

2011

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## Recommended Citation

Stacey Dogan, *'We Know It When We See It': Intermediary Trademark Liability and the Internet*, 2011 *Stanford Technology Law Review* 7 (2011).

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# Stanford **Technology** Law Review

## “We Know It When We See It”: Intermediary Trademark Liability and the Internet

STACEY L. DOGAN\*

CITE AS: 2011 STAN. TECH. L. REV. 7

<http://str.stanford.edu/pdf/dogan-intermediary-trademark-liability.pdf>

¶1 The recent history of intermediary liability decisions in copyright and trademark law reflects a notable resistance to rules that might constrain judicial discretion to ferret out bad guys. The Supreme Court in *Grokster* suggested such resistance, by limiting the *Sony* safe harbor to defendants with squeaky-clean intentions.<sup>1</sup> In the trademark context, recent decisions have shown great solicitude toward good-faith actors, while reserving the option to condemn those who act with the apparent design to sow confusion. Indeed, a dichotomy appears to be emerging between two types of defendants: those who want infringement to happen and those who do not. The former group faces almost certain liability, while the latter receives broad immunity, even when its services facilitate widespread infringement. The *Sony* safe harbor and its trademark analog, in other words, are available only to intermediaries that appear to be acting in good faith and with ultimately non-infringing objectives.

¶2 So far, so good, perhaps—after all, who wants to discourage courts from ferreting out bad guys? And it may be that the courts are muddling their way toward the right outcomes. The problem is that much of what seems to implicitly motivate courts’ decisions fails to find its way into the doctrine, leaving less-than-satisfying guidance to future courts and parties. Intermediary liability analysis often looks like the Supreme Court’s approach to obscenity: we know it when we see it.<sup>2</sup> On the one hand, the Supreme Court has crafted a new doctrine of inducement that turns more on evidence of parties’ motivations and technological design choices than on their active encouragement of infringement by third parties.<sup>3</sup> At the other extreme, courts like the Second Circuit in *Tiffany (NJ) Inc. v. eBay Inc.* state a broad rule of immunity for parties that lack actual knowledge of specific instances of infringement, while spending a curious amount of time belaboring purportedly irrelevant matters like the extra efforts the defendant took to affirmatively root out the wrongdoing in that case.<sup>4</sup>

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<sup>1</sup> See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 941 (2005); see generally *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (“[T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the produce is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing use.”).

<sup>2</sup> See *Jacobellis v. Ohio*, 378 U.S. 184, 197 (Stewart, J., concurring) (“perhaps I could never succeed in intelligibly” defining constitutionally unprotected hardcore pornography, but “I know it when I see it”).

<sup>3</sup> See *Grokster*, 545 U.S. at 939, n.12 (2005); see also *id.* at 958 (Breyer, J., concurring) (identifying the refusal to inquire into technology design as one of the chief virtues of the *Sony* safe harbor).

<sup>4</sup> See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).

¶3 In the end, what matters most in these cases is whether the court believes in the defendant’s essential legitimacy and good faith. In both copyright and trademark cases, courts are developing two distinct sets of rules to deal with two different classes of intermediaries. Good-faith intermediaries—those with a core business model unrelated to infringement—have an obligation to address infringement upon notice, but need not go out of their way to root it out; a reactive approach will suffice to protect them from liability. Bad-faith intermediaries, on the other hand—those who not only benefit from infringement, but intend it to happen—face certain liability, without regard to specific notice of particular acts of infringement.

¶4 The trick, of course, lies in understanding how to differentiate between good and bad faith actors. Doctrinally, copyright courts are turning to inducement to do the sorting. Inducers, as bad actors, get none of the protections afforded to other infringement-enabling intermediaries. So what makes someone an inducer? We don’t yet have much case law in trademark law, but copyright gives us some clues. Despite its name, copyright inducement has little to do with exhorting infringement, and everything to do with economic incentive and system design. Inducers are those whose business model depends, at its core, on infringement. Indeed, I believe that this factor largely explain the outcome in suits against intermediaries. And far from defying *Sony*, I view this development as fully consistent with the normative goal laid out by the Supreme Court in defending the staple article of commerce doctrine: “[t]he staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.”<sup>5</sup> I will come back to explain why I think this language lies at the heart of today’s intermediary liability rules; but first let me step back and sketch out some of my more preliminary claims.

#### *I. It’s All About Finding the Bad Guys*

¶5 My first claim is that the case law over the past several years reveals a strong suspicion of rules that might insulate from liability parties that have the purpose and motive to facilitate infringement. Courts seem to want a broad safe space for good actors, but no protection for the bad guys, regardless of whether their services or technology might have beneficial collateral effects. And the task of defining “bad guys” lies in the broad discretion of the court, with subjective intent and commercial motives front and center in exercising that discretion.

#### *A. Copyright*

¶6 In copyright, we see this phenomenon most notably in the Supreme Court’s opinion in *Grokster*.<sup>6</sup> As that case made its way through the lower courts, most observers thought the outcome would turn on the extent to which the defendants’ file-sharing services enabled “substantial non-infringing use”—an apparently objective inquiry suggested by the Supreme Court’s opinion in *Sony*. The Supreme Court, though, wanted nothing of it. Without disturbing *Sony*’s safe harbor for good-faith actors, the Supreme Court crafted a new creature of copyright law—inducement liability—to ensure that bad guys didn’t get the benefit of the safe harbor protection.<sup>7</sup> And what tools did the Court give lower courts to distinguish between the righteous and the scoundrel? Given its name, one might expect that inducement liability would turn on the affirmative acts taken by one party to persuade

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<sup>5</sup> *Sony*, 464 U.S. at 442.

