

Tiffany Inc. v. eBay, Inc.: Justice White’s Outdated Guide to Trademark Infringement Will Likely Result in Appeals

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I. OVERVIEW

Hidden identities, counterfeit jewelry, and trademark infringement—you can find almost anything, including a lawsuit, on eBay, the Internet auction house giant.¹ Tiffany Inc. and Tiffany and Company (Tiffany) filed suit against eBay in 2004, alleging that the defendant eBay, inter alia, was liable for contributory infringement of Tiffany’s trademark.² EBay had advertised Tiffany goods on its Web site before 2003, and had advised its sellers “to take advantage of the demand for Tiffany merchandise” as “Tiffany” was a highly used search term.³ Tiffany sent letters to eBay complaining that eBay’s dealers were infringing Tiffany’s trademark and notifying eBay that there were no authorized third-party

1. See *Tiffany Inc. v. eBay, Inc.*, No. 04CIV.4607, 2008 U.S. Dist. LEXIS 53359, at *1 (S.D.N.Y. July 14, 2008).

2. *Id.* at *2.

3. *Id.* at *10.7

sellers of Tiffany goods.⁴ After Tiffany's efforts to sue individual infringers on eBay failed, Tiffany sued eBay for facilitating the direct infringers' activities as eBay earned \$4.1 million off of items listed as Tiffany between April 2000 and June 2004.⁵

EBay objected to Tiffany's allegations despite conceding that 30% or more of the jewelry listed as Tiffany was counterfeit.⁶ eBay relied on its attempts to prevent fraud through its Fraud Engine and the Verified Rights Owner (VeRO) program where trademark owners would submit a Notice of Claimed Infringement (NOCI) form.⁷ eBay argued that it did not have specific knowledge of infringement, and once Tiffany notified eBay of specific infringement through the VeRO program, eBay promptly removed the infringing product.⁸ The court evaluated Tiffany's federal and state claims of contributory trademark infringement together as they have similar elements.⁹ The United States District Court for the Southern District of New York *held* that online markets were not liable for contributory trademark infringement where the online auction site only had general knowledge of or general reasons to know of infringing activities, and the online auction site stopped the infringing activity once they obtained specific knowledge of the infringement.¹⁰ *Tiffany Inc. v. eBay, Inc.*, No.04Civ.4607(RJS), 2008 U.S. Dist. LEXIS 53359, at *155-56 (S.D.N.Y. July 14, 2008).

II. BACKGROUND

A. *Contributory Trademark Infringement*

Section 32(1) of the Lanham Act provides protection against direct trademark infringement.¹¹ Trademark infringers are tortfeasors.¹² Thus, trademark victims can sue any tortfeasor in the distribution chain because joint tortfeasors are jointly and severally liable.¹³

Contributory trademark infringement is a judicial construction and is not expressly provided for in the Lanham Act as section 32 only says

4. *Id.* at *11.

5. *Id.* at *10-11.

6. *Id.* at *15.

7. *Id.* at *7-8.

8. *Id.* at *16-17.

9. *Id.* at *27.

10. *Id.* at *181-82.

11. *See* David Berg v. Gatto Int'l Trading Co., 884 F.2d 306 (7th Cir. 1989) (*citing* 14 U.S.C. § 1114(1)(a) (2000)).

12. *See id.*

13. *See id.*

“[a]ny person who shall . . . use.”¹⁴ In *Power Test Petroleum Distributors, Inc. v. Manhattan & Queens Fuel Corp.*, the court found that contributory infringement had “developed as a judicial gloss on the infringement provision of the Lanham Act.”¹⁵ Under section 877 of the Second Restatement of the Law of Torts, secondary liability attaches “[f]or harm resulting to a third person from the tortious conduct of another . . . if he . . . (c) permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously.”¹⁶ Section 877 applies to anyone that the defendant had the legal power to exclude, but failed to do so.¹⁷

B. *Restatement Third of Unfair Competition § 27*

Section 27 of the Restatement Third of Unfair Competition subjects a person to liability for contributory infringement if “(a) the actor intentionally induces the third person to engage in infringing conduct; or (b) the actor fails to take reasonable precautions against the occurrence of the third person’s infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated.”¹⁸

Under section 27(b), a manufacturer can be liable for contributory infringement if the manufacturer does not take reasonable precautions even if the manufacturer does not mean to induce infringement.¹⁹ Thus, either subsection (a) or (b) of section 27 is sufficient to incur liability. Additionally, a manufacturer only has a duty to take reasonable precautions in section 27(b) when the manufacturer has a “reason to anticipate” infringing conduct.²⁰

C. *The Triumvirate—The Foundation*

Three cases form the basis of the contributory infringement doctrine. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, the most recent holding by the Supreme Court of the United States regarding the judicially created doctrine of contributory trademark infringement, relies on and validates the other two cases.²¹

14. 14 U.S.C. § 1114; *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, No. 93 Civ.6783, 1996 U.S. Dist. LEXIS 1647, at *1 (S.D.N.Y. Feb. 16, 1996).

