

**Note: Knowledge and Misfeasance:
Tiffany v. eBay and the Knowledge Requirement of Contributory Trademark Infringement**

Matthew C. Berntsen¹

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¹ J.D. Candidate, Boston University School of Law, 2010; B.S. *cum laude* with Honors, Bucknell University, 2005.

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 could be exploited by them without risk.²

Although somewhat melodramatic, the above characterization of the online auction site eBay is rooted in fact. Indeed, about half of reported online fraud takes place in the form of Internet auction fraud,³ and an estimated 29% of online auction fraud happens on eBay.⁴ As such, eBay accounts for approximately 15% of known fraud on the Internet. This 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.⁵ Further, since this amount only represents fraud that was reported, 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.⁶

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

² 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.

³ 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 (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 (62.5% of all complaints relate to Internet auction fraud).

⁴ 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 (citing *Quite Possibly Fake*, REUTERS (Aug. 7, 2007); Jenn Abelson, *Grim Competition With Counterfeiters*, BOSTON GLOBE at A-1 (Aug. 21, 2008)).

⁵ ICCC 2007, *supra* note 3, at 3-5; ICCC 2005, *supra* note 3, at 6-7.

⁶ *See generally* ICCC 2007, *supra* note 3; ICCC 2005, *supra* note 3.

curb the problem.⁷ After numerous exchanges, Tiffany was still 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.⁸

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*,⁹ a recent 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 the 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 decision in *Tiffany* 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

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

⁸ 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.

⁹ *Tiffany*, 576 F. Supp. 2d.

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.

II.A THE PURPOSES OF TRADEMARK LAW

The twin purposes of trademark law are relatively straightforward. Trademark¹⁰ law exists “to protect consumers who have formed particular associations with a mark” and “the investment in a mark made by the owner.”¹¹ “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.”¹² Thus, a trademark is infringed if there is a likelihood of consumer confusion regarding the source of the good.¹³ Because of the narrow scope of a trademark, it will often be limited to a specific industry or sub-industry where the use of the trademark is established.¹⁴

¹⁰ 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).

¹¹ *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); 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed.).

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

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

II.B CONTRIBUTORY TRADEMARK INFRINGEMENT

The doctrine of contributory trademark infringement is rooted in the common law of torts.¹⁵ While it is uncontested that a direct trademark infringer is civilly liable,¹⁶ a third party can be held contributorily liable for the infringement of another if it (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.”¹⁷ This is the “*Inwood* test” or “*Inwood* standard” and was laid out by the Supreme Court in 1982.¹⁸ As the infringer in *Inwood* did not infringe itself but rather contributed to the infringement of another, contributory trademark infringement is a form of indirect infringement.¹⁹ 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.²⁰ Extending this theory, the manufacture of a generic drug that is visibly

distinguish his product.”) (citing 1 Nims, UNFAIR COMPETITION AND TRADE MARKS § 1 (4th ed. 1947)); 15 U.S.C.A. § 1114 (2008).

¹⁴ Westward Coach Mfg. Co. v. Ford Motor Co., 388 F.2d 627, 635 (7th Cir. 1968) (Ford’s use of the word “Mustang” does not infringe because Westwood’s trademark “protection cannot be extended beyond the narrow limits of its established use” in the trailer industry.); TCPIP Holding Co., Inc. v. Haar Commc’ns, Inc., 244 F.3d 88, 94-95 (2d Cir. 2001) (A trademark’s “establishment in one segment of commerce generally does not prevent others from using the same or a similar mark in a different, non-competing area.”).

¹⁵ 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)).

¹⁶ 15 U.S.C.A. § 1114 (2008).

¹⁷ *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.).

¹⁸ See, e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

¹⁹ See generally *Inwood*, 456 U.S.

²⁰ *Warner v. Eli Lilly*, 265 U.S. 526, 532-33 (1924).

indistinguishable from the non-generic version infringes because this is likely to cause confusion even in the absence of inducement.²¹

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

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?²⁷ The implications of the *Inwood* test are not clear, and the concurrence in *Inwood*

²¹ *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.”)

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

²³ *See* 4 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:20 (4th ed.).

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

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

²⁶ *Gucci America Inc., v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001); *Gov’t Emps. Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

²⁷ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (citing *Hard Rock*, 955 F.2d 1143; *Fonovisa*, 76 F.3d at 265).

argues that the decision expands contributory infringement from requiring active inducement (misfeasance) to merely having reason to anticipate others' infringement (nonfeasance).²⁸

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.²⁹ However, the Courts have declined to find 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.³⁰

The doctrine of contributory trademark infringement is very young, with all of the seminal cases having been decided within the last thirty years.³¹ Apart from being a recent and somewhat amorphous doctrine, courts have struggled to apply contributory trademark infringement to transactions on the Internet.³² 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 to require an online auction site to proactively prevent the sale of counterfeits.³³

²⁸ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (1982) (White, J., concurring).