<sup>6</sup> *Grokster*, 545 U.S. at 913.

<sup>7</sup> The Court split on the question of how substantial a product’s non-infringing uses had to be to trigger the *Sony* safe harbor. Compare *id.* at 948 (Ginsburg, J., concurring) (concluding that the *Sony* safe harbor does not apply to products that “were, and had been for some time, overwhelmingly used to infringe, . . . and . . . [where] this infringement was the overwhelming source of revenue from the products”), with *id.* at 952-54 (Breyer, J., concurring) (quoting *Sony*’s reference to products “capable of” substantial non-infringing uses, and concluding that the mere prospect of commercially significant non-infringing applications should insulate a technology provider from copyright liability). But the Justices all agreed that the *Sony* safe harbor would continue to protect those who distributed technologies with “substantial non-infringing uses” and who did not satisfy the inducement standard. See *id.* at 934, 936-37.

someone else to infringe;<sup>8</sup> and indeed, the opinion begins with this notion of inducement.<sup>9</sup> But the Court had something broader in mind. While acts of encouragement would certainly help to establish inducement liability, the Court found them non-essential. Instead, the key to inducement was whether a defendant *intended* to help others to infringe; the fact that she never expressly encouraged such infringement was irrelevant. Intent, moreover, could be proven through a combination of direct and circumstantial evidence, including evidence regarding design choices, despite the Court’s denial that design choices alone could justify an inducement claim.<sup>10</sup>

¶7

In *Grokster* itself, there was slim evidence that the defendants had ever actually encouraged consumers to use their services to infringe. Both Grokster and Streamcast had, of course, encouraged users to adopt their services, but there was little evidence that they had specifically urged those users to infringe.<sup>11</sup> But the dearth of such evidence did not stand in the way of the plaintiffs’ inducement claim, because under the Court’s definition, inducement turned on an unlawful *objective* rather than actual provoking acts.<sup>12</sup> The Court, for example, found support for the inducement claim against Streamcast in a series of “internal communications and advertising designs aimed at Napster users,” even though the memos and advertisements had never reached their intended audience:

Whether the messages were communicated is not the point on this record. The function of the message in the theory of inducement is to prove by a defendant’s own statements that his unlawful *purpose* disqualifies him from claiming protection . . . . Proving that a message was sent out, then, is the preeminent but not the exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed.<sup>13</sup>

¶8

The other facts that the Court found relevant to inducement liability similarly related to the defendant’s intent and commercial motivation, rather than any affirmative acts of provocation. The Court highlighted three types of evidence that supported the plaintiff’s claim of unlawful intent: the defendants’ decision to target former Napster users;<sup>14</sup> the defendants’ choice not to adopt filtering technologies;<sup>15</sup> and the fact that the defendants had a strong commercial motivation to enable infringement.<sup>16</sup> None of this evidence involved interactions between the *Grokster* defendants and

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<sup>8</sup> See OXFORD ENGLISH DICTIONARY (2d ed. 1989) (induce: “To lead (a person), by persuasion or some influence or motive that acts upon the will, *to* (†*into*, †*unto*) some action, condition, belief, etc.; to lead on, move, influence, prevail upon (any one) *to do* something”) (emphasis in original).

<sup>9</sup> *Grokster*, 545 U.S. at 936 (“Evidence of ‘active steps . . . taken to encourage direct infringement,’ such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use . . . .”) (quoting *Oak Indus., Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)) (other internal citations omitted); see *id.* at 937 (“The inducement rule, instead, premises liability on purposeful, culpable expression and conduct . . . .”).

<sup>10</sup> See *id.* at 939 n.12 (“Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too closely to the *Sony* safe harbor.”).

<sup>11</sup> The Court did cite some evidence that, in its view, could lead a reasonable fact-finder to conclude that the defendants “communicated an inducing message to their software users.” *Id.* at 937-38. This evidence, however, consisted primarily of defendants’ reaching out to former Napster users to market their software. For example, the Court noted that “[t]hose who accepted StreamCast’s OpenNap program were offered software to perform the same services [as Napster], which a fact finder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files.” *Id.*

<sup>12</sup> See, e.g., *id.* at 936-37 (“one who distributes a device with the *object* of promoting its use to infringe copyright . . . is liable for the resulting acts of infringement by third parties”) (emphasis added).

<sup>13</sup> *Id.* at 938 (emphasis added). The Federal Circuit has imported this notion of inducement into the patent laws, citing *Grokster* for the proposition that inducement can occur even if the defendant never “successfully communicate[s] a message of encouragement to the alleged direct infringer.” *Ricoh Co., Inc. v. Quanta Computer Inc.*, 550 F.3d 1325, 1342 (Fed. Cir. 2008).

<sup>14</sup> *Grokster*, 545 U.S. at 938-39 (concluding that “defendants’ efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement”).

<sup>15</sup> The Court skirted around the relevance of the failure to adopt filters, disagreeing with the Ninth Circuit that such design choices were “irrelevant,” but also cautioning (no doubt at the behest of Justice Breyer) that the design choices alone could not establish inducement liability. *Id.* at 938-39, 939 n.12. Instead, the Court found that the refusal to adopt a filtering technology “underscore[d] Grokster’s and StreamCast’s intentional facilitation of their users’ infringement.” *Id.* at 939.