15. *Power Test Petroleum Dist., Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 394 (E.D.N.Y. 1982).

16. RESTATEMENT (SECOND) OF TORTS § 877 (1979).

17. *See id.* § 877 cmt. d.

18. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

19. *See id.* § 27 cmt. c.

20. *Id.*

21. 456 U.S. 844, 854 (1982).

In *William R. Warren & Co. v. Eli Lilly & Co.*, Eli Lilly claimed that Warren, a manufacturer, was infringing Eli Lilly's trademarked Coco-Quinine medicine because pharmacists were substituting Coco-Quinine with Warren's Quin-Coco and telling the customers they were purchasing Coco-Quinine.²² The Supreme Court found that the manufacturer erred in "enabling the dealers" to pass Warren's goods off as Eli Lilly's goods.²³ The Court held that one who induces and enables infringement is just as liable as the actual infringer.²⁴

Later, in *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, Coca-Cola filed suit against Snow Crest for contributory trademark infringement when bars substituted Coca-Cola soda with Snow Crest soda while telling customers that the soda was Coca-Cola.²⁵ It is a breach of duty for manufacturers to continue selling goods without taking precautionary measures if the manufacturer knew, or a normal manufacturer would have known, that the purchaser was infringing another's trademark.²⁶ A normal manufacturer could "infer" the infringement by the large volume of sales.²⁷ The test was "whether wrongdoing . . . 'might well have been anticipated by the defendant.'"²⁸

Inwood forms the modern formula for contributory trademark infringement.²⁹ After Ives' patent expired, Inwood replicated the appearance of a drug that Ives sold.³⁰ Ives sued Inwood, inter alia, for vicarious trademark infringement after pharmacists substituted Ives' drug for Inwood's similar generic drug.³¹

The Court confirmed that liability for trademarks can extend beyond the direct infringer and does not require that the defendant have direct control over "others in the chain of distribution."³² Defendants are liable if they "intentionally induce[] another to infringe a trademark, or if

22. 256 U.S. 526, 529-30 (1924).

23. *Id.* at 530.

24. *See id.*

25. 64 F. Supp. 980, 982, 985-86 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947).

26. *See id.* at 989.

27. *See id.*

28. *Id.* (quoting Reid, Murdoch & Co. v. H.P. Coffee Co., 48 F.2d 817, 819 (8th Cir.), *cert. denied*, 284 U.S. 621 (1931)).

29. *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 846 (1982). The complaint in *Inwood* was for vicarious infringement. *See id.* Moreover, the Supreme Court has only addressed the infringement test in *Inwood* once, though they have addressed the functionality test or standard of review in *Inwood* fifteen times. *See Sony Corp. of Am. v. Univ. City Studios, Inc.*, 467 U.S. 417, 439 n.19 (1984).

30. *Inwood*, 456 U.S. at 846.

31. *Id.* at 849-50.

32. *Id.* at 854.

it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”³³ The majority addressed Justice White’s concern that liability could be imposed based on the defendant’s being able to “reasonably anticipate” the infringement and noted that the defendant’s ability to “reasonably anticipate” supports the argument for contributory infringement, but is not the controlling legal standard.³⁴

D. Developing the Dicta in Inwood

Since *Inwood*, courts have been testing the boundaries of the contributory trademark infringement doctrine.³⁵ In footnote nineteen of *Sony Corporation of America v. Universal City Studios, Inc.*, the Court noted that because copyright and trademarks are different, the standard for contributory infringement in *Inwood* was only for trademark cases and not for copyright cases.³⁶ Accordingly, the standard for secondary liability in copyright cases is too broad to apply to trademark cases.³⁷

1. “Manufacturer”

In *Inwood*, the contributory infringement doctrine incorporated the term “manufacturer” as that was the fact pattern at issue.³⁸ Since *Inwood*, courts have expanded the term “manufacturer” to include a range of parties and places.³⁹ In *Hard Rock Cafe Licensing Corp. v. Concession Serv., Inc.*, Hard Rock filed suit against Concession Services, Inc. (CSI) because CSI had leased stalls to vendors who sold counterfeit goods.⁴⁰ The torts at common law imposed the same duty on landlords that the Court in *Inwood* imposed on manufacturers.⁴¹ Thus, CSI, as a landlord,

33. *Id.*

34. *See id.* at 854 n.13.

35. *See Ciba-Geigy Corp. v. Bolar Pharm. Co.*, 547 F. Supp. 1095, 1108 n.9 (D.N.J. 1982), *aff’d*, 719 F.2d 56 (4th Cir. 1983), *cert. denied*, 465 U.S. 1080 (1984) (distinguishing the court’s holding from *Inwood*); *Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1145 (7th Cir. 1992) (extending “manufacturer” to landlords); *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001) (finding that “manufacturer” included Internet storage providers).

