Tiffany and Rosetta Stone: Intermediary Liability in U.S. Trademark Law
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I plan to focus in this talk on two important cases in recent U.S. law that implicate the relation between trademark law and the internet. The first is the Tiffany v. eBay case, which culminated in an April 2010 Second Circuit opinion. \(^1\) Tiffany involved, among other things, what will be a familiar question to you: the question of whether the well-known auction site eBay should be held indirectly liable for others’ sales of counterfeit goods on its site. The second is Rosetta Stone v. Google, which is still ongoing before the Fourth Circuit, with oral argument last September. \(^2\) Rosetta Stone involves another question that will be familiar to you: the question of whether Google should be held liable for trademark infringement by virtue of its Adwords program, which serves sponsored links keyed to certain trademarked search terms and that in some cases contain those trademarked search terms.

Of course, all of these issues have also emerged in the European context, most notably for Mr. Justice Arnold in a variety of guises, \(^3\) but I will for the most part forebear from commenting on the great kaleidoscope of European case law on these issues because Dr. Von Mühlendahl is much more qualified to do so in his twenty-five minutes—and I wish him luck. But I should at least note that trademark people in the U.S. sometimes admire—I certainly do—the apparent clarity and freshness of the Trade Marks Directive and Regulation, in comparison to the moldering antiquity of our Lanham Act, drafted as it was in the 1930s. \(^4\) But on the issue of intermediary liability for trademark infringement, the approach of the American courts is reasonably stable, straightforward, and unified, somewhat in contrast to the rather more diverse European situation.

1. Tiffany v. eBay

So let us turn first to Tiffany v. eBay. There is much of great interest in this case, and I hope you will permit a brief, one paragraph digression in this regard. Part of my work in intellectual property law takes inspiration from British Cultural Studies, still an influential school of thought in parts of the U.S. And in this vein, the Tiffany case strikes me as just one among many recent examples of how intellectual property law is being called upon to perform a social role once performed in early-modern societies by sumptuary law. \(^5\) We can no longer rely on nature to enforce rarity; everything, even diamonds, can be persuasively copied. And as both Mr. Justice Arnold noted in L’Oreal \(^6\) and the Southern District of New York Judge Sullivan noted in his district court opinion in Tiffany, \(^7\) the plaintiffs’ experts in these cases struggled mightily to distinguish counterfeit from authentic goods. And so we rely on intellectual property law to do the work that nature once did—we rely on the intangible, as does the DeBeers cartel with its Forevermark, to do the work that the material once did—and thus to sustain our system of consumption-based social distinction, a system of “invidious

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1 Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010).
distinction, to remember Thorstein Veblen’s phrase. Fearful of the dilution and tarnishment of their brands, companies like Tiffany and L’Oreal (and DeBeers) are calling on our courts to serve as sumptuary police, all to prevent, as one English court put it in paraphrasing a party’s argument, the effrontery of “chavs hanging about outside McDonalds smelling of fine fragrances.” It all seems a strange expenditure of judicial resources, but this is a topic for another day.

Our concern here is much more basic and realistic. It is to consider whether the Second Circuit got it right in Tiffany—got it right as a matter of the law, as a matter of efficiency, or as a matter of fairness—and, in any event, what the continuing implications, if any, of the Tiffany decision are.

First, some background. Tiffany’s appeal of District Court Judge Sullivan’s extensive bench trial opinion of July 14, 2008 presented the Second Circuit with two main issues to decide. First, and of strangely lesser importance in the grand scheme of the Tiffany case, did eBay engage in direct trademark infringement when it purchased on various search engines sponsored-link advertisements keyed to the search term “Tiffany”? Relatedly, did eBay engage in direct infringement when it used on the eBay website the term “Tiffany” to refer to Tiffany-branded goods? Judge Sack’s opinion for the Second Circuit, joined by Judges Parker and Goldberg, made quick work of these questions of direct infringement. He was unwilling fully to embrace the doctrine of what most of us in the U.S. call “nominative fair use,” a judge-made doctrine first developed by Judge Kozinski in the Ninth Circuit. Instead, Judge Sack simply explained that “We have recognized that a defendant may lawfully use a plaintiff’s trademark where doing so is necessary to describe the plaintiff’s product and does not imply a false affiliation or endorsement by the plaintiff of the defendant.” In light of that standard, Judge Sack agreed with the district court’s finding that “eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. And none 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.”