<sup>16</sup> Again, the Court noted that this evidence, alone, would not be enough to prove inducement, but that together with the

their users. Nor, interestingly, did they have to do with whether the technology at issue had a “substantial non-infringing use.” Instead, most of the evidence of inducement centered on whether the defendants had adopted a business model deliberately built around infringement.

¶9 This is an interesting, and not widely anticipated, follow-up to *Sony*. A mechanical “substantial non-infringing use” test—advocated by most scholars in the lead-up to *Grokster*<sup>17</sup>—suggests agnosticism about the motivation behind the development and dissemination of infringement-enabling technology. As long as a technology has a significant non-infringing application, its manufacturer should be protected without regard to its intent. But by creating its new species of inducement liability, the Court put motivation front and center. It turned the inquiry away from the relative proportion of infringing and non-infringing uses, and toward the question of whether the defendant’s purpose, technology, and business plan center on enabling others to infringe. If a defendant acts with intent to enable infringement, the mere distribution of its technology can satisfy the conduct requirement for inducement liability.<sup>18</sup> *Sony*’s safe harbor, in other words, turns from a general safe harbor to a conditional one, available only for parties with a legitimate, non-infringing *raison d’être*.<sup>19</sup>

¶10 The lower courts have followed the Supreme Court’s lead, making intent and commercial motivation core factors in evaluating inducement claims. Parties whose apparent purpose and business model focus on enabling infringement have fared poorly in the courts, while those who look like good guys have enjoyed broad protection under both *Sony* and the Digital Millennium Copyright Act.

¶11 In *Arista Records LLC v. Lime Group LLC*,<sup>20</sup> for example, the district court found inducement liability against LimeWire, which had distributed file-sharing software similar to that at issue in *Grokster*. The court cited *Grokster* for the definition of inducement, requiring both purposeful conduct and intent to facilitate infringement by third parties.<sup>21</sup> As in *Grokster*, the conduct requirement could be satisfied by virtually any infringement-facilitating act, including the distribution of file-sharing software. With purposeful conduct so easily proven, the defendant’s intent took center stage.<sup>22</sup> The *Arista* court found evidence of intent in the defendant’s business plan, its customer base, and its “failure to mitigate infringing activities”—i.e., its technology design choices.<sup>23</sup> Ultimately, as in

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other evidence, it supported the conclusion that the defendants had acted with unlawful intent. *Id.* at 940.

<sup>17</sup> See, e.g., Brief of Professors Edward Lee, Peter Shane, and Peter Swire as Amici Curiae in favor of Respondents, *Grokster*, 2005 WL 508111 (filed March 1, 2005); Brief of Amici Curiae Internet Law Faculty in Support of Respondents, Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., No. 04-480, 2005 WL 508098 (filed March 1, 2005); Brief of Amici Curiae Law Professors in Support of Respondents, *Grokster*, 2005 WL 508116 (filed March 1, 2005); Brief of Amici Curiae Sixty Intellectual Property and Technology Law Professors and the United States Public Policy Committee of the Association for Computing Machinery in Support of Respondents, *Grokster*, 2005 WL 508123 (filed March 1, 2005).

<sup>18</sup> See *Grokster*, 545 U.S. at 940 n.13 (noting that when a party distributes a tool with the intent that others use it to infringe, “the culpable act is not merely the encouragement [of infringement] but also the distribution of the tool intended for infringing use”). On remand, the district court found as a matter of law that the defendants had induced infringement, based largely on the same evidence of intent and commercial motive discussed by the Supreme Court in its opinion. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 984 (C.D. Cal. 2006).

<sup>19</sup> Cf. *Grokster*, 545 U.S. at 937 (noting that courts must be “mindful of the need to keep from entrenching on *regular commerce* or discouraging the development of technologies”) (emphasis added).

<sup>20</sup> *Arista Records LLC v. Lime Group LLC*, \_\_\_ F. Supp. \_\_\_, 2011 WL 1742029 (May 2, 2011).

<sup>21</sup> *Id.* at \*15 (“To establish a claim for inducement, a plaintiff must show that the defendant (1) engaged in purposeful conduct that encouraged copyright infringement, with (2) the intent to encourage such infringement.”).

<sup>22</sup> *Id.* at \*16 (“[T]here is overwhelming evidence that LW engaged in purposeful conduct that fostered infringement: LW created and distributes LimeWire, which users employ to commit a substantial amount of infringement.”).

<sup>23</sup> See *id.* at 509 (“[T]he following factors, taken together, establish that LW *intended* to encourage infringement by distributing LimeWire: (1) LW’s awareness of substantial infringement by users; (2) LW’s efforts to attract infringing users; (3) LW’s efforts to enable and assist users to commit infringement; (4) LW’s dependence on infringing use for the success of its business; and (5) LW’s failure to mitigate infringing activities.”). See also *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 154 (S.D.N.Y. 2009) (granting summary judgment on an inducement claim against an internet intermediary based on a high proportion of infringing files, employees’ knowledge of infringement, failure to adopt filtering technologies, and commercial benefit from infringement); *Ticketmaster LLC v. RMG Technologies, Inc.*, 507 F. Supp. 2d 1096, 1110-11 (“Designing and marketing a device whose purpose is to allow unauthorized access to, and thus to infringe on, a copyrighted website is sufficient to trigger contributory liability for infringement committed by the device’s immediate users.”); *Columbia Pictures Indus., Inc. v. Fung*, 96 U.S.P.Q.2d 1620, 2009 WL 6355911 (N.D. Cal. 2009) (granting summary judgment for copyright inducement against distributor of

*Grokster*, Lime Group lost its case because the court believed that it had built its business around third parties’ infringement—the post-*Grokster* definition of a bad guy.<sup>24</sup> Bad guys, it turns out, do not get protection under either *Sony* or the Digital Millennium Copyright Act’s safe harbors,<sup>25</sup> regardless of whether their technologies may have potential non-infringing uses.