36. 464 U.S. 417, 439 n.19 (1984). Given the Supreme Court’s explicit differentiation between copyright and trademarks on this issue, this Case Note will focus on sources that primarily address trademarks. *Id.*

37. *See id.*

38. *See Inwood*, 456 U.S. at 854.

39. *See Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1145 (7th Cir. 1992).

40. *See id.*

41. *See id.* at 1149 (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) (1979)).]

was contributorily responsible for trademark infringement occurring on their premises if they “[knew] or [had] reason to know that the other [was] acting or [would] act tortuously.”⁴² Therefore, the *Hard Rock* court extended the Court’s holding in *Inwood* to encompass landlords.⁴³

In *Fonovisa, Inc. v. Cherry Auction, Inc.*, Fonovisa brought suit against Cherry Auction because Cherry Auction had leased space to vendors who, inter alia, infringed Fonovisa’s trademark.⁴⁴ The Sheriff had sent a letter notifying Cherry Auction of the infringement and had asked for the names of the infringing vendors.⁴⁵ The court found that Cherry Auction’s actions in “supplying the necessary marketplace for” the infringers’ sale of counterfeit goods “in substantial quantities” was sufficient to state a claim for contributory trademark infringement.⁴⁶

Recent cases have relied on the reasoning in *Fonovisa* and *Hard Rock* to expand “manufacturer” to encompass online activity. In *Gucci America, Inc. v. Hall & Associates*, Gucci sued Mindspring Enterprises, Inc. because Mindspring, an Internet server, facilitated Hall & Associates’ infringement of Gucci’s trademark on their Web server.⁴⁷ The court found that an Internet service provider is analogous to the market vendors in *Fonovisa* and *Hard Rock* because the Internet providers supply “storage and communications for the infringing material.”⁴⁸ Thus, *Gucci* further expands the *Inwood* holding to encompass online venues.

2. Knowledge Requirement

The knowledge requirement in *Inwood* is interpreted with varying degrees of strictness. In *Habeeba’s Dance of the Arts, Ltd. v. Knoblauch*, Habeeba’s sued YWCA for contributory trademark infringement because YWCA rented a space to a trademark infringer.⁴⁹ Habeeba’s had notified YWCA that Knoblauch was infringing its trademark as part of a YWCA class and would likely continue to do so in future meetings of the class at the YWCA.⁵⁰ The court in *Habeeba’s Dance* found that liability for contributory infringement was determined by the following factors: (1) the level of the defendant’s involvement in the business of the

42. *Id.*

43. *See id.*

44. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996).

45. *Id.*

46. *Id.* at 265.

47. 135 F. Supp. 2d 409, 410-11 (S.D.N.Y. 2001).

48. *Id.* at 416 (quoting *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997), *aff’d*, 194 F.3d 980 (9th Cir. 1999)).

49. 430 F. Supp. 2d 709, 711-12 (S.D. Ohio 2006).

50. *See id.*

infringers, (2) whether the defendants participated in advertising or selling the infringing good or activity, (3) defendant's level of supervision, and (4) whether the defendants and infringer share the proceeds from the infringing good or activity.⁵¹

Some courts have accepted a reasonable anticipation standard for liability. In *Ciba-Geigy Corp. v. Bolar Pharmaceutical Co.*, Ciba filed suit against Bolar, claiming that Bolar intentionally duplicated the trade dress of Ciba's pharmaceutical drug.⁵² The *Ciba* court distinguished their findings from *Inwood*, where knowledge of infringement was not available to the district court at the time of its ruling and none of the indictments resulted in convictions.⁵³ Accordingly, manufacturers will be liable if the manufacturer can reasonably anticipate that retailers will infringe upon another's trademark based upon previous convictions that were known to the court.⁵⁴

Courts have determined that willful blindness also suffices to prove the knowledge requirement of contributory trademark infringement.⁵⁵ In *Louis Vuitton S.A. v. Pun Yang Lee*, Justice Posner noted that knowledge of the counterfeiting was required, but he determined that willful blindness was sufficient to fulfill the knowledge requirement.⁵⁶ Willful blindness occurs when "the defendant [fails] to inquire further because he [is] afraid of what the inquiry [will] yield."⁵⁷ Accordingly, because the defendant knew Louis Vuitton was an expensive brand and unlikely to be sold at low prices, the defendant was willfully blind.⁵⁸

In *Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc.*, Tommy Hilfiger sued Goody's for contributory infringement of Tommy Hilfiger's trademark because Goody's sold counterfeit Tommy Hilfiger shirts.⁵⁹ The *Tommy Hilfiger* court distinguished the case from *Hard Rock* and found that Goody's was not merely negligent because they failed to take reasonable precautions, but rather found that Goody's was willfully blind because it suspected unlawful activity and failed to

51. See *id.* at 715.

52. 547 F. Supp. 1095, 1098 (D.N.J. 1982), *aff'd*, 719 F.2d 56 (4th Cir. 1983), *cert. denied*, 465 U.S. 1080 (1984).