²⁹ *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*).

³⁰ *Lockheed*, 194 F.3d at 984-85 (citing *Hard Rock*, 955 F.2d at 1149; *Fonovisa*, 76 F.3d at 265).

³¹ Emily Favre, Note, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL'Y 165, 180 (“The standard for contributory trademark infringement originates in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*”).

³² *See id.* at 180-81.

³³ Deborah J. Peckham, *The Internet Auction House and Secondary Liability-Will eBay Have to Answer to Grokster?*, 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.”)

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.³⁴ Unfortunately, the peddling of counterfeit goods is prevalent on the Internet,³⁵ with fraud and misrepresentation through online auctions posing a particular problem.³⁶ Tiffany is a world-famous jeweler, and eBay is a leading Internet marketplace.³⁷ In 2004, Tiffany sued eBay claiming that eBay facilitated the sale of hundreds of thousands of counterfeit items of jewelry, seeking redress under a number of theories including contributory trademark infringement.³⁸ 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.

III.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.³⁹ The TIFFANY Marks are "indisputably famous," and maintaining the

³⁴ See, e.g., Dusan Belic, *Nokia bets on Internet for the future; Extends partnership with Yahoo*, INTOMOBILE, Nov. 29, 2006, available at <http://www.intomobile.com/2006/11/29/nokia-bets-on-internet-for-the-future-extends-partnership-with-yahoo.html> (quoting the Nokia's CEO as saying: "The Internet has transformed the way we live our lives . . ."); Jonathan J. Darrow and Gerald R. Ferrera, *The Search Engine Advertising Market: Lucrative Space or Trademark Liability?*, 17 TEX. INTELL. PROP. L.J. 223, 266 ("the Internet can--and is--revolutionizing the way consumers and businesses buy and sell products")

³⁵ Peckham, *supra* note 33, at 977 (citations omitted).

³⁶ 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.").

³⁷ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008); eBay Media Center: About eBay, <http://news.ebay.com/about.cfm> (last visited Oct. 17, 2008) (eBay is "the world's largest online marketplace").

³⁸ *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.

³⁹ 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, 2004 WL 2237672.

integrity of Tiffany's brand is essential to its reputation and success.⁴⁰ In an effort to retain its reputation for quality, Tiffany requires its goods to pass exacting quality checks and closely controls its distribution channels.⁴¹ In fact, since the year 2000, new Tiffany goods must be purchased directly through Tiffany, and are never sold at a reduced price.⁴²

eBay is a global online marketplace “where practically anyone can sell practically anything at any time.”⁴³ eBay's approximately 84 million users constitute a market that has been described as “nothing less than a virtual, self-regulating global economy.”⁴⁴ 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 conclude the purchase immediately, or use a combination of the two.⁴⁵ A listing may be for one or many items, and sellers are free to list identical, similar, or separate items as they see fit.⁴⁶ A seller can place a listing in a number of categories, and buyers can view items based on category, keywords, or searches.⁴⁷

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.⁴⁸ Through this arrangement, eBay is never in physical possession of the items for sale, and it generates profits by charging sellers a fixed fee for facilitating the listing as well as a percentage of the closing price of any

⁴⁰ Tiffany, 576 F. Supp. 2d. at 471-72.

⁴¹ *Id.* at 472-73.

⁴² *Id.*

⁴³ eBay Media Center: About eBay, *supra* note 37.

⁴⁴ *Id.* (citations omitted)

⁴⁵ Tiffany, 576 F. Supp. 2d at 474.

⁴⁶ *Id.*

⁴⁷ *Id.* at 474-75.

⁴⁸ *Id.* at 475.

sale.⁴⁹ 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.⁵⁰ The User Agreement requires users to comply with all applicable laws and to refrain from selling prohibited items such as counterfeits, drugs and firearms.⁵¹

eBay has invested heavily in anti-counterfeiting, with over two hundred employees dedicated to combating infringement.⁵² eBay has also implemented an automated fraud engine to help eliminate infringing listings, and uses the Verified Rights Owner (“VeRO”) Program⁵³ to streamline the notice-and-takedown process.⁵⁴ The VeRO Program relies on rights owners to report infringing listings, which are reviewed by eBay and generally eliminated within a few hours.⁵⁵

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.⁵⁶ The Court

⁴⁹ *Id.*

⁵⁰ *Id.* at 476.

⁵¹ *Id.*; Your User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Oct. 18, 2008).

⁵² Tiffany, 576 F. Supp. 2d at 476.

⁵³ 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).

⁵⁴ Tiffany, 576 F. Supp. 2d at 477-78.

⁵⁵ *Id.* at 478.