¶12

In contrast to this strict treatment of apparently bad actors, the courts have given generous safe-harbor protection to parties perceived to have a legitimate business model that happens to enable third-party infringement. This generosity, moreover, extends to some defendants who know, beyond doubt, that their technologies are enabling widespread infringement and yet take few proactive steps to prevent it. In *Viacom v. YouTube*,<sup>26</sup> for example, a set of copyright holders sued YouTube for the unauthorized posting of their movies on the YouTube website. YouTube defended under the Digital Millennium Copyright Act, claiming that its practice of taking down infringing content upon notice complied with the DMCA’s safe harbor requirements. The court agreed, finding no “red flag” knowledge that would rob YouTube of its safe harbor protection.<sup>27</sup> The court distinguished YouTube from *Grokster* based on the essential legitimacy of the YouTube service:

The *Grokster* model does not comport with that of a service provider who furnishes a platform on which its users post and access all sorts of materials as they wish, while the provider is unaware of its content, but identifies an agent to receive complaints of infringement, and removes identified material when he learns it infringes.<sup>28</sup>

¶13

In *Perfect 10 v. Visa*,<sup>29</sup> the Ninth Circuit similarly refused to impose liability against a group of banks and others who processed credit card payments for copyright-infringing websites. Despite a scathing dissent from Judge Kozinski, who viewed the credit card companies as complicit profiteers who could easily curb online infringement,<sup>30</sup> the majority rejected plaintiffs’ claims. The court was clearly influenced by the essential legitimacy of the defendants’ core business and the absence of specific intent to enable infringement.<sup>31</sup>

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bittorrent file-sharing software).

<sup>24</sup> See also *Arista Records*, 633 F. Supp. 2d at 150-54 (S.D.N.Y. 2009) (granting summary judgment against a defendant for copyright inducement, based on evidence including the proportion of infringing versus non-infringing uses of its service, as well as its failure to adopt filtering technologies); cf. *Monotype Imaging, Inc. v. Bitstream, Inc.*, 376 F. Supp. 2d 877, (N.D. Ill. 2005) (“The Supreme Court has recognized that a court may impute culpable intent as a matter of law from the characteristics or uses of an accused product.”).

<sup>25</sup> 17 U.S.C. § 512 (2011). The DMCA safe harbors protect online service providers from copyright liability for infringement hosted through their services, as long as they take down infringing content upon notification and fulfill other requirements of the statute. Courts have held the DMCA safe harbors inapplicable to defendants who have intentionally induced third-party infringement. See *Columbia Pictures*, 96 USPQ 2d at \*18 (Dec. 21, 2009) (holding that “inducement liability and the Digital Millennium Copyright Act safe harbors are inherently contradictory”).

<sup>26</sup> *Viacom Int’l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 523 (S.D.N.Y. 2010).

<sup>27</sup> *Id.* at 514 (“To let knowledge of a generalized practice of infringement in the industry, or of a proclivity of users to post infringing materials, impose responsibility on service providers to discover which of their users’ postings would infringe a copyright would contravene the structure and operation of the DMCA.”).

<sup>28</sup> *Id.* at 526.

<sup>29</sup> *Perfect 10, Inc. v. Visa Int’l Service Ass’n*, 494 F.3d 788 (9th Cir. 2007).

<sup>30</sup> *Id.* at 816 (Kozinski, C.J., dissenting) (contending that liability should exist when “[d]efendants know about the infringements; they profit from them; they are intimately and causally involved in a vast number of infringing transactions that could not be consummated if they refused to process . . . payments; they have ready means to stop the infringements”).

<sup>31</sup> *Id.* at 802 (refusing to find inducement liability absent a “clear expression” of a specific intent to foster infringement”); *id.* at 801 (“Perfect 10 does not allege that Defendants created or promote their payment systems as a means to break laws.”). The court also emphasized the importance of credit cards to the United States economy:

We evaluate Perfect 10’s claims with an awareness that credit cards serve as the primary engine of electronic commerce and that Congress has determined it to be the ‘policy of the United States—(1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation.

*Id.* at 794; see also *Io Group v. Veoh Networks*, 586 F. Supp. 2d 1132 (N.D. Cal. 2008) (in rejecting claim against video hosting service, noting that “the decision rendered here is confined to the specific facts in this case and is not intended to push the bounds of the safe harbor so wide that *less than scrupulous service providers may claim its protection*”) (emphasis added).

¶14 Deeming someone a good-faith actor does not necessarily dictate complete immunity from copyright liability; even good guys have an obligation to respond to specific notifications of infringement by removing or disabling access to infringing content available through their network.<sup>32</sup> But if they do so—if they respond, reactively, to notifications of infringement—copyright law protects them from liability. Inducers, in contrast, face liability without regard to specific knowledge of particular infringing acts.