53. See *id.* at 1108 n.9 (*Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 857 n.19 (1982)).

54. See *id.* at 1108.

55. See *Louis Vuitton S.A. v. Pun Yang Lee*, 875 F.2d 584, 590 (7th Cir. 1989).

56. *Id.*

57. *Id.*

58. See *id.*

59. No. 1:00-CV-1934-BBM 2003, U.S. Dist. LEXIS 8788, at *1 (N.D. Ga. May 9, 2003).

investigate.⁶⁰ Moreover, the court found that the greater profits from the branded item “provide[d] a motive for” the defendant “to avoid educating itself as to the truth of the situation.”⁶¹

In *Nike, Inc. v. Variety Wholesalers, Inc.*, Nike sued Variety, claiming that Variety sold counterfeit Nike goods.⁶² Nike had previously told Variety that Variety had sold counterfeit Nike goods.⁶³ The court found that Variety did not know the goods were counterfeit and were not willfully blind because (1) Variety “incorporated . . . verifying criteria” that Nike had given them “into its own authentication process,” (2) Variety compared genuine Nike goods to all potential purchases, (3) Variety only purchased goods that had an appropriate price for a branded item, and (4) Variety bought their goods from a nationwide trade show that did not suggest illicit dealings.⁶⁴ Because of Variety's prior “experiences with trademark infringement” and their many steps to ensure the goods were authentic, the court found that Variety was not willfully blind.⁶⁵

III. COURT’S DECISION

In the noted case, the United States District Court for the Southern District of New York determined whether an online auction site was liable for contributory trademark infringement of its sellers who sold infringing goods on their Web site.⁶⁶ The court found that (1) the *Inwood* test was appropriate to determine claims for contributory trademark infringement, (2) that *Inwood* applies to online auction sites, (3) Tiffany’s claims of trademark infringement were too general, (4) eBay was not willfully blind to trademark infringement, and (5) eBay took the required actions to stop the supply of service to the trademark infringers.⁶⁷

The court applied the *Inwood* test and rejected the Third Restatement of Unfair Competition section 27.⁶⁸ The court determined that the *Inwood* majority, in response to Justice White’s concurrence,

60. See *id.* at *16; Bradley Olson et al., *The 10 Things Every Practitioner Should Know About Anti-Counterfeiting and Anti-Piracy Protection*, 7 J. HIGH TECH. L. 106, 118 (2007) (noting that the court in *Tommy Hilfiger* lists important factors to determine willful blindness).

61. *Hilfiger*, 2003 U.S. Dist. LEXIS 8788, at *16.

62. 274 F. Supp. 2d 1352, 1355 (S.D. Ga. 2003), *aff’d*, 107 F. App’x 183 (11th Cir. 2004).

63. See *id.*

64. *Id.* at 1371.

65. *Id.*

66. See *Tiffany Inc. v. eBay, Inc.*, No. 04CIV.4607, 2008 U.S. Dist. LEXIS 53359, at *27 (S.D.N.Y. July 14, 2008).

67. *Id.*

68. *Id.*

rejected the “reasonable anticipation” standard that is found in section 27(b) of the Restatement.⁶⁹

Moreover, *Inwood* applies to online auction sites because the online auction site provides and controls the venue.⁷⁰ The court relied on the finding in *Lockheed* that a manufacturer, under *Inwood*, extends beyond the manufacturers or distributors of a product if the venue has direct control and monitors the site that the infringers use.⁷¹ The Court found that eBay had sufficient control over the Web site to be subject to liability.⁷²

Additionally, Tiffany’s general claims of trademark infringement do not prove that eBay knew or had reason to know of trademark infringement.⁷³ First, the plain wording of “one” in the *Inwood* rule indicated that generalized knowledge is not sufficient.⁷⁴ Second, the *Gucci* court had determined that the knowledge requirement to prove contributory infringement was a high burden.⁷⁵ Third, previous courts were hesitant to determine that a defendant was liable for contributory infringement if the extent or nature of the infringement was uncertain.⁷⁶ Finally, neither *Fonovisa* nor *Hard Rock Café* determined the level of knowledge required because the courts in these cases did not evaluate the acceptability of general knowledge.⁷⁷ Thus, eBay’s general knowledge of counterfeiting on its Web site was not sufficient for the *Inwood* knowledge requirement.⁷⁸

EBay was also not willfully blind to the trademark infringement.⁷⁹ EBay was only generally aware of the trademark infringement, and had no affirmative duty to seek out infringers.⁸⁰

69. *Id.* at *28-29.

70. *Id.* at *29-30.

