item on eBay, purchasing it, transporting it through Tiffany's facility, and having a Tiffany attorney draft and submit a formal complaint to eBay once the item is determined to be counterfeit.

<sup>177</sup> Note here that eBay generates much of its profit through assessing fees on completed transactions. *Tiffany*, 576 F. Supp. 2d, at 475. As Tiffany must purchase items on eBay in order to prove eBay's contributory trademark infringement, there is a distinct perversity here as Tiffany must pay eBay for the privilege of proving eBay's infringement.

<sup>178</sup> *See Tiffany & Co., ANNUAL REPORT 2003 3 (2004); Tiffany & Co., TIFFANY YEAR-END REPORT 2007 6 (2008).*

<sup>179</sup> Changing the knowledge standard for the *Inwood* test would not have affected the outcome of this case. *Tiffany*, 576 F. Supp. 2d at 518 (Assuming that Tiffany met the

B. *Policy Analysis: Tiffany and the Least Cost Avoider*

The law-and-economics approach to many problems ultimately comes down to economic efficiency.<sup>181</sup> Thus, liability in tort should lie with the least cost avoider – the entity that would have to spend the least to avoid the harm.<sup>182</sup> One early precursor to least cost avoider analysis is the Hand Formula, where Judge Learned Hand found that an accused tortfeasor’s liability depends on whether the burden to prevent the harm is less than the probable loss (written as  $B < PL$ ).<sup>183</sup> Least cost avoider analysis has gained clout over the years, and has been discussed in judicial cases and academic articles alike.<sup>184</sup>

As indirect liability in trademark law is at least partially derived from tort,<sup>185</sup>

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knowledge requirement under *Inwood*, “the Court concludes that Tiffany has failed to prove that eBay continued to supply its services in instances where it knew or had reason to know of infringement.”). This makes the Court’s requirement for specific knowledge dubious from a policy perspective, because the Court could have avoided ruling on the knowledge question at all. After all, do we really want to say that an entity facilitating and generally aware of another’s infringement, but who is not willfully blind, has absolutely no duty to prevent that infringement? That is what the court here did. *Id.* at 508 (“[G]eneralized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to [take any steps to] remedy the problem.”).

<sup>180</sup> See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992)). But see Benjamin Aitken, *Keyword-Linked Advertising, Trademark Infringement, and Google’s Contributory Liability*, 2005 DUKE L. & TECH. REV. 21, ¶ 17-18 (2005), available at <http://www.law.duke.edu/journals/dltr/articles/2005dltr0021.html>; Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777 (2004) (critiquing the expansion of the contributory trademark infringement doctrine).

<sup>181</sup> Landes & Posner, *supra* note 11. But cf. Marco J. Jimenez, *The Value of a Promise: A Utilitarian Approach to Contract Law Remedies*, 56 UCLA L. REV. 59, 72-73 (2008) (arguing that the Law and Economics approach is not the most efficient).

<sup>182</sup> Meir Katz, Comment, *Bioterrorism and Public Law: the Ethics of Scarce Medical Resource Allocation in Mass Casualty Situations*, 21 GEO. J. LEGAL ETHICS 795, 807 (2008) (citing A. MITCHELL POLINSKI, AN INTRO. TO LAW AND ECON. 7-9 (1st ed. 1983)); Landes & Posner, *supra* note 11, at 302.

<sup>183</sup> *United States v. Carroll Towing Co.*, 159 F.2d 169, 173 (2d Cir. 1947).

<sup>184</sup> See, e.g., *Ross v. RJM Acquisitions Funding LLC*, 480 F.3d 493, 498 (7th Cir. 2008) (finding for Plaintiff would be perverse where Plaintiff was least cost avoider) (internal citations omitted); *Union Oil Co. v. Oppen*, 501 F.2d 558, 569-70 (9th Cir. 1974) (“[T]he loss should be allocated to that party who can best correct any error in allocation . . .”) (citing GUIDO CALABRESI, *THE COST OF ACCIDENTS* 69-73 (1970)); R. H. Coase, *The Problem of Social Cost*, 3 J. Law & Econ. 1 (1960); Frederick C. Dunbar & Arun Sen, *Shareholder Class Actions and the Counterfactual*, 1692 PLI/Corp 697, 708 (2008) (“The law-and-economics prescription for liability in tort is to pass it on to the least cost avoider of the event causing harm.”).