¶15 *Grokster*, then, dramatically shifted the focus of analysis for providers of services and technologies with both infringing and non-infringing uses. After *Grokster*, those whose purpose and business model center on enabling infringement are likely to face liability on an inducement theory, even if their technologies have a substantial non-infringing use. On the other hand, parties who have a “legitimate” core business model, but whose service or technology has some infringement-enabling potential, will likely receive safe harbor protection under either *Sony* or the Digital Millennium Copyright Act.<sup>33</sup> The name of the game has shifted from quantifying non-infringing uses to satisfying the court that the defendant is a good citizen whose services may sometimes be abused by third parties. In a sense, the transition from *Sony* to *Grokster* reflects a rejection of the idea that the technology-protective rule in *Sony* should insulate parties who acted with illicit motive and effect, or who built their business on infringement.<sup>34</sup>

### B. Trademark

¶16 While the trademark story has unfolded somewhat differently, it reveals a similar dichotomy between the treatment of good guys and bad. Just as in the copyright context, recent trademark decisions have shown great solicitude toward good-faith actors, while reserving the option to condemn those who act with the apparent design to sow confusion.

¶17 The trend began with the Second Circuit’s opinion in *Rescuecom v. Google*.<sup>35</sup> In *Rescuecom*, the court had to decide whether to adopt a “trademark use” requirement, which would have barred direct trademark infringement claims against parties who did not use the plaintiff’s mark to market their own products. Under a trademark use doctrine, intermediaries and others who did not themselves engage in trademark use could face liability under trademark law, but under standards of contributory rather than direct infringement.<sup>36</sup> *Rescuecom* involved the practice of keyword advertising, in which a search engine (in that case, Google) sells advertising space that is triggered by users’ searches for particular trademark holders’ products. A search for “IPHONE,” for example, might turn up ads for iPhone-compatible applications and accessories, as well as advertisements for competing products. Google argued that its practice of allowing keyword-based advertising could not itself constitute direct infringement because it did not offer products or services under protected marks; at best, its liability was derivative of that of its advertisers.<sup>37</sup> The Second Circuit disagreed, finding no basis in the Lanham Act for a requirement of trademark use.<sup>38</sup>

¶18 The court’s rationale for rejecting the trademark use doctrine had little to do with an analysis of the doctrinal differences between direct and contributory infringement, and everything to do with a

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<sup>32</sup> See, e.g., *Amazon*, 487 F.3d at 729 (9th Cir. 2007) (“Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10’s copyrighted works, and failed to take such steps.”). This affirmative obligation does not, it seems, apply to credit card companies, because of their lack of direct involvement in delivering infringing content. See *Visa*, 494 F.3d at 799-800. But see *id.* at 812 (Kozinski, C.J., dissenting) (“Location services and payment services are equally central to infringement . . .”).

<sup>33</sup> See *Viacom Int’l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 526 (S.D.N.Y. 2010).

<sup>34</sup> See generally Alfred C. Yen, *Third-Party Liability After Grokster*, 91 MINN. L. REV. 184, 192 (2006) (contending that “inducement gives courts a new tool for holding culpable defendants liable while reducing the risk of undesirable side effects”).

<sup>35</sup> *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123 (2d Cir. 2009).

<sup>36</sup> See generally Stacey L. Dogan, *Beyond Trademark Use*, 8 J. ON TELECOMM. & HIGH TECH. L. 135 (2010); Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669 (2007).

<sup>37</sup> In the interests of full disclosure, I should mention that Eric Goldman and I, on behalf of a group of law professor *amici*, filed a brief in support of Google in the Second Circuit appeal. See Brief of *Amici Curiae* Intellectual Property Law Faculty in Support of Affirmance, *Rescuecom*, 562 F.3d 123 (No. 06-4881-CV), 2007 WL 6475455.

<sup>38</sup> *Rescuecom*, 562 F.3d at 132.

fear that the trademark use requirement would let unscrupulous defendants off on a technicality. The court said so explicitly: “If we were to adopt Google and its amici’s argument, the operators of search engines would be free to use trademarks in ways *designed to deceive and cause consumer confusion*.”<sup>39</sup>

¶19 I have argued elsewhere that the court’s fear of immunity for intentional wrongdoers was misguided;<sup>40</sup> but whether warranted or not, the *Rescuecom* opinion clearly reflects that fear. And while the opinion admits to some ambiguity, *Rescuecom*’s curious branch of direct trademark infringement seems designed to distinguish between the innocent intermediary and the one whose technology and business model deliberately seek to confuse. In refusing to dismiss the direct infringement claims against Google, for example, the court noted *Rescuecom*’s allegations that Google’s ad placement itself was confusing to consumers, without regard to the content of any particular ad:

What *Rescuecom* alleges is that by the manner of Google’s display of sponsored links of competing brands in response to a search for *Rescuecom*’s brand name (which fails adequately to identify the sponsored link as an advertisement, rather than a relevant search result), Google creates a likelihood of consumer confusion as to trademarks.<sup>41</sup>

¶20 The *Rescuecom* court, in other words, recognized the possibility of a direct infringement claim against Google, but suggested that it could not arise merely from an advertiser’s misuse of the keyword-advertising tool. Direct liability required Google itself to engage in consumer manipulation.<sup>42</sup> At least implicitly, then, *Rescuecom* maintained the distinction between contributory and direct trademark infringement for claims based on confusion created by third parties; in such cases, plaintiffs must prove that the defendant either “intentionally induces another to infringe a trademark,” or “continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>43</sup> Good-faith intermediaries who respond to notifications of infringement receive broad protection under this standard.