71. *See id.* at *30. The court in *Lockheed Martin Corp. v. Network Solutions, Inc.* incorrectly applied *Hard Rock* and *Fonovisa* and consequently conflated the element of control in vicarious liability with contributory liability. 194 F.3d 980, 984 (9th Cir. 1999). *But see* *Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149-50 (7th Cir. 1992). The court in the noted case followed that error. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *30. As the issue did not contribute to the finding that eBay was not liable for contributory trademark infringement, the error shall not be further discussed in this case note. *Id.* at *32.

72. *Id.* at *30-31.

73. *See id.* at *32.

74. *Id.* (quoting *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 U.S. 844, 854 (1982)).

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

76. *Id.*

77. *Id.*

78. *Id.*

79. *See id.* at *36.

80. *See id.* at *36-37.

Finally, eBay took the required actions to stop the supply of service to the trademark infringers once they acquired specific knowledge of infringement.⁸¹ eBay promptly removed disputed listings after Tiffany filed an NOCI.⁸² Because Tiffany and other trademark holders had the principal responsibility to police their own trademarks, the court found that regardless of which company was in the best position to stop the trademark infringement or which company was the least cost avoider, Tiffany had the legal duty to protect its own trademark.⁸³ Thus, eBay did not continue to supply its service to those it knew or had reason to know were infringing Tiffany's trademark.⁸⁴ Accordingly, the court found that eBay was not liable for contributory trademark infringement.⁸⁵

IV. ANALYSIS

The noted case is significant because it is the first case that directly addresses online auction sites' liability for contributory trademark infringement. This Case Note will show that (1) the court incorrectly applied the *Inwood* test, (2) eBay was liable for contributory infringement, and (3) the online auction site should bear the burden for stopping online trademark infringement.

A. *The Court Incorrectly Applied the Inwood Test*

The court incorrectly applied the *Inwood* test because the court inappropriately focused on Justice White's concurrence. The court in the noted case appears to use Justice White's concurrence to modify their rule for contributory infringement and ignores the majority's approval of the appellate court's formulation of the contributory infringement doctrine.⁸⁶ Moreover, the court in the noted case did not properly analyze the procedural history of *Inwood*.⁸⁷ The court in the noted case cannot rely on the Supreme Court's reversal of the appellate court's decision for a finding that the manufacturers were not liable for contributory infringement.⁸⁸ The Supreme Court reversed the appellate court because

81. *See id.* at *38.

82. *Id.*

83. *Id.* at *40.

84. *Id.*

85. *Id.*

86. *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 n.13 (1982).

87. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *28.

88. *Inwood*, 456 U.S. at 858.

the appellate court erred in setting aside the district court's findings of fact that were not clearly erroneous.⁸⁹

Moreover, *Inwood* is inapplicable to the noted case because the two cases have different parties and degrees of involvement in the infringing activities. In both cases there are four essential parties: (1) the manufacturer or initial seller, (2) the distributor, (3) the end purchaser, and (4) the infringed trademark victim.⁹⁰ In the noted case, however, there is another party—the online market.⁹¹ In *Inwood*, the manufacturer, who merely produced and then released the goods, faced suit for distributors' infringement.⁹² In the noted case, eBay is an online market that hosts and facilitates the distributor.⁹³

Additionally, *Inwood* is inapplicable to the noted case because the parties' degree of involvement with the infringing activities is distinguishable. In *Inwood*, the Court was considering holding the manufacturer, who did nothing illegal, liable for contributory infringement because a pharmacist down the line misrepresented the goods.⁹⁴ Neither the goods nor the manufacturer were infringing when the goods left the manufacturer.⁹⁵ As such, Justice White worried that the court would find that a producer “can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown” infringer.⁹⁶ The word “some” is the crux of the issue. In *Inwood*, the “reason to anticipate” would have watered down the standard for contributory infringement because it was speculative who would have infringed the goods.⁹⁷

The noted case is distinguishable, however. The online market itself is the party at issue because eBay is facilitating the trademark infringement.⁹⁸ There is not the speculation in *Inwood* that “some”

89. *See id.*

90. *See id.* at 846-49; *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *15.

91. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *5.

92. *Inwood*, 456 U.S. at 849-51. After Ives' patent expired, Inwood produced pills that were intended to look the same. *Id.* at 847. Ives, however, “did not allege that the petitioners themselves applied the Ives trademark to the drug products they produced and distributed.” *Id.* at 850. Moreover, the Court expressly found that “[b]y establishing to the District Court's satisfaction that uniform capsule colors served a functional purpose, the petitioners offered a legitimate reason for producing an imitative product.” *Id.* at 850 n.19. Thus, the Court reviewed the manufacturer's liability solely as contributory infringement for the resellers' actions and not for the appearance of the pill when it left the manufacturer's control.

93. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *15.

94. *See Inwood*, 456 U.S. at 858-50.

95. *See id.* at 848-49.

96. *Id.* at 861 (White, J., concurring).

97. *See id.* at 854 n.13.