⁵⁶ *Id.*

further found that eBay reviews sellers in terminated listings, and often takes remedial action such as suspending the seller's account.⁵⁷

During the relevant times, eBay made substantial profit from the sale of "Tiffany" items.⁵⁸ In an effort to protect the Tiffany brand, Tiffany has sued counterfeiters, including sellers on eBay, and has conducted numerous "enforcement actions" such as customs seizures.⁵⁹ Nonetheless, by 2003 Tiffany decided to stop suing individual eBay sellers and to pursue the issue of counterfeiting directly with eBay.⁶⁰ In May of 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.⁶¹ The Court in this case suggests that Tiffany wanted to preclude eBay from selling Tiffany products in their entirety, and the Court finds unequivocally that Tiffany cannot prevent eBay from facilitating the sale of *legitimate* Tiffany goods under a trademark claim.⁶² 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

⁵⁷ *Id.* at 478-79.

⁵⁸ *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.").

⁵⁹ *Id.*

⁶⁰ *Id.* (noting that failure to pursue individual sellers for trafficking in counterfeits does not constitute abandonment of the TIFFANY Marks).

⁶¹ *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.*

⁶² *Id.* at 508-09 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (1982) (White, J., concurring)).

counterfeit, and invited Tiffany to suggest ways that the two companies could work together to address the issue of counterfeiting.⁶³

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,⁶⁴ that Tiffany's buying programs suggested that 73% of "Tiffany" goods sold on eBay were in fact counterfeit.⁶⁵ The letter also made a number of other demands.⁶⁶ During this time, both Tiffany and eBay received numerous customer complaints regarding counterfeit items purchased on eBay.⁶⁷

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

⁶³ Tiffany, 576 F. Supp. 2d, at 481-82.

⁶⁴ 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.

⁶⁵ 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.

⁶⁶ *Id.* at 481.

⁶⁷ *Id.* at 487.

⁶⁸ *Id.* at 487-88.

⁶⁹ *Id.* at 488-89.

⁷⁰ *Id.* at 492.

Despite eBay's efforts, Tiffany found that the number of takedown requests issued to eBay continued to climb.⁷¹ As the effort needed to keep counterfeiting on eBay under some semblance of control increased, Tiffany became increasingly frustrated.⁷² 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.⁷³

III.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.⁷⁴ This question is largely unsettled and is important because its answer will affect the behavior of potential litigants moving forward.⁷⁵ Indeed, if the court sets the knowledge requirement too low it might eliminate perfectly legal secondary markets for legitimate trademarked goods.⁷⁶ Alternatively, it sets the bar too high it might allow contributory infringers to escape liability, thereby undermining the twin purposes of trademark law.⁷⁷

⁷¹ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 17.

⁷² *Id.* at 16-18.

⁷³ *Id.*

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

⁷⁵ See Peckham, *supra* note 33, at 994.

⁷⁶ *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)).

⁷⁷ 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)).

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 trademark infringement.”⁷⁸ The question addressed in *Tiffany* is whether general knowledge of infringement satisfies the *Inwood* test.⁷⁹ 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.”⁸⁰ 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.⁸¹ Thus, if the court found that a defendant 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.⁸²

III.C EBAY’S ARGUMENT

eBay argues that “the governing case law instructs that there is no obligation on eBay’s part to proactively monitor its site.”⁸³ eBay opens by noting that *Tiffany* has a duty to

⁷⁸ *Inwood*, 456 U.S. at 854.

⁷⁹ *Tiffany*, 576 F. Supp. 2d at 507-08.

⁸⁰ *Id.* at 507.

⁸¹ *Id.* at 469-70.

⁸² *Id.* at 507-08.

⁸³ Defendant eBay’s Post-Trial Memorandum, *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607(RJS), 576 F. Supp. 2d 463, 4 (S.D.N.Y. Jul. 14, 2008), 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)).

proactively protect its marks,⁸⁴ in part because Tiffany reaps the economic benefit of the marks and is in the best position to distinguish between legitimate and counterfeit goods.⁸⁵ eBay states that it agrees with Tiffany that the *Inwood* standard for contributory trademark infringement should be applied.⁸⁶ 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.”⁸⁷ eBay argues that 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.”⁸⁸

eBay argues that *Inwood* requires the alleged contributory infringer to have specific knowledge of infringement, and yet continue to provide its services to the infringer.⁸⁹ Thus, to be held liable, eBay argues it must have failed to act on knowledge of specific infringements (characterized for the purposes of this case as counterfeit listings).⁹⁰ As the “record is uncontroverted that, once notified by Tiffany that a listing may contain infringing merchandise,

⁸⁴ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 4 (citing J. Thomas McCarthy, 2 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:91 (2006)).

⁸⁵ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 4 (citing *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 61 (2d Cir. 1997)).

⁸⁶ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 8.

⁸⁷ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 5 (quoting *MDT Corp. v. New York Stock Exch.*, 858 F. Supp. 1034 (C.D. Cal. 1994)).

⁸⁸ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 5-6 (internal citations omitted).