¶21 Despite the differences in doctrinal and factual contexts, the *Rescuecom* opinion has much in common with *Grokster* in policy and effect. Like *Grokster*, *Rescuecom* rejected a doctrine that advocates had portrayed as critical to protecting legitimate technology developers from liability for third parties’ infringement.<sup>44</sup> The rejection, in both cases, was motivated by judicial concerns about shielding parties that had infringing objectives. And *Rescuecom*, like *Grokster*, reshaped infringement doctrine in an attempt to target those bad actors.<sup>45</sup> At the same time, both decisions arguably retained robust protection for technology providers whose intent, commercial motivations, and design choices reflect a legitimate, non-infringing purpose.<sup>46</sup>

¶22 To the extent that *Rescuecom* left any doubt about the status of such benign intermediaries, the Second Circuit laid it to rest in *Tiffany v. eBay*.<sup>47</sup> *Tiffany* involved claims of direct and contributory infringement against eBay, based on the sale of counterfeit Tiffany merchandise at its auction site. The court resolved all of the trademark claims in eBay’s favor, through legal rules that may appear,

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<sup>39</sup> *Id.* at 130 (emphasis added).

<sup>40</sup> See Dogan, *supra* note 36, at 137-41 (pointing out that such intermediaries could face liability as contributory infringers or through an action for unfair trade practices or false advertising).

<sup>41</sup> 562 F.3d at 131.

<sup>42</sup> I discuss this reading of *Rescuecom* more fully in Dogan, *supra* note 36, at 152-53.

<sup>43</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>44</sup> See, e.g., Mark A. Lemley & R. Anthony Reese, *Reducing Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1349 (2004) (“The key policy point is that going after makers of technology for the uses to which their technologies may be put threatens to stifle innovation.”); Dogan & Lemley, *supra* note 22, at 1693 (“To treat [online] intermediaries as strictly liable for every infringing use of their service . . . would not only transform trademark doctrine but would also impose exactly the type of drag on lawful commerce that the direct/indirect infringement dichotomy seeks to avoid.”).

<sup>45</sup> *Grokster* did this through its intent-based definition of inducement, and *Rescuecom* through a broadened notion of what “uses” of trademarks could constitute direct infringement.

<sup>46</sup> See, e.g., *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005) (“[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. . . . The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation *having a lawful purpose*.”) (emphasis added).

<sup>47</sup> *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).



on their face, remarkably favorable to defendants.<sup>48</sup> A careful reading, however, reveals that such solicitude is almost certainly limited to defendants like eBay, who the court was persuaded had ultimately non-infringing motives and intent.

¶23 Tiffany’s direct infringement claim focused on eBay’s use of the TIFFANY marks in eBay’s own advertising. The court held that eBay’s own uses of the TIFFANY mark in advertisements and on its website were protected, nominative uses promoting genuine Tiffany articles resold in eBay auctions.<sup>49</sup> eBay, in other words, had a legitimate reason to use the TIFFANY mark; unlike the allegations in *Rescuecom*,<sup>50</sup> there was no suggestion that eBay’s system design or presentation went beyond that lawful purpose.<sup>51</sup> eBay’s use of the TIFFANY mark, moreover, was critical to achieving trademark law’s pro-competitive objectives. As the court recognized, a robust resale market depends critically upon the ability to use trademarks to describe the original source of the resold product.<sup>52</sup>

¶24 The court could have stopped there, having established the lawful nature of eBay’s use of the TIFFANY mark. It went further, however, taking pains to emphasize facts suggesting eBay’s good faith. eBay, for example, allowed Tiffany to maintain an “About Me” page that declared as counterfeit “most of the purported ‘TIFFANY & CO.’ silver jewelry” available on the eBay site.<sup>53</sup> eBay also “promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods.”<sup>54</sup> Neither of these facts was relevant to the legal standard for direct infringement that the court had just announced. But they went a long way toward establishing eBay’s credentials as a good guy, worthy of protection under that standard.

¶25 Turning to contributory infringement, the court rejected Tiffany’s suggestion that any intermediary with general knowledge of infringement on its network could face liability for failing to block it: “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”<sup>55</sup> If eBay had received such specific knowledge and continued to provide its service to the counterfeit seller, it could face liability under this standard. But as long as it responded promptly to notifications from Tiffany, its general knowledge of even ubiquitous counterfeit auctions could not make it a contributory infringer.<sup>56</sup> Because eBay had consistently removed counterfeit listings when notified of them, Tiffany could not satisfy this standard.

¶26 On its face, *Tiffany* provides extremely broad protection to intermediaries in suits alleging direct and contributory infringement. They can use marks in their advertising as long as the ads accurately portray *some* product or service related to their network. And they can protect themselves from contributory liability by responding, reactively, to notifications of infringement. As David Bernstein has argued, both of these standards would appear to immunize even defendants who had the

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<sup>48</sup> *See id.* at 103-10.

<sup>49</sup> *See id.* at 103 (finding no direct infringement when “eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website”). The court resisted the terminology of “nominative fair use,” opting instead to invoke the general principle that trademark law does not prevent truthful, non-deceptive uses of marks by resellers. *Id.* at 102-103.

<sup>50</sup> The allegations in *Rescuecom*, of course, were nothing more than allegations; the court made clear that it was accepting them for purposes of Google’s motion to dismiss, but would insist on actual evidence if the case moved forward to trial. *See Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 131 (2d Cir. 2009) (“Whether Google’s actual practice is in fact benign or confusing is not for us to judge at this time.”).