<sup>185</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th

it may be helpful to determine whether the trademark owner or the accused infringer could most easily avoid the alleged harm to the mark and its owner. While the theory of least cost avoider liability is fairly straightforward, determining which party could have most efficiently avoided the harm often proves to be very difficult.<sup>186</sup> The *Tiffany* court states explicitly that its analysis does not depend on which party could more efficiently police the TIFFANY Marks, a question that is “unresolved by this trial.”<sup>187</sup> eBay argues rather succinctly that only Tiffany has the resources to determine which items are counterfeit, noting that Tiffany has “tools, trained evaluators, access to catalogues, and so on” that eBay does not.<sup>188</sup>

Tiffany only alludes to eBay being the least cost avoider, noting that eBay controls access to its website by requiring sellers to register, that sellers can have multiple identical listings, and that sellers are effectively anonymous.<sup>189</sup> There are, however, additional factors that likely contributed to Tiffany’s decision that “it was not economical to pursue legal action against individual sellers.”<sup>190</sup> First, there are a significant number of eBay sellers that peddle their counterfeit goods through eBay.<sup>191</sup> Due to the high cumulative transaction costs of pursuing each individual seller, it is more efficient for Tiffany to pursue eBay directly.<sup>192</sup>

As for eBay, there is a strong argument that it is the least cost avoider because it does not exercise sufficient control over who it allows to sell on its website. While eBay requires all sellers to provide a name and address, many

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Cir. 1992) (citing *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir.1989)) (“To answer questions of [indirect liability], we have treated trademark infringement as a species of tort and have turned to the common law to guide our inquiry into the appropriate boundaries of liability.”).

<sup>186</sup> John Cirace, *A Theory of Negligence and Products Liability*, 66 St. John’s L. Rev. 1, 40-43 (1992); Joseph P. Liu, Symposium, *Two-Factor Fair Use?*, 31 COLUM. J.L. & ARTS 571, 575 (2008) (citing Matthew J. Sag, *Beyond Abstraction: The Law And Economics Of Copyright Scope And Doctrinal Efficiency*, 81 TUL. L. REV. 187, 230 (2006)).

<sup>187</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

<sup>188</sup> Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 5-6.

<sup>189</sup> Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 5.

<sup>190</sup> *See id.* at 11.

<sup>191</sup> Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4, at 10 (“In 2007 alone, the marketplace eBay created and controls reportedly contained more than 2 million potentially counterfeit listings, and hosted 50,000 sellers attempting to sell fake goods.”) (internal citations omitted).

<sup>192</sup> The cost of locating a particular seller can be relatively high. Adding on to that the cost of hiring an attorney to represent Tiffany in each applicable jurisdiction, court costs for each case, as well as the cost to prove direct infringement (likely through a sample buy – at least one per defendant), Tiffany’s cumulative cost to protect its marks by pursuing direct infringers individually is bound to be astronomical. *See* Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 10-11.

sellers live outside of the United States and thus may be impossible to sue.<sup>193</sup> Further, the addresses that eBay has on file may be outdated and many sellers register with fake personal information, some going so far as to register using a stolen identity.<sup>194</sup> As Tiffany must rely on eBay's records in order to pursue sellers directly and as eBay could easily implement services to ensure that its records are considerably more accurate and up to date, Tiffany has a strong argument that eBay could most efficiently combat sales of counterfeits by maintaining better information about its sellers.<sup>195</sup> There is also an argument that eBay could easily implement systems and procedures to curb the sales of counterfeits through its website, although the court does not discuss the argument as it relates to a least cost avoider analysis.<sup>196</sup>

The information that we have in the case leaves quite a bit to be desired. Indeed, it seems that determining whether Tiffany or eBay is the least cost avoider will be an arduous, fact-intensive process. As such, it seems the court was correct in leaving the question unresolved in the absence of additional information.<sup>197</sup>

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<sup>193</sup> See *Civil Procedure – Personal Jurisdiction – Ninth Circuit Requires International, Wrongful Conduct to Satisfy the Calder Effects Test. – Yahoo! Inc. v. La Ligue Contre le Racisme et l'Antisemitisme*, 118 Harv. L. Rev. 1363, 1369 (2005) (“[P]laintiffs seeking to enforce judgments against foreign defendants with assets abroad must have the financial resources to appear in the ‘opposing party’s home jurisdiction’ at some point . . . .”); eBay – Services – International Trading – Buyers, <http://pages.ebay.com/internationaltrading/findingitems.html> (last visited Oct. 26, 2009) (“On eBay.com, the Search and Listings pages (search and browse results) default to show all items located on English language sites (U.S., Canada, and Australia) that the seller is willing to ship to the United States.”).

<sup>194</sup> Grant Gross, *eBay seller pleads guilty to software piracy charges*, InfoWorld, May 15, 2008, <http://www.infoworld.com/d/security-central/ebay-seller-pleads-guilty-software-piracy-charges-449> (last visited Oct. 26, 2009); Internet Auction Fraud (eBay) – (Policy amended August 2009), <http://www.southyorks.police.uk/foi/publicationscheme/policiesandprocedures/archive/320061> (last visited Oct. 26, 2009) (“Identity theft on the Internet is rife and officers should consider that someone who initially appears to be a suspect may well [sic] have been the victim of identity theft.”).