⁸⁹ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 8 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982)).

⁹⁰ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 10.

eBay has removed that listing from its site,” eBay argues it cannot be held liable for infringing third-party listings,⁹¹ and claims that Tiffany wants to use a “reasonable anticipation” standard explicitly rejected in *Inwood*.⁹²

eBay defends 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*.⁹³ Further, eBay states 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.⁹⁴ This is evidenced by requests from Tiffany to reinstate auctions that were misreported as infringing.⁹⁵

eBay states 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.”⁹⁶ Thus, the determinative factor in this case must be eBay’s response to reports of specific infringing listings, which eBay claims easily exceed the duty that such reports impose upon it.⁹⁷

⁹¹ *Id.*

⁹² Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 14 (citing *Inwood*, 456 U.S. at 854 n. 13).

⁹³ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 19 (citing *Gucci America, Inc. v. Hall & Accocs.*, 135 F.Supp.2d 409 (S.D.N.Y. 2001)).

⁹⁴ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 30 n.19.

⁹⁵ *Id.* at 32.

⁹⁶ *Id.* at 14 (quoting *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)) (internal quotations omitted).

⁹⁷ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 38.

III.D TIFFANY'S ARGUMENT

Tiffany argues that the “doctrine of contributory infringement has developed to deal with businesses such as eBay who profit off the sale of illegal merchandise by others.”⁹⁸ Tiffany claims 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.⁹⁹

eBay exercises control over who has access to its services through requiring users to register, and also controls what items are allowed to be listed.¹⁰⁰ 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”.¹⁰¹ Tiffany asserts that the VeRO Program was inadequate because it is possible that listings would close before Tiffany was able to review them, as Tiffany did not have access to listings before the public.¹⁰² Further, when Tiffany submitted takedown requests eBay removed the listings; however, there is no evidence that eBay took any actions against such sellers (such as suspending the sellers’ accounts) or investigated Tiffany’s or eBay customers’ complaints.¹⁰³

Tiffany argues 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

⁹⁸ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 8.

⁹⁹ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 1-2.

¹⁰⁰ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 5.

¹⁰¹ *Id.* at 6-7 (internal citations omitted).

¹⁰² *Id.* at 15 (internal citations omitted).

¹⁰³ *Id.* at 16 (internal citations omitted).

infringement, or ‘was dealing with a customer whom [it] should know would be peculiarly likely to use the defendant's product wrongfully.’”¹⁰⁴ Thus, Tiffany contends 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.¹⁰⁵ At this point, Tiffany claims 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.¹⁰⁶

Tiffany argues that in *Inwood* the knowledge requirement is satisfied by general knowledge.¹⁰⁷ Thus, a defendant’s generalized knowledge that it is likely to be facilitating infringement satisfies the *Inwood* test’s knowledge requirement.¹⁰⁸ In numerous cases such as *Hard Rock* and *Fonovisa*, courts have extended this doctrine to find defendants contributorily liable for supplying a marketplace for the sale of infringing goods.¹⁰⁹ A defendant is particularly culpable when it exercises control and monitoring over the infringing activity.¹¹⁰

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

¹⁰⁵ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 20 (citing *Snow Crest*, 64 F. Supp., at 989; *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984)).

¹⁰⁶ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 21 (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

¹⁰⁷ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 23 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 851-55 (1982)).

¹⁰⁸ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 23 (citing *Inwood*, 456 U.S. at 851-55).

¹⁰⁹ *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).

¹¹⁰ *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.

Tiffany argues 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.¹¹¹ Further, because eBay's profits are directly linked to successful sales by its sellers, it is incentivized to allow sellers great leeway.¹¹² This is evidenced by, for example, a PowerSeller¹¹³ 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.¹¹⁴

The evidence establishes that eBay knew or had reason to know that a significant proportion of the "Tiffany" items sold by its sellers were counterfeit.¹¹⁵ As eBay possesses generalized knowledge of infringement through eBay listings and exercises complete control over who may list items and what items may be listed, eBay has a requirement to investigate for and correct any findings of infringement.¹¹⁶ As eBay failed to do so, it facilitates the infringement of its sellers, and therefore is contributorily liable.¹¹⁷

¹¹¹ 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)).

¹¹² Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 33.

¹¹³ 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.

¹¹⁴ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 34.

¹¹⁵ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 21.

¹¹⁶ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 20 (citing *Snow Crest*, 64 F. Supp., at 989; *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984)).

¹¹⁷ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 21.