<sup>51</sup> *See* 600 F.3d at 103 (“[N]one of eBay’s uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay’s website.”). There was, however, a plausible argument that the content of eBay’s advertisements was “misleading insofar as they implied the genuineness of Tiffany goods on eBay’s site.” *Id.* at 114. The court, for this reason, refused to dismiss Tiffany’s false advertising claim against eBay. *Id.*

<sup>52</sup> *Id.* at 103 (“To impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods.”).

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 107.

<sup>56</sup> *Id.* at 106-07.

commercial motive and intent to enable infringement through their services, or who took no steps to root out wrongdoing by their users.<sup>57</sup>

¶27 Yet this reading of *Tiffany* overlooks other hints in the opinion that eBay’s broad protection depended critically on its status as a legitimate business concern acting in good faith. The court described in great detail, for example, the anti-counterfeiting measures that eBay had adopted over the past decade.<sup>58</sup> It also emphasized eBay’s own economic interest in reducing counterfeit sales at its site.<sup>59</sup> And it suggested that if eBay had not acted so responsibly—if it had, for example, willfully blinded itself to knowledge of specific counterfeit listings—it could face liability as a contributory infringer.<sup>60</sup>

¶28 Indeed, the considerations that led the court to reject Tiffany’s claim against eBay largely mirror the considerations that led the Supreme Court to side with the plaintiffs in *Grokster*. Whereas eBay’s business plan and commercial motivation aimed to reduce counterfeit sales as much as possible, Grokster and Streamcast had an incentive to maximize the volume of infringing transactions using their software. Whereas eBay designed its auction network and anti-counterfeit measures to root out fake goods, Grokster and Streamcast opted against any filtering measures. And whereas eBay’s actions revealed a good-faith intent to abide by the law, Grokster and Streamcast showed a commitment to recruit known infringers to their networks.

¶29 Despite their different outcomes, then, *Tiffany* in many ways converges with the intermediary liability opinions in *Grokster* and *Rescuecom*. In all three cases, intent, design choices, and commercial motivation largely determined whether the defendant was viewed as a good or bad actor. And that determination, as a practical matter, dictated the outcome of each case—not by absolving good guys of responsibility to combat infringement, but by defining that responsibility narrowly. Good guys need not redesign their systems or proactively root out infringement that those systems enable; they need only respond to specific instances of infringement that they know about and can stop. They face liability under copyright or trademark law only if they fail to act in the face of such actual knowledge. Bad guys, in contrast, are liable without regard to actual knowledge; having designed their product or service to accomplish unlawful ends, they are charged with the natural consequences of its use. In both copyright and trademark law, then, good guys get the benefits of rigorous liability standards and broad safe harbors; bad guys find themselves in trouble.

¶30 Intermediary trademark decisions since *Tiffany* reinforce the good-guy, bad-guy dichotomy. In *Rosetta Stone v. Google*,<sup>61</sup> for example, the court granted summary judgment for Google in a lawsuit involving keyword-based advertising. *Rosetta Stone*, like *Tiffany*, concerned the sale of counterfeit goods; Rosetta Stone alleged that Google’s keyword ad scheme was being used to direct traffic to websites selling counterfeit products. In rejecting both direct and indirect infringement claims against Google, the court repeatedly invoked a central theme: that Google has neither the economic incentive nor the subjective intent to promote confusion among users of its search engine. As an essentially legitimate, non-infringing business, Google escaped liability, even though its services were undeniably enabling infringement.<sup>62</sup>

¶31 In contrast to *Rosetta Stone*, other recent decisions upheld trademark claims against intermediaries that had the apparent motive and intent to promote third-party infringement. In *Gucci v.*

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<sup>57</sup> See David Bernstein, *Why the Reasonable Anticipation Standard is the Reasonable Way to Assess Contributory Trademark Liability in the Online Marketplace*, 2011 STAN. TECH. L. REV. (forthcoming July 2011).

<sup>58</sup> 600 F.3d at 98-100.

<sup>59</sup> *E.g., id.* at 98 (noting district court’s finding that eBay had “an interest in eliminating counterfeit Tiffany merchandise from eBay . . . to preserve the reputation of its website as a safe place to do business”).

<sup>60</sup> *Id.* at 109-10 (“[I]f eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales” for contributory infringement purposes).

<sup>61</sup> See, e.g., *Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531 (E.D. Va. 2010).

<sup>62</sup> *Id.* at 548 (rejecting contributory infringement claim against Google, when Google responded to notices of infringement and “[i]t would run counter to good business practice for Google to encourage and provide advertising space to those it knows are infringing”).

*Frontline*,<sup>63</sup> the famous luxury-goods manufacturer sued a set of financial intermediaries that arranged and implemented credit card processing services for sellers of counterfeit goods. In refusing to dismiss Gucci’s claims, the court pointed to evidence that one of the defendants had specifically sought to induce infringement; the others, while less deliberate in their acts promoting infringement, had turned a blind eye to counterfeit sales after receiving specific information about particular merchants selling counterfeit merchandise.<sup>64</sup> With both sets of defendants, motive played a central role in the court’s analysis.<sup>65</sup>

¶32 Like copyright law, then, trademark law offers doctrinal tools to reach parties whose financial incentives and purpose appear centered on helping others to infringe. At the same time, trademark law, like copyright law, reflects a general presumption against meddling in the affairs of legitimate businesses. This leads to my final point—that the recent law of intermediary liability is more an extension of *Sony* than a departure from it, and fully comports with the balance struck by the Supreme Court in that case.