That was essentially the entirety of the Tiffany court’s analysis of this issue. A few short paragraphs. An easy warm-up question. Never mind that this is a multi-billion dollar question for certain third-parties such as Google, but more on that later. (By the way, for those of you who are way ahead of me, eBay had purchased sponsored links keyed to “Tiffany” and, crucially, the text of these sponsored links sometimes included the term “Tiffany”—and in one such link apparently quite innocently mentioned as an example by the Second Circuit, eBay repeated the term “Tiffany” twice in the text of the Yahoo sponsored link. No problem, apparently, in the Second Circuit.).

One other final note on the nominative fair use issue in Tiffany: the great metaphysical issue of trademark “use” never appeared in the Second Circuit opinion. And in this regard, I suggest to you that this issue is more or less dead in the U.S., and thank god for that. Courts now focus on the empirical question of consumer confusion rather than this weird formal question of use.

But the main event in the Tiffany case was the question of indirect liability in the nature of contributory liability (vicarious liability was not at issue in the opinion). Here, the Second Circuit drew from the so-called Inwood test for contributory liability, from the 1982 Supreme Court case Inwood Laboratories, Inc. v. Ives Laboratories, Inc., in which the defendant was a manufacturer and distributor of generic medicines. The Inwood test finds contributory liability in the context of services if either (1) the service provider “intentionally induces another to infringe a trademark”, or (2) the service provider “continues to supply its service to one whom it knows or has reason to know is engaging in trademark infringement.” Tiffany did not argue inducement, so the contributory infringement issue focused on the second prong of Inwood, going to whether eBay “continued to supply its services to one whom it knows or has reason to know is engaging in trademark infringement.”

With respect to the issue of counterfeit sales on eBay, eBay had and still has a very well-developed and well-resourced notice and take down procedure (its so-called VeRo or Verified Rights Owner Program) in which trademark owners can submit Notices of Claimed Infringement, and eBay

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9 L’Oreal SA v. Bellure NV, [2006] EWHC (Ch) 2355, [62].
11 Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 102-03 (2d Cir. 2010).
12 Id. at 103.
13 Id. at 101.
16 Id. at 854.

typically responds to them within 24-hours, if not within 12-hours. The Second Circuit quickly found that “no liability arises with respect to those terminated listings”\(^{17}\) and Tiffany did not appear to press this point on appeal. When eBay gained actual knowledge of an infringing listing, it acted sufficiently promptly to avoid liability under an actual knowledge standard.

Instead, the heart of Tiffany’s case essentially went to constructive knowledge. Tiffany argued that eBay knew or at least should have reason to know of the widespread sale of counterfeit merchandise on its auction site and that despite this knowledge, eBay continued to make its services available to infringing sellers. eBay had general knowledge of widespread infringement and failed to act on this knowledge.

To make a long story short, the Second Circuit rejected this argument. It held that general knowledge is not enough. *Inwood* requires “some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary,”\(^{18}\) eBay must know of and fail to act on “specific instances of actual infringement.”\(^{19}\) And in this regard, the District Court *Tiffany* opinion and to a lesser extent the Second Circuit opinion relied on the “particular phrasing”\(^{20}\) of the *Inwood* test referring “to one whom it knows or has reason to know.” This reference to “one” implies a degree of specific knowledge that eBay didn’t and doesn’t (and probably never really can) have.

So that’s the law, and reassuringly, it hasn’t changed over the past two years. If you were to look at every case since 2010 that has cited to *Tiffany*, as I had the pleasure of doing over the past few days, you’d find that other courts are falling into line without hesitation. It’s not controversial.