III.E THE HOLDING

In brief, the Court concluded that “the burden of policing the Tiffany mark appropriately rests with Tiffany.”¹¹⁸ The Court found that eBay exerted enough control over its website to invoke the *Inwood* standard; thus, the question is whether eBay knew or had reason to know of infringement and not whether eBay could reasonably anticipate the infringement.¹¹⁹ The Court held that *Inwood's* knowledge requirement is satisfied only by knowledge of specific infringements, and Tiffany failed to communicate any such specific knowledge to eBay.¹²⁰ While eBay possessed generalized knowledge of infringement, it was not willfully blind, and it took reasonable steps to correct any (alleged) infringement.¹²¹

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.”¹²² It found that eBay “is analogous to a flea market like those in *Hard Rock Café* and *Fonavisa*” 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.¹²³ Under *Inwood*, the correct question of

¹¹⁸ Tiffany, 576 F. Supp. 2d, at 518.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.* at 506.

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

knowledge is whether eBay knew or had reason to know of the infringement.¹²⁴ 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 therefore is not applicable.¹²⁵

The Court notes that the “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 discusses a number of reasons for concluding that “generalized knowledge is insufficient.”¹²⁶ First, the Court emphasizes 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.”¹²⁷ The Court reasons that this language illustrates the Supreme Court’s focus on individual infringers, thus suggesting a requirement of specific knowledge.¹²⁸ Second, the Court states 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.¹²⁹ Third, the Court argues that it should not extend liability to defendants, like eBay in the instant action, where the extent of infringement is unclear, particularly as finding for Tiffany would greatly expand the scope of Tiffany’s trademark rights and potentially restrict eBay sales of legitimate Tiffany items.¹³⁰ Lastly, the

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

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

¹²⁶ *Id.* at 508.

¹²⁷ *Id.* (quoting *Inwood*, 456 U.S. at 854).

¹²⁸ *Tiffany*, 576 F. Supp. 2d, at 508.

¹²⁹ *Id.* (quoting *Gucci America, Inc. v. Hall & Associates*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001)).

¹³⁰ *Tiffany*, 576 F. Supp. 2d, at 508-09 (citing *Inwood*, 456 U.S. at 861 (White, J., concurring)).

Court finds that neither the precedent of *Hard Rock* nor *Fonovisa* supports Tiffany's contention that generalized knowledge is sufficient, as neither case addressed the question of knowledge.¹³¹

The Court concludes that, while eBay had generalized knowledge of infringement, it did not have specific knowledge.¹³² The Court finds 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 represent its good-faith belief in the identified listings' infringement rather than actual infringement.¹³³ The Court notes that it is unconvinced that eBay failed to take reasonable actions to prevent infringement of Tiffany's marks; however, it ultimately finds this to be irrelevant "because without specific knowledge or reason to know, eBay is under no affirmative duty to ferret out potential infringement."¹³⁴ Willful blindness requires more than negligence, and therefore should only be found if eBay intentionally avoided learning of the infringement being facilitated by its services.¹³⁵ As eBay was not only generally aware of infringement, but took substantial steps to curb it, eBay was not willfully blind.¹³⁶ 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 precedent agrees does not exist.¹³⁷

¹³¹ Tiffany, 576 F. Supp. 2d, 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)).

¹³² Tiffany, 576 F. Supp. 2d, at 511.

¹³³ *Id.* at 511-13.

¹³⁴ *Id.* at 514-15.

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

¹³⁶ Tiffany, 576 F. Supp. 2d, at 515.

¹³⁷ *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)).

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.¹³⁸ Thus, the Court finds that Tiffany's argument must be that eBay failed to suspend sellers whose listings had been flagged by Tiffany.¹³⁹ As a takedown request only represents a good faith belief by Tiffany that a listing infringes upon its trademarks, the Court holds that eBay was justified in declining to automatically suspend all accounts on the first notice from Tiffany, and all evidence of sellers relisting a previously removed listing shows that it was within a relatively short time from the initial removal.¹⁴⁰ As such, the Court finds that eBay responded properly to the information that it received from Tiffany and therefore is not liable for contributory trademark infringement.¹⁴¹ Tiffany promptly appealed the judgment.¹⁴²

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 decision 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.

¹³⁸ *Tiffany*, 576 F. Supp. 2d, at 516.

¹³⁹ *Id.* at 516-17.

¹⁴⁰ *Id.* at 517.

¹⁴¹ *Id.* at 518.

¹⁴² See Notice of Appeal, *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607(RJS), 576 F. Supp. 2d 463 (S.D.N.Y. Jul. 14, 2008), available at http://www.counterfeitchic.com/Images/tiffany_appeal_notice_7-11-08.pdf.

IV.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*.¹⁴³ 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.”¹⁴⁴ Thus, under *Inwood* a party must commit misfeasance after gaining knowledge of another’s infringement to be held contributorily liable.¹⁴⁵ 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.¹⁴⁶

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.¹⁴⁷ This includes situations where the contributory infringer knew or should have known of the actual infringement, including cases of willful blindness.¹⁴⁸ While this extension of *Inwood* has been most frequently applied to landlords and operators of flea markets or other

¹⁴³ See, e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264-65 (9th Cir. 1996).

¹⁴⁴ *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.).