## II. *It All Comes Back to Sony*

¶33 So what does all of this have to do with *Sony*? One might argue that the story I’ve told reflects a rejection rather than an endorsement of *Sony*. After all, *Grokster* severely limited the reach of *Sony*’s safe harbor to a whole cast of characters that had thought themselves protected because of their services’ substantial non-infringing uses.<sup>66</sup> If *Sony* really meant that courts should take a hands-off approach to anyone whose product or service has non-infringing applications, recent history suggests an abandonment of the *Sony* doctrine.

¶34 When one looks beyond the celebrated “rule” of *Sony* and considers its underlying purpose, however, the recent intermediary liability cases match up surprisingly well with the Supreme Court’s opinion in that case. According to the *Sony* Court, the staple article of commerce rule was intended to protect the interests of intellectual property owners while “preserving the rights of others freely to engage in *substantially unrelated areas of commerce*.”<sup>67</sup> *Sony*, in other words, counsels against meddling—against allowing intellectual property holders to use their rights to interfere with legitimate trade. But it was never intended to shield parties whose core business model and actions are specifically designed to enable infringement to occur. While imposing liability against these defendants may well retard the development of some technologies that have non-infringing applications, neither economics nor common sense dictates that the law blindly subordinate copyright interests to the goal of technological progress, without regard to the overall costs and benefits of the technology.<sup>68</sup>

¶35 If recent history is any guide, moreover, the introduction of fault-based intermediary liability may help to preserve the vigor of defendant-protective doctrines in both copyright and trademark law. As Professor Yen points out, advocates of a robust *Sony* safe harbor can take comfort in the fact that, with inducement as an outlet, courts need not distort the traditional doctrines of contributory and vicarious liability in ways that might lead to broader liability against legitimate actors.<sup>69</sup> The existence

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<sup>63</sup> *Gucci Am., Inc., v. Frontline Processing Corp.*, 721 F. Supp. 2d 228 (S.D.N.Y. 2010).

<sup>64</sup> *Id.* at 248-53.

<sup>65</sup> See *id.* at 248-49 (pointing to evidence that one of the defendants had reached out to “high-risk” merchants, “including those who sell ‘replica products,’” as a central part of its business); *id.* at 250 (noting evidence of card processors’ knowledge of counterfeit sales); *id.* at 239-40 (explaining that card processors charged higher rates to merchants of “replica”—i.e., counterfeit—products); see also *Roger Cleveland Golf Co., Inc. v. Price*, 2010 WL 5019260 (D.S.C. Dec. 3, 2010) (refusing to dismiss claim against web hosting service that was allegedly intimately involved in setting up websites that sold counterfeit golf clubs).

<sup>66</sup> E.g., *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004) (finding the *Grokster* and Streamcast file-sharing software capable of substantial non-infringing use).

<sup>67</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (emphasis added).

<sup>68</sup> See Stacey L. Dogan, *Is Napster a VCR? The Implications of Sony for Napster and Other Internet Technologies*, 52 HASTINGS L.J. 939, 954-57 (2001) (“courts should not uncritically accept claims of . . . conflict” between copyright incentives and technological progress; “to the contrary, they must scrutinize them, in order to ensure that incentives are compromised only when necessary to accommodate a valid competing goal”).

<sup>69</sup> Yen, *supra* note 34, at 238 (“*Grokster* effectively eliminated the need for expansive interpretations of copyright liability by

of inducement (and, to a lesser extent, *Rescuecom*’s odd version of direct trademark infringement) can similarly preserve the integrity of trademark law by enabling courts to punish bad actors while giving broad protection to legitimate businesses acting in good faith.

### III. Conclusion

¶36 One of the big challenges in framing rules of liability for intermediaries is determining what kinds of behavior we want to incentivize in our society. In *Napster*, the battle centered on whether courts should take a hands-off approach to technology, based on its potential for non-infringing use.<sup>70</sup> Lurking below the surface, however, was a troubling moral notion that it just didn’t seem right to let Napster off the hook *despite* the potential for non-infringing uses, when its developers had clearly built their system with the intent and the design to infringe. This instinct seems to have informed the Court’s decision in *Grokster*: the non-infringing potential of a product or service should not immunize a party who deliberately builds its business upon infringement. While *Sony* offers protection to technology developers, that protection looks more like a useless technicality when it insulates parties from liability for infringement that they not only made possible, but clearly wanted to happen.

¶37 The same combination of moral judgments has influenced the development of intermediary trademark rules on the Internet. Courts find intermediaries liable under trademark law only reluctantly, in large part because of worries that broad liability would hamper their legitimate non-infringing functions.<sup>71</sup> This recalcitrance, however, falls away in the face of deliberate acts intended to sow confusion, or to help others to do so. In light of *Sony*’s anti-meddling principle, this strikes me as exactly the right result.

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endorsing inducement, a cause of action that achieves the goals of expansive contributory liability with far fewer undesirable side effects.”).

<sup>70</sup> See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (2001); see generally Dogan, *supra* note 68.

<sup>71</sup> See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010) (“To impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods.”). In fact, courts frequently invoke the adage that intermediary trademark liability should require a more demanding showing than intermediary copyright liability, no doubt because of the more conditional nature of trademark rights. See, e.g., *Sony*, 464 U.S. at 439 n.19 (1984) (distinguishing trademark law’s “narrow” rule of intermediary liability and finding it inapplicable in the copyright context); *Bangkok Broadcasting & T.V. Co., Ltd. v. IPTV Corp.*, 742 F. Supp. 2d 1101 (C.D. Cal. 2010) (citing *Fonovisa and Sony*); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1497 (E.D. Ca. 1994).