<sup>195</sup> See USPS - DPV® System, <http://www.usps.com/ncsc/addressmgmt/dpv.htm> (last visited Nov. 11, 2008) (system to assist in ensuring mailing address accuracy); USPS - ACS™ Service, <http://www.usps.com/ncsc/addressservices/moveupdate/acs.htm> (last visited Nov. 11, 2008) (system for obtaining change-of-address information).

<sup>196</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

<sup>197</sup> There is considerable debate as to how much deference should be afforded to least-cost avoider analysis. I feel that while a least-cost avoider analysis can be highly persuasive to rebut the presumption that responsibility for policing a mark belongs solely to the mark-holder, it should not automatically decide a lawsuit. See generally Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239 (2005) (arguing that “that responding to Internet-related misconduct with rules for intermediaries that turn so pervasively on normative and fault-related notions of responsibility and participation is inadequate”).

C. *Policy Analysis: Does Tiffany Serve the Twin Purposes of Trademark Law?*

The primary theories underlying trademark law are the protection of consumers, preventing confusion regarding the origin of a particular product, and encouraging competition by protecting trademark holders' investments in quality goods and services.<sup>198</sup> When these aims do not align, courts must balance them while remembering that trademark is ultimately about protecting consumers.<sup>199</sup> As such, trademark protection has a limited scope.<sup>200</sup>

As this case deals with the sale of counterfeits, harm to Tiffany's investment in its marks will likely correspond to consumer confusion. Looking at consumer confusion, a starting point would be to inquire whether consumers were, in fact, confused. eBay acknowledges that counterfeit Tiffany goods were and are sold through its website.<sup>201</sup> As counterfeits are, by definition, meant to "deceive or defraud" by being presented as genuine, consumer confusion is the inevitable result.<sup>202</sup> Indeed, the evidence at trial shows that consumers not only received counterfeit Tiffany items, but that many of them informed eBay of this fact.<sup>203</sup>

Having demonstrated consumer confusion, the next question is what could have been done to prevent it. As the primary responsibility for policing a trademark falls on its owner, the court could not reasonably require eBay to do something easily done by Tiffany.<sup>204</sup> The court admonishes Tiffany for not devoting sufficient resources to policing eBay's website.<sup>205</sup> Tiffany, however, points out that even if it did employ additional resources to that end, it would be unable to verify every auction because items are viewable by the public and Tiffany at the same time, opening the possibility that an auction might close before Tiffany could review it.<sup>206</sup> As such, there were identifiable steps that only eBay could take that would lessen the amount of counterfeiting on its website and thus reduce consumer confusion.<sup>207</sup>

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<sup>198</sup> Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 873 (9th Cir. 1999) (citing Qualitex Co. v. Jacobson Prods. Co., Inc., 514 U.S. 159, 163-64 (1995)); Landes & Posner, *supra* note 11, at 304-05; J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 2009).

<sup>199</sup> J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2, § 2:33 (4th ed. 2009).

<sup>200</sup> Westward Coach Mfg. Co. v. Ford Motor Co., 388 F.2d 627, 635 (7th Cir. 1968); TCPIP Holding Co., Inc. v. Haar Commc'ns, Inc., 244 F.3d 88, 94-95 (2d Cir. 2001).

<sup>201</sup> Defendant eBay's Post-Trial Memorandum, *supra* note 83, at 1.

<sup>202</sup> Counterfeit, BLACK'S LAW DICTIONARY 376 (8th ed. 2004).

<sup>203</sup> Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 14-15.

<sup>204</sup> See Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008) (citing MDT Corp. v. N.Y. Stock Exch., 858 F. Supp. 1028, 1034 (C.D. Cal. 1994)).

<sup>205</sup> *Id.* at 484-85.

<sup>206</sup> Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 1.

<sup>207</sup> *See id.*

While the court could have simply found that the facts did not support Tiffany's arguments, and thereby avoided interpreting the law, it found that there is no affirmative duty to take precautions against counterfeiting in the absence of specific knowledge.<sup>208</sup> As discussed above, requiring that eBay know or have reason to know of actual infringement by specific sellers imposes a very costly burden of proof on Tiffany, effectively discharging eBay of any liability due to its own nonfeasance.