¹⁴⁵ See *id.*

¹⁴⁶ Misfeasance, BLACK’S LAW DICTIONARY (8th ed. 2004).

¹⁴⁷ *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).

¹⁴⁸ *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*).

attractions, it has also been extended to include website operators who facilitate others' infringement.¹⁴⁹

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.¹⁵⁰ 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 malfeasance.¹⁵¹ As the operator may nonetheless be liable, it must be due to the operator's nonfeasance.¹⁵² 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.¹⁵³ As such, malfeasance is presently not a requirement for a finding of contributory trademark infringement.¹⁵⁴

In *Tiffany*, the Court correctly finds that in the absence of knowledge or constructive knowledge of infringement eBay has no duty to prevent counterfeiting.¹⁵⁵ The big issue in *Tiffany*, however, is determining the correct standard of knowledge.¹⁵⁶ Setting the bar too low creates an undue burden on eBay, effectively preventing eBay from providing a secondary

¹⁴⁹ See generally RESTATEMENT (SECOND) OF TORTS § 877 (1979); *Fonovisa, Inc.*, 76 F.3d; *Gucci America, 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).

¹⁵⁰ See *Hard Rock*, 955 F.2d; *Fonovisa*, 76 F.3d.

¹⁵¹ See *Misfeasance*, BLACK'S LAW DICTIONARY (8th ed. 2004).

¹⁵² See *id.*; *Nonfeasance*, BLACK'S LAW DICTIONARY (8th ed. 2004).

¹⁵³ *Hard Rock*, 955 F.2d at 1149

¹⁵⁴ See *Hard Rock*, 955 F.2d; *Fonovisa*, 76 F.3d.

¹⁵⁵ 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).

¹⁵⁶ Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4.

market for Tiffany goods.¹⁵⁷ However, setting the bar too high effectively resurrects the requirement that eBay commit malfeasance 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.¹⁵⁸ As 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.¹⁵⁹ 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.¹⁶⁰

The problem here is that confirming that a specific seller is selling counterfeits is extremely expensive for Tiffany. First, Tiffany must determine if an authenticity determination requires it to purchase an item on eBay, often at considerable expense.¹⁶¹ If it must purchase the item, Tiffany must employ a specialist to inspect it to determine its authenticity.¹⁶² As this determination may require considerable resources such as tools, training, and access to information on previous Tiffany products, it is likely to be quite expensive.¹⁶³ Further, as a significant proportion of the products purchased are likely to be legitimate or non-actionable, the

¹⁵⁷ *Tiffany*, 576 F. Supp. 2d, at 508-09 (citing *Inwood*, 456 U.S. at 861 (White, J. concurring)).

¹⁵⁸ *Tiffany*, 576 F. Supp. 2d, at 511.

¹⁵⁹ *Id.* at 515 n. 38.

¹⁶⁰ *Id.* at 472 n. 7.

¹⁶¹ *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").

¹⁶² *Tiffany*, 576 F. Supp. 2d, at 472 n. 7.

¹⁶³ See Defendant eBay's Post-Trial Memorandum, *supra* note 83, at 5-6.

cost of examining the non-actionable items must be amortized across the counterfeits discovered.¹⁶⁴ This leaves Tiffany with a high cost per counterfeit discovered.

The procedure above must be replicated for each and every suspected infringing listing.¹⁶⁵ Given that Tiffany submitted almost 60,000 listings to eBay as suspected counterfeits in 2005,¹⁶⁶ Tiffany's overall cost to verify that a substantial portion of suspected counterfeits are fake would be staggering.¹⁶⁷ 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.¹⁶⁸ As such, Tiffany must submit all such notifications to eBay outside of the VeRO system, likely in the form of a formal letter.¹⁶⁹ Thus, Tiffany's cost to communicate confirmed counterfeits to eBay will be extremely high.

If we assume that Tiffany individually inspects 40,000 individual items over the course of a year,¹⁷⁰ paying an average of \$75 per item on eBay¹⁷¹ and costing an additional \$325 per item¹⁷² in labor and testing costs to determine its authenticity and to report back to eBay, it

¹⁶⁴ See Tiffany, 576 F. Supp. 2d, at 482 (“73% of the sterling silver Tiffany merchandise on eBay was counterfeit, and [] only 5% was genuine”).

¹⁶⁵ See Tiffany, 576 F. Supp. 2d at 511.

¹⁶⁶ *Id.* at 484.

¹⁶⁷ 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.

¹⁶⁸ See *id.*

¹⁶⁹ See *id.*

¹⁷⁰ This assumption has Tiffany inspecting approximately two-thirds of the suspected counterfeits from 2005. See Tiffany, 576 F. Supp. 2d, at 484.

¹⁷¹ See *supra* note 161.