So what can we make of this decision? Needless to say, we would appear to be a long way from Europe, with all the subtleties of Article 14(1) of the E-Commerce Directive, or of what Article 11 of the Enforcement Directive means for injunctive relief in such cases as this, or of “which of the two innocent persons is going to suffer.”\(^{21}\) The second prong of the *Inwood* test would appear to be essentially binary in nature: either the contributory defendant has knowledge of the infringement and must cut off its service, or does not have knowledge and is free to continue to supply its service. This would appear to be a regime without any standard or duty of reasonable care, without any notion of red flags (like we have on the copyright side in the U.S.), and without anything in it to protect the interests of trademark holders. As others have noted,\(^{22}\) *Tiffany* represents in this regard a significant departure from previous brick-and-mortar case law on contributory trademark infringement, such as *Fonovisa, Inc. v. Cherry Auction, Inc.*\(^{23}\) or *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*\(^{24}\) These cases arguably found contributory liability based on the contributory defendant’s general knowledge of counterfeit sales at their flea markets and were altogether taken up with the question of what the appropriate standard of care should be.

But perhaps I am not being entirely fair to *Inwood* as it was applied in *Tiffany*. At the district court level, Judge Sullivan went to great lengths to describe all the measures eBay has taken to limit the sale of counterfeit goods on its website.\(^{25}\) The Second Circuit also spent a relatively large proportion of its opinion discussing these same facts, and discussing not just the VeRo program, but eBay’s so-called “fraud engine”\(^{26}\) dedicated to detecting infringing listings through the application of all sorts of sophisticated filters; the thousands of eBay employees devoted to “Trust and Safety”;\(^{27}\) the “About Me” page on eBay that Tiffany can use to say that most Tiffany-branded goods on eBay are counterfeit;\(^{28}\) special automatic warning messages when certain branded merchandise, such as Tiffany merchandise, was listed;\(^{29}\) and in 2006, additional anti-fraud measures that gave Tiffany a six

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\(^{17}\) Id. at 106.

\(^{18}\) Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 107 (2d Cir. 2010) (emphasis added).

\(^{19}\) Id. at 107.

\(^{20}\) Id. at 108.


\(^{23}\) 76 F.3d 259, 264-65 (9th Cir. 1996).

\(^{24}\) 365 F.2d 1443, 1449 (7th Cir. 1992).


\(^{26}\) Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 98 (2d Cir. 2010).

\(^{27}\) Id.

\(^{28}\) Id. at 99.

\(^{29}\) Id. at 100.
to twelve hour period to review Tiffany-relevant listings before they would be made public.\textsuperscript{30} The question is why? Why did the Southern District of New York and the Second Circuit care about all this? What does any of this have to do with a standard that requires “contemporary knowledge of specific listings” to trigger contributory liability?\textsuperscript{31}

The answer is probably obvious. Regardless of the specifics of the \textit{Inwood} test, eBay was making the case that it was going to great lengths to take reasonable precautions against infringement and should thus not be held \textit{negligent}. And the Second Circuit appeared to be persuaded by this, as is clear in its brief discussion of “willful blindness,”\textsuperscript{32} a finding of which will trigger a finding of contributory knowledge. In a footnote, the Second Circuit commented that “Tiffany’s reliance on the flea market cases is unavailing. eBay’s efforts to combat counterfeiting far exceed the efforts made by the defendants in those cases.”\textsuperscript{33} Who hear doubts that if eBay had done nothing to minimize counterfeit sales, the Second Circuit would have found contributory liability, as federal courts routinely have for flea market operators, whether these operators had general knowledge, actual knowledge, contributory knowledge, or something else? One is tempted to say that the issue was ultimately not so much one of negligence as of who would be the lowest-cost enforcer of the right. eBay, by its own conduct and technological measures, imposed on Tiffany the burden of being this lowest-cost enforcer of its rights.