98. *See Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *4.

person down the line might infringe on the trademark.⁹⁹ Rather, the goods are infringing Tiffany's trademark while eBay is facilitating the sale of the infringing goods.¹⁰⁰ Accordingly, the noted case is distinguishable from *Inwood* because there is a different level of definiteness in the knowledge of (1) the extent of the infringement and (2) the infringing parties.

The court should have used the Third Restatement of Unfair Competition section 27 instead of the *Inwood* test. The Third Restatement, created in 1995, is more current than the *Inwood* test, which was created in 1982.¹⁰¹ The most recent formulation of the contributory infringement doctrine is more applicable to the noted case because the dispute involves the Internet.

Additionally, the majority in *Inwood* did not preclude the "reasonably anticipate" element found in the Third Restatement. The Court merely said that it was not the "controlling legal standard."¹⁰² Moreover, the majority confirmed that the determination of whether parties "could reasonably anticipate" illegal substitution of their goods was meant "to buttress the court's conclusion that the legal test for contributory infringement . . . had been met."¹⁰³ Thus, while the "reasonably anticipate" element is not a "controlling legal standard," it is a factor that is relevant in assessing liability for contributory trademark infringement.¹⁰⁴

Furthermore, the findings in *Coca-Cola*, which the *Inwood* majority cited for their contributory infringement rule, support the use of the Third Restatement.¹⁰⁵ The court in *Coca-Cola* found that the test for contributory infringement is whether the infringement "might well have been anticipated by the defendant."¹⁰⁶ The court further explained that

[w]here the defendant markets a product, defendant's accountability for his customer's wrongful use of that product turns on the issue whether a reasonable person in the defendant's position would realize that he himself had created a situation which afforded a temptation to or an opportunity for

99. *See id.* at *15-16.

100. *See id.*

101. *Compare Inwood*, 456 U.S. 844 with RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995) (showing that *Inwood* preceded the publication of the third restatement).

102. *Inwood*, 456 U.S. at 854 n.13.

103. *Id.*

104. *See id.*

105. *See id.* at 854; *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947)).

106. *Id.* (quoting *Reid, Murdoch & Co. v. H.P. Coffee Co.*, 48 F.2d 817, 819 (8th Cir.), *cert. denied*, 284 U.S. 621 (1931)).

wrong . . . or was dealing with a customer whom he should know would be peculiarly likely to use the defendant's product wrongfully.¹⁰⁷

The test in *Coca-Cola* is similar to the Third Restatement finding of liability where "the infringing conduct can be reasonably anticipated."¹⁰⁸ Additionally, in *Coca-Cola* the court found that a defendant would have breached its duty if it continued selling its goods without taking precautionary measures if a reasonable person would have known of infringement.¹⁰⁹ The requirement of precautionary measures is also found in the Third Restatement.¹¹⁰ Thus, as the Supreme Court cited *Coca-Cola* for its contributory infringement rule, and the *Coca-Cola* findings are elucidated in the *Third Restatement*, the court in the noted case should have used the Third Restatement.¹¹¹

The significance of the court's use of the wrong rule in the noted case is that eBay would have been liable for contributory trademark infringement under the Third Restatement, because eBay did not take reasonable precautions despite knowing that customers were specifically ordering Tiffany products, that "Tiffany filed thousands of NOCIs alleging a good faith belief that certain listings were counterfeit or otherwise infringing Tiffany's marks," and that at least 30% of the Tiffany goods on eBay were counterfeit.¹¹²

B. *eBay is Liable for Contributory Trademark Infringement*

Even applying the *Inwood* test, eBay is still liable for contributory trademark infringement because (1) eBay knew or had reason to know about the infringement on Tiffany's trademark, (2) eBay was willfully blind to the infringement on Tiffany's trademark, and (3) eBay continued to supply the infringers with its service.¹¹³

107. *Id.*

108. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

109. See *Coca-Cola*, 64 F. Supp. at 989.

110. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27.

111. See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982) (citing *Coca-Cola*, 64 F. Supp. 980); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27.

112. See *Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (finding that defendant could have investigated when prices were well below the cost of an authentic object); *Tiffany Inc. v. eBay, Inc.*, No. 04CIV.4607, 2008 U.S. Dist. LEXIS 53359, at *34 (S.D.N.Y. July 14, 2008).

113. See *Inwood*, 456 U.S. at 852, 855-56; *Coca-Cola*, 64 F. Supp. at 989; *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *15, 37-39; *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1369-70 (S.D. Ga. 2003).

1. eBay “Knows or has Reason to Know” of the Infringement

The court in the noted case incorrectly determined that specific knowledge of each individual infringer is required to establish that eBay knew or had reason to know of infringement.¹¹⁴ First, the noted case pointed to the rule in *Inwood* that a manufacturer will be liable if it “continues to supply its product to one whom it knows . . . is engaging in trademark infringement.”¹¹⁵ The court in the noted case incorrectly interpreted the Supreme Court’s usage of the word “one” to mean an individual.¹¹⁶ Moreover, in *Inwood*, the Court also refers to infringers in the plural, stating that even if a defendant does not “control others . . . it can be held responsible for [the] infringing activities [of others].”¹¹⁷ Accordingly, the grammatical construction of the sentence is not helpful to the court’s argument.