¹⁷² 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

would cost Tiffany about \$16,000,000 annually.¹⁷³ This number amounts to between five and ten percent of Tiffany's annual net earnings.¹⁷⁴ 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 malfeasance for contributory trademark infringement liability,¹⁷⁵ thereby undoing over fifteen years of legal evolution.¹⁷⁶

IV.B POLICY ANALYSIS: *TIFFANY* AND THE LEAST COST AVOIDER

The law-and-economics approach to many problems ultimately comes down to economic efficiency.¹⁷⁷ Thus, liability in tort should lie with the least cost avoider – the entity that would

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.

¹⁷³ 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.

¹⁷⁴ See *Tiffany & Co.*, ANNUAL REPORT 2003 3 (2004); *Tiffany & Co.*, TIFFANY YEAR-END REPORT 2007 6 (2008).

¹⁷⁵ 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 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 ("generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to [take any steps to] remedy the problem").

¹⁷⁶ See *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, 1143 (7th Cir. 1992); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996)).

¹⁷⁷ Landes & Posner, *supra* note 11. *But, c.f., See, e.g.,* 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.).

have to spend the least to avoid the harm.¹⁷⁸ One early example of this is the Hand Formula, where Judge Learned Hand finds that an accused tortfeasor's liability depends on whether the burden to prevent the harm is less than the probable loss (written as $B < PL$).¹⁷⁹ Least cost avoider analysis has gained clout over the years, and has been discussed in judicial cases and academic articles alike.¹⁸⁰

As indirect liability in trademark law is at least partially derived from tort,¹⁸¹ 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.¹⁸² 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.”¹⁸³ eBay argues rather succinctly that only Tiffany has the resources to

¹⁷⁸ Landes & Posner, *supra* note 11, at 267; Mier 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)).

¹⁷⁹ U.S. v. Carroll Towing Co., 159 F.2d 169, 173 (2d Cir. 1947).

¹⁸⁰ See, e.g., Union Oil Co. v. Oppen, 501 F.2d 558, 569-70 (9th Cir. 1974) (“the loss should be allocated to that party who can best correct any error in allocation”) (citing CALABRESI, THE COST OF ACCIDENTS, 69-73 (1970); Coase, *The Problem of Social Cost*, 3 J. Law & Econ. 1 (1960)); 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); Frederick C. Dunbar & Arun Sen, *Shareholder Class Actions and the Counterfactual*, 1692 PLI/Corp 697 (2008) (“The law-and-economics prescription for liability in tort is to pass it on to the least cost avoider.”).

¹⁸¹ 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)).

¹⁸² Joseph P. Liu, Symposium, *Fair Use: "Incredibly Shrinking" or Extraordinarily Expanding?*, 31 COLUM. J.L. & ARTS 571, (2008) (citing Matthew J. Sag, *Beyond Abstraction: The Law And Economics Of Copyright Scope And Doctrinal Efficiency*, 81 TUL. L. REV. 187, 230 (2006)); John Cirace, *A Theory of Negligence and Products Liability*, 66 ST. JOHN'S L. REV. 1, 40-43 (1992).

¹⁸³ Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

determine which items are counterfeit, noting that Tiffany has “tools, trained evaluators, access to catalogues, and so on” that eBay does not.¹⁸⁴

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.¹⁸⁵ There are, however, additional factors that likely contributed to Tiffany’s decision that “it was not economical to pursue legal action against individual sellers.”¹⁸⁶ First, there are a significant number of eBay sellers that peddle their counterfeit goods through eBay.¹⁸⁷ Due to the high cumulative transaction costs of pursuing each individual seller,¹⁸⁸ it is more efficient for Tiffany to pursue eBay directly.¹⁸⁹

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 sellers live outside of the United States and thus may be impossible to sue.¹⁹⁰ Further, the addresses that eBay has on file may be outdated and some sellers register with fake personal information, some going so far as to register using a

¹⁸⁴ Defendant eBay’s Post-Trial Memorandum, *supra* note 83, at 5-6.

¹⁸⁵ Plaintiffs’ Post-Trial Memorandum, *supra* note 2, at 5.

¹⁸⁶ *See id.* at 11.

¹⁸⁷ *See* Email from Brendan Reilly, IPR Manager, Nokia Brand Protection-Enforcement-Americas, Nokia Inc., to Matthew C. Berntsen, Author (Oct. 30, 2008, 16:47 EST) (on file with author).

¹⁸⁸ The cost of locating a particular seller (discussed in later in this subsection) 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 likely to be astronomical.

¹⁸⁹ *See* Email from Brendan Reilly, IPR Manager, Nokia Brand Protection-Enforcement-Americas, Nokia Inc., to Matthew C. Berntsen, Author (Oct. 30, 2008, 16:47 EST) (on file with author).

¹⁹⁰ *See id.*

stolen identity.¹⁹¹ 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 curb sales of counterfeits by maintaining better information about its sellers.¹⁹² 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.¹⁹³

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.¹⁹⁴

IV.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 encouragement of investment in trademarks by protecting trademark holders' investments therein.¹⁹⁵ When these

¹⁹¹ *See id.*

¹⁹² *See* USPS - DVP® 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).