Meanwhile, despite eBay’s apparent gutting of the notion of “constructive knowledge,” the cause of action for contributory trademark infringement is alive and well. Consider the flea market case of \textit{Coach, Inc. v. Gata Corp.}\textsuperscript{34} which made a very conventional finding of contributory infringement: “The bottom line is this. Like the defendant in \textit{Tiffany}, defendants in this case knew that vendors were using the service they provided to conduct infringing activities. The defendant in \textit{Tiffany} barred those known infringers from using its service. Gata and Taylor did not.” Or consider \textit{Gucci Am., Inc. v. Frontline Processing Corp.},\textsuperscript{35} which declined to dismiss Gucci’s causes of action against various credit card processing companies for contributory trademark infringement. In \textit{Frontline}, Judge Baer of the Southern District of New York relied heavily on Judge Kozinski’s dissent in \textit{Perfect 10, Inc. v. VISA Intern. Service Ass’n},\textsuperscript{36} in which Judge Kozinski would have denied VISA’s motion to dismiss causes of action for contributory copyright and trademark infringement.

If we had more time, I would also note the court’s treatment of Tiffany’s false advertising claim. This claim appeared to have legs and may be something to keep an eye on in the future, if only because it is a cause of action that trademark owners may use in the future at least to harass the search engine sites. Tiffany’s argument was essentially that eBay’s sponsored links, in announcing the availability of Tiffany merchandise on eBay, failed to inform consumers that some of this merchandise was counterfeit.\textsuperscript{37} But Tiffany failed to develop a good record of extrinsic evidence showing consumer confusion and the claim withered away on appeal.\textsuperscript{38}

2. \textbf{Rosetta Stone v. Google}

So enough of Tiffany v. eBay for the moment. Let me turn to another leading case in the relation between trademark law and the internet in the U.S. This is the case of \textit{Rosetta Stone v. Google}, currently on appeal to the Fourth Circuit from the Eastern District of Virginia.

As it arguably was for eBay in Tiffany, Google’s entire business model is essentially at stake in Rosetta Stone. But rather than begin with Google’s side of the story, consider what’s at stake for trademark owners in Rosetta Stone, who are producers of language-learning software. Imagine if the domain name system were an auction-based system in which, say, Pepsi, could outbid Coke for ownership of the coke.com domain name, and having done so, run coke.com as an advertising site for Pepsi-branded products. We would of course find this to be outrageous—or would we? The

\textsuperscript{30} Id.

\textsuperscript{31} See Stacey L. Dogan, “We Know It When We See It”: Intermediary Trademark Liability and the Internet, 2011 Stan. Tech. L. Rev. 7, at para. 2 (noting that the Tiffany court spent “a curious amount of time belaboring purportedly irrelevant matters like the extra efforts the defendant took to affirmatively root out the wrongdoing in the case”).

\textsuperscript{32} Id. at 109-110.

\textsuperscript{33} Id. at 110 n. 17.

\textsuperscript{34} 2011 WL 1580926, at *10 (D.N.H. April 26, 2011).

\textsuperscript{35} 721 F. Supp. 2d 228 (S.D.N.Y. 2010).

\textsuperscript{36} 494 F.3d 788, 810-825 (9th Cir. 2007) (Kozinski, J., dissenting).

\textsuperscript{37} See Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 113 (2d Cir. 2010).

\textsuperscript{38} See id. at 113-14.
question, then, is what is so different about Google's Adwords Program? This is a program in which anyone can bid on search terms, including others' registered trademarks, to have their advertisements served as sponsored links whenever a search engine user enters that search term into the search engine. The higher you bid, the higher in the list appears your sponsored link. The answer of course is that Google’s Adwords Program is fundamentally different from the domain name registration system. But try telling that to trademark owners, who have expended enormous resources building up brand equity and who are told that this time, they must pay not a flat registration fee during a sunrise period, but actually have to bid against their competitors for access to their own mark.