The court in Tiffany only touches on the public policy underpinnings of trademark law and declines to discuss the facts of the case from a policy perspective.<sup>209</sup> While the court cannot extend trademark protection so far as to eliminate eBay as a means for people to sell used Tiffany jewelry,<sup>210</sup> there is a strong argument that this decision runs counter to the policy aims of trademark.<sup>211</sup> As eBay facilitates an estimated twenty-nine percent of counterfeit sales made via the Internet,<sup>212</sup> the court's ruling that eBay has no duty whatsoever to prevent counterfeiting in the absence of specific knowledge thereof at best does nothing to help either consumers or rights holders, and at worst hurts both by passively encouraging the sales of counterfeits on eBay.<sup>213</sup> Indeed, barring a case of inducement, rights holders' economic inability to provide actual knowledge means that eBay may operate with virtual impunity even if it took no steps to prevent infringement by its sellers.<sup>214</sup> Thus, the decision in Tiffany does not further either of trademark's goals of preventing consumer confusion and protecting trademark holders' investments in their marks.<sup>215</sup>

## V. CONCLUSION

The doctrine of contributory trademark infringement is relatively young and thus is not clearly defined.<sup>216</sup> The doctrine originated to handle manufacturers and distributors who trafficked in goods that others passed off as coming from

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<sup>208</sup> *Tiffany*, 576 F. Supp. 2d at 508.

<sup>209</sup> *See generally id.*

<sup>210</sup> *Id.* at 473 (citing *Dow Jones & Co. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295, 308 (2d Cir. 2006)).

<sup>211</sup> *See generally* Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4.

<sup>212</sup> *Id.* at 10 (internal citations omitted).

<sup>213</sup> *Id.* at 30 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 856 n.14 (1982); J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (4th ed. 2009)).

<sup>214</sup> *See supra* Part IV.A.

<sup>215</sup> *See* Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4, at 30; J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 2009).

<sup>216</sup> Peckham, *supra* note 34, at 994.

a different source.<sup>217</sup> Under a theory originating in tort, the doctrine was extended to include landlords who allowed their property to be used for infringing activities.<sup>218</sup> In the late 1990s, the law began addressing the issue of contributory trademark infringement on the Internet.<sup>219</sup> Under this doctrine, when a party facilitates the infringement of another and knows or has reason to know of the infringement, that party incurs a duty to stop facilitating the infringement.<sup>220</sup> What was unclear, however, is exactly when this knowledge requirement was satisfied.<sup>221</sup>

The landscape of contributory trademark liability as applied to online auction sites prior to *Tiffany* was extremely uncertain.<sup>222</sup> In that regard, *Tiffany* provided potential litigants with much needed guidance.<sup>223</sup> A large part of that guidance was determining what level of knowledge an alleged contributory infringer must have in order to have a duty to prevent the infringement.<sup>224</sup> On this matter, the court found that general knowledge of infringement is insufficient, and that the knowledge element of a contributory trademark infringement claim is only satisfied if the alleged contributory infringer has specific knowledge of infringement.<sup>225</sup> In the instant case, this means that in order for eBay to have a duty to prevent infringement of its sellers, eBay must have knowledge of a specific seller's infringement.<sup>226</sup>

The knowledge requirement can be met by willful blindness, and therefore there is no misfeasance requirement for contributory trademark liability.<sup>227</sup> The problem with *Tiffany*, however, is that it sets the knowledge bar so high that Tiffany financially cannot meet the burden of conveying knowledge to eBay. If Tiffany cannot convey knowledge of infringement to eBay, then eBay has no duty to protect against any infringement.<sup>228</sup> If eBay has no duty to

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<sup>217</sup> See, e.g., *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982).

<sup>218</sup> See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

<sup>219</sup> Peckham, *supra* note 34, at 989-92.

<sup>220</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (citing *Hard Rock*, 955 F.2d at 1148-49; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996)).

<sup>221</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 507-08 (S.D.N.Y. 2008).

<sup>222</sup> Peckham, *supra* note 34, at 994 (“[I]t is not clear . . . whether a service provider like an auction site has a duty to actively police activities of users over whom it arguably exercises some control just because it has reason to know that some of those activities are likely to be illegal . . .”).

<sup>223</sup> See, e.g., *Hanlon & Chubb*, *supra* note 74.

<sup>224</sup> *Id.*

<sup>225</sup> *Tiffany*, 576 F. Supp. 2d, at 511.

<sup>226</sup> See *id.* at 508.

<sup>227</sup> See *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

<sup>228</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (internal citations omitted).

proactively prevent the infringement of others, eBay cannot commit nonfeasance, and thus can only be found liable for misfeasance.<sup>229</sup> As eBay can only be found liable in the case of its own misfeasance, the *Tiffany* court has effectively resurrected the requirement of misfeasance for contributory trademark liability, thereby undoing over fifteen years of legal development.<sup>230</sup>

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<sup>229</sup> *See id.*

<sup>230</sup> *See generally Hard Rock*, 955 F.2d.