¹⁹³ *See* Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

¹⁹⁴ *See id.*

¹⁹⁵ 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); 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed.).

aims do not align, courts must balance them remembering that trademark is ultimately about protecting consumers.¹⁹⁶ As such, trademark protection has a limited scope.¹⁹⁷

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.¹⁹⁸ As counterfeits are, by definition, meant to "deceive or defraud" by being presented as genuine, consumer confusion is the inevitable result.¹⁹⁹ Indeed, the evidence at trial shows that consumers not only received counterfeit Tiffany items, but that many of them informed eBay of this fact.²⁰⁰

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.²⁰¹ The Court admonishes Tiffany for not devoting sufficient resources to policing eBay's website.²⁰² 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, thus opening the possibility that an auction might close before Tiffany could review it.²⁰³ As

¹⁹⁶ 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2, § 2:33 (4th ed.)

¹⁹⁷ *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).

¹⁹⁸ Defendant eBay's Post-Trial Memorandum, *supra* note 83, at 1.

¹⁹⁹ Counterfeit, BLACK'S LAW DICTIONARY (8th ed. 2004).

²⁰⁰ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 14-15.

²⁰¹ *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)).

²⁰² Tiffany, 576 F. Supp. 2d, at 484-85.

²⁰³ Plaintiffs' Post-Trial Memorandum, *supra* note 2, at 1.

such, there were identifiable steps that only eBay could take that would lessen the amount of counterfeiting on its website and thus consumer confusion.²⁰⁴

While the court could have simply found that the facts here do not support Tiffany's arguments, and thereby avoid interpreting the law, it found that there is no affirmative duty to take precautions against counterfeiting in the absence of specific knowledge.²⁰⁵ 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 brushes on the public policy underpinnings of trademark law and declines to discuss the facts of the case from a policy perspective.²⁰⁶ While the Court cannot extend trademark protection so far as to eliminate eBay as means for people to sell used Tiffany jewelry,²⁰⁷ there is a strong argument that this decision runs counter to the policy aims of trademark.²⁰⁸ As eBay facilitates an estimated twenty-nine percent of counterfeit sales made via the Internet,²⁰⁹ 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.²¹⁰

²⁰⁴ *See id.*

²⁰⁵ *Tiffany*, 576 F. Supp. 2d, at 508.

²⁰⁶ *See generally id.*

²⁰⁷ *Id.* at 473 (citing *Dow Jones & Co. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295, 308 (2d Cir.N.Y.2006)).

²⁰⁸ *See generally* Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4.

²⁰⁹ *Id.* at 10 (internal citations omitted).

²¹⁰ *Id.* at 30 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 856 n. 14 (1982); 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (4th ed.)).

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.²¹¹

V. CONCLUSION

The doctrine of contributory trademark infringement is relatively young and thus is not clearly defined.²¹² The doctrine originated to handle manufacturers and distributors who trafficked in goods that others passed off as coming from a different source.²¹³ Under a theory originating in tort, the doctrine was extended to include landlords who allowed their property to be used for infringing activities.²¹⁴ In the late 1990s, the law began addressing the issue of contributory trademark infringement on the Internet.²¹⁵ 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.²¹⁶ What was unclear, however, is exactly when this knowledge requirement was satisfied.²¹⁷

The landscape of contributory trademark liability as applied to online auction sites prior to *Tiffany* was extremely uncertain.²¹⁸ In that regard, *Tiffany* provided potential litigants with

²¹¹ See Brief of Amicus Curiae, The International Anticounterfeiting Coalition, *supra* note 4, at 30; 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed.).

²¹² Peckham, *supra* note 33, at 994.

²¹³ See, e.g., *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982).

²¹⁴ See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

²¹⁵ Peckham, *supra* note 33, at 989-92.

²¹⁶ *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)).

²¹⁷ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 507-08 (S.D.N.Y. 2008).

²¹⁸ Peckham, *supra* note 33, 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.")

much needed guidance.²¹⁹ 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.²²⁰ 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.²²¹ 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.²²²

The knowledge requirement can be met by willful blindness, and therefore there is no misfeasance requirement for contributory trademark liability.²²³ 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.²²⁴ If eBay has no proactive duty to prevent the infringement of others, eBay cannot commit nonfeasance, and thus can only be found liable for misfeasance.²²⁵ 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 evolution.²²⁶

²¹⁹ See, e.g., Hanlon & Chubb, *supra* note 74.

²²⁰ *Id.*

²²¹ *Tiffany*, 576 F. Supp. 2d, at 511.

²²² See *Id.* at 508.

²²³ See *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

²²⁴ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (internal citations omitted).

²²⁵ See *Id.*

²²⁶ See generally See *Hard Rock*, 955 F.2d.