The court’s second argument suggests that generalized knowledge of infringement is insufficient because trademark victims have a “high burden in establishing ‘knowledge’ of contributory infringement.”¹¹⁸ The court cited the *Mini Maid* factors for determining knowledge.¹¹⁹ Specifically, the court said to look at the extent and nature of the communications, the trademark violations, and whether the defendant either implicitly or explicitly encouraged the violations.¹²⁰ In *Inwood*, both the district court and appellate court determined whether the defendants implicitly suggested infringement by looking to the numbers or pattern of direct infringement, which provided circumstantial evidence of inducement.¹²¹ As such, generalized knowledge is relevant to provide circumstantial evidence of contributory infringement. Accordingly, the large pattern of infringement of the Tiffany trademark, which eBay admitted to knowing, was sufficient to prove knowledge.¹²²

114. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *15, 37-39

115. *See id.* at 32.

116. *See id.*

117. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

118. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *32 (quoting *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001)).

119. *See id.* at 32 (quoting *Mini Maid Svcs. {Servs.} Co., v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1522 (11th Cir. 1992)).

120. *See id.*

121. *See Inwood*, 456 U.S. at 852, 855-56; *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff’d*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947) (inferring infringement by large volume of products sold); *Tommy Hilfiger Licensing, Inc. v. Goody’s Family Clothing, Inc.*, No. 1:00-CV-1934-BBM, 2003 U.S. Dist. LEXIS 8788, at *15 (N.D. Ga. May 9, 2003) (noting the implausibility of a large number of branded goods on the secondhand market).

122. *See Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *15.

Third, the court in the noted case misconstrued the term “general” in *Coca-Cola* and *Lockheed* to find that generalized knowledge is insufficient because courts are reluctant to hold defendants liable when there is “some uncertainty as to the extent or the nature of the infringement.”¹²³

The court in *Coca-Cola* stated that the defendant did not have sufficient knowledge of infringement because the “[p]laintiff did not go beyond stating in a conversation of general scope that unnamed bars in unnamed quantities were serving defendant’s product when plaintiff’s was called for.”¹²⁴

Use of the term “general” in *Coca-Cola* and the noted case is distinguishable. *Coca-Cola* involved general allegations of a series of matters such that the defendant did not realize the infringement was a big concern of the plaintiffs.¹²⁵ Even the noted case said that the plaintiff in *Coca-Cola* “did not ask defendant to take any specific step to notify or caution bars against passing off [a substitute cola].”¹²⁶ Tiffany, however, made repeated, specific allegations that dealers were infringing Tiffany’s trademark; the company made specific requests to reduce the infringements, including having eBay investigate dealers who sell five or more Tiffany items, and these requests were not embedded in other complaints.¹²⁷ Additionally, there were specific findings of infringement that eBay recognized by removing the listings.¹²⁸

Furthermore, the court’s reliance on *Lockheed* was misplaced. The *Lockheed* court found that there was no contributory trademark infringement because registering domain names was a noncommercial activity.¹²⁹ The court in *Lockheed* found that NSI had no reason to know if the domain names infringed upon Lockheed’s trademark “Skunk Works” because of the “existence of numerous legitimate, non-infringing uses of the term ‘skunk works.’”¹³⁰ This is inapplicable to the noted case, as *Lockheed* involved intangible words of the name of a popular animal that is used in a variety of settings, and the noted case involves high-end objects that obtain their value from their affiliation with the specific

123. *Id.* at *33.

124. *Coca-Cola*, 64 F. Supp. at 990.

125. *See id.* at 987-90.

126. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *33 (quoting *Coca-Cola*, 64 F. Supp. at 987).

127. *See id.* at *12.

128. *See id.* at *7-8.

129. *See Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 956-57 (C.D. Cal. 1997), *aff’d*, 194 F.3d 980 (9th Cir. 1999).

130. *Id.* at 963-64.

jeweler's brand. Moreover, the goods in the noted case were sold in commerce.¹³¹ Thus, neither *Coca-Cola* nor *Lockheed* show that general knowledge of infringement is insufficient in the noted case.