I predict, and I’m certainly not alone in making this prediction, that Google will eventually prevail in *Rosetta Stone*. Let me try to defend this prediction by describing certain aspects of Google’s adwords policy in the U.S at the time of the case. In 2004, Google began to allow third party advertisers to bid on specific trademarks as keyword triggers for sponsored links; it did not however permit the use of the trademarks in the text of the sponsored link itself. In 2009, Google modified its adwords policy additionally to allow the use of trademarks in the text of the sponsored link, though only under certain conditions. It is worth spelling these conditions out. The third party advertiser may use another’s trademark in the text of its sponsored link (in a “nominative” sense) if it (1) resells legitimate products bearing the trademark, (2) sells components, replacement parts, or compatible products corresponding to the trademark, or (3) provides non-competitive information about the goods or services corresponding to the trademark term. Google’s webpage setting forth this policy further explains: “Additionally, the landing page may not sell or facilitate the sale of the goods or services of a competitor of the trademark owner.”

How does Google enforce these conditions? It employs an automated “counterfeit filter” to evaluate the “landing page” to which the sponsored link is linked to assess the bona fides of the page; if the filter detects certain terms associated with counterfeit goods, it will reject the sponsored link. Google also has a notice and takedown process that responds to complaints by trademark owners, such as Rosetta Stone, who have identified sponsored links linking to counterfeit sellers. The sum of this may not be so impressive as what eBay is able to tell a court, but it is certainly along those lines, as it again uses technology to make others the lower-cost enforcers of whatever intellectual property rights are at stake.

To boil the *Rosetta Stone* case down to its essence, let me focus on two issues in the case. Fortunately, I need not address the issue of trademark “use” because it hasn’t played a role in the case. Nor do I need to say much about the Eastern District of Virginia’s treatment of secondary liability in the case, which followed *eBay v. Tiffany*.

Instead, I’ll focus, first, on the issue of trademark functionality and, second, on the core issue of the likelihood of consumer confusion. As to functionality, what on earth is this concept doing here, you may ask? In the American scene, the doctrine of trademark functionality typically applies to three-dimensional product configuration, which is functional if it is “essential to the use or purpose of the article or affects its cost or quality.” Under our strange doctrine of “aesthetic functionality,” meanwhile, we ask if exclusive rights in a particular aesthetically-appealing product feature would put competitors at a significant non-reputation related disadvantage.

I am talking about functionality because the District Court in *Rosetta Stone* found that “Google’s particular use of trademark keywords as triggers for paid advertisements is functional” and thus such trademarks are unprotectable in this context regardless of any showing of consumer confusion. Perhaps a bit of explanation is in order: as the court wrote, “If Google is deprived of this

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40 See id. See also http://support.google.com/adwordspolicy/bin/answer.py?hl=en&answer=145626.
41 See http://support.google.com/adwordspolicy/bin/answer.py?hl=en&answer=145626.
44 In Network Automation Inc. v. Advanced Systems Concepts Inc., 638 F.3d 1137 (9th Cir. 2011), the Ninth Circuit arguably put to rest any remaining questions in this regard by finding that “the use of a trademark as a search engine keyword that triggers the display of a competitor’s advertisement is a ‘use in commerce’ under the Lanham Act.” Id. at 1145. See also id. at 1144 (“We now agree with the Second Circuit that such use is a ‘use in commerce’ under the Lanham Act. See Rescuecom Corp. v. Google Inc., 562 F.3d 123, 127 (2d Cir.2009).”).
46 Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 850 n. 10 (1982).
use of the Rosetta Stone Marks, consumers would lose the ability to rapidly locate potentially relevant websites that promote genuine Rosetta Stone products at competitive prices.\textsuperscript{48} From an American academic’s perspective, this is a fantastically interesting use of the concept of trademark functionality—and is a good example of the trademark use issue now appearing in another guise. From an American practitioner’s perspective, it is a grotesque contortion of what we mean by functionality.