The court in the noted case also cites *Habeeba's Dance* for the proposition that courts require specific knowledge of infringing acts.¹³² *Habeeba's Dance*, however, never cited specific knowledge as an inquiry in their list of relevant factors. Furthermore, the court in *Habeeba's Dance* heavily relied on *Fonovisa* wherein neither the contributory infringers nor the plaintiffs knew the specific infringers.¹³³ Thus, eBay had sufficient knowledge of the trademark infringement.¹³⁴

2. eBay Was Willfully Blind

eBay was willfully blind to the trademark infringement on its Web site. The court's finding that eBay was not willfully blind because it conducted general anticounterfeiting procedures on its Web site is incorrect.¹³⁵ While citing the *Nike* rule for willful blindness, the court in the noted case failed to address the rule.¹³⁶ eBay "knew of a high probability of illegal conduct," because eBay knew that there was a high probability that a large percentage of the Tiffany goods were counterfeit.¹³⁷ Moreover, eBay "purposefully contrived to avoid learning of it" by failing to specifically investigate counterfeiting in Tiffany goods despite receiving numerous complaints from Tiffany about infringing goods on eBay's Web site.¹³⁸

If defendants could avoid willful blindness merely by conducting general anticounterfeiting measures and failing to investigate specific infringement when the defendants know that specific trademarks are being infringed in large numbers, then they would rarely be liable. This policy would create a perverse incentive to encourage the defendants not to investigate allegations of infringement.

131. See *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *5.

132. See *id.* at *33.

133. See *Habeeba's Dance of the Arts, Ltd., v. Knoblauch*, 430 F. Supp. 2d 709, 714-15 (S.D. Ohio 2006).

134. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854-56 (1982); *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947); *Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc.*, 2003 U.S. Dist. LEXIS 8788, at *15 (2003); see *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *12, 15, 33, 36.

135. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *36-37.

136. See *id.* at *37.

137. *Id.* at *15; *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1369-70 (S.D. Ga. 2003).

138. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *37; *Nike*, 274 F. Supp. 2d at 1369-70.

Moreover, the court in *Hard Rock* noted that even without an affirmative duty to detect infringement, knowledge of the cheap price of brand name goods could support a finding that the defendant was willfully blind.¹³⁹ Thus, the absence of an affirmative duty is only a defense if there is no knowledge—general or specific—of infringement.

3. eBay did Not Take Appropriate Steps To Cut Off the Supply of Its Service to the Infringer

The court in the noted case only considered eBay's steps in cutting off its service to the specific infringers that Tiffany notified eBay of and not other Tiffany trademark infringers.¹⁴⁰ As eBay continued to facilitate infringement of the Tiffany trademark on its Web site, eBay continued to supply its services to infringers.¹⁴¹

Moreover, eBay did not take appropriate steps to stop its service to specific infringers because 178 infringing sellers relisted the infringing items.¹⁴² The court incorrectly found that eBay's removal of the infringing listing was sufficient.¹⁴³

The court justified this holding by determining that NOCI, eBay's requested method of notification of infringement, was not sufficient to constitute notice of infringement because Tiffany did not have actual knowledge of counterfeiting, and Tiffany had been wrong before.¹⁴⁴ The court's definition of notice of infringement limits trademark victims' recourse.¹⁴⁵

4. Significance

The holding in the noted case rewards the online market's lack of control and knowledge, which serves as a perverse incentive to ignore the infringement.¹⁴⁶ Online auctions should have greater responsibility for the infringement as it provided the forum for infringement and benefited from the infringement.¹⁴⁷

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

140. *Tiffany*, 2008 U.S. Dist. LEXIS 53359, at *38.

141. *Id.*

142. See *id.* at *39.

143. See *id.*

144. *Id.* at 38 n.38.

145. See *id.* at *38 n.38.

146. Trademark & Unfair Competition Comm., N.Y. Bar Ass'n, *Online Auction Sites and Trademark Infringement Liability* (2003), <http://www.abcnny.org/pdf/report/Online%20Auction%20Sites%20Final%20Report.pdf> (last visited Nov. 2, 2008).

147. See *id.*

Online markets should bear the burden of policing online venues for trademark infringement. In *Warner*, the Supreme Court found that “any doubt in respect” of the relief provided to the trademark victim should favor the innocent trademark victim and not the contributory infringer who “has shown by its conduct it is not to be trusted.”¹⁴⁸ As such, the balance weighs in favor of protecting trademark victims.

Moreover, eBay’s online site exacerbates infringement while impeding trademark policing efforts.¹⁴⁹ In *Louis Vuitton*, the court noted that the sale of counterfeit merchandise was so prevalent that it would be impossible to get an injunction against each infringer.¹⁵⁰ The court in the noted case further exacerbated this problem as the online nature makes it harder for trademark victims to authenticate the item and to track down the actual infringer.¹⁵¹

Additionally, as auction sites profit directly from the sale of the counterfeiting goods, the auction sites have a conflict in interest in stopping infringement.¹⁵² Liability, however, would provide an incentive for online auctions to police their market.¹⁵³ In conclusion, the court incorrectly applied the *Inwood* test, eBay was liable for contributory infringement, and the online auction site should bear the burden for stopping online trademark infringement.

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148. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 532 (1924).

149. *See* Trademark & Unfair Competition Comm., *supra* note 146.

150. *See Louis Vuitton S.A. v. Pun Yang Lee*, 875 F.2d 584, 588 (1989).

151. *See id.*

152. *See id.*

153. *See id.*

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