And yet the Eastern District of Virginia is on reasonably solid ground. Consider Sega Enters. Ltd. v. Accolade, Inc.,\textsuperscript{49} a well-known 1992 decision out of the Ninth Circuit. Sega sought to prevent others from producing video game cartridges compatible with Sega’s game console without Sega’s permission. It did so by designing a console operating system that required any compatible cartridge to use the term “Sega” in its initialization sequence. The Ninth Circuit considered the issue under the rubric of “functionality,”\textsuperscript{50} found that Sega had failed to meet its burden of showing nonfunctionality, and ruled in favor of the defendant.\textsuperscript{51} A more obscure 1995 case from the Southern District of Texas, Compaq Computer Corp. v. Procom Tech., Inc.,\textsuperscript{52} had comparable facts and came to a comparable conclusion.

It’s hard to predict what the Fourth Circuit will do with this issue, and I do regret that this all seems to invite a return to the mire of trademark “use”—and for those of us who loathe the concept of trademark use, we may have to eat our hats because it turns out the concept may have real utility, and not just to get rid of cases early on in the litigation. But I suspect the case will turn on something far more central to trademark law, the likelihood of consumer confusion, and with this issue I’ll conclude my discussion of the Rosetta Stone case.

It turns out that Rosetta Stone’s evidence of consumer confusion is exceptionally weak. In its brief for Google, Quinn Emanuel was able to argue, and this is what the district court found, that “Out of the 100,000,000 ads displayed on Google.com since 2004 in response to search queries that contained the Rosetta Stone marks, Rosetta Stone identified a mere five instances of ‘actual confusion’ related to the purchase of allegedly counterfeit goods.”\textsuperscript{53} The district court found that in each of these five instances of actual confusion, the consumers knew that they were not purchasing the software from Rosetta Stone. (Elsewhere in its brief, Quinn Emanuel may have gone too far. In criticizing Rosetta Stone’s clearly-biased survey, the brief asserts that “If identification of those two ads is properly omitted from the ‘confusion’ count, the net ‘confusion’ reflected by the survey is [underlined and bolded] -3%.\textsuperscript{54} What does that mean?).

Perhaps this is a bit of a disappointment, especially for Europeans dealing with all the details of \textit{Interflora} and \textit{Google France}. After all the controversy of the use debate and now of functionality, we realize that Google’s new policies—provided that the adword buyer follows them, and that Google can show it is making reasonable efforts to enforce them—will very likely preclude findings of consumer confusion triggered by sponsored links.

3. Conclusion

I’ve already suggested that the technology companies are growing better at shifting onto the others the burden of being the lower-cost enforcer of the right. This is part of a larger trend. In the U.S. at least, the technology companies, as intermediaries, are generally winning. One example of this is the recent demise of such legislative proposals as the Stop Online Piracy Act\textsuperscript{55} and the Protect-IP Act of 2011\textsuperscript{56} These were essentially copyright legislation, but both bills addressed the sale of counterfeit goods. Companies like Google, eBay, and Amazon successfully opposed the legislation.

Why are the technology companies winning? One simple explanation may be that this was just incredibly bad legislation that was little more than an expression of Congress’s annual ritual of

\begin{itemize}
  \item \textsuperscript{48} id.
  \item \textsuperscript{49} 977 F.2d 1510 (9th Cir.1992).
  \item \textsuperscript{50} id. at 1530.
  \item \textsuperscript{51} id. at 1531.
  \item \textsuperscript{52} 908 F. Supp. 1409 (S.D. Tex. 1995).
  \item \textsuperscript{53} Brief of Appellee Redacted, Rosetta Stone Ltd. v. Google Inc., No. 10-2007 (filed Nov. 29, 2010), at 34.
  \item \textsuperscript{54} id. at 27.
  \item \textsuperscript{55} H.R. 3261, 112th Cong. (2011).
  \item \textsuperscript{56} S. 986, 112th Cong. (2011).
\end{itemize}
showing its content-provider paymasters that it really is trying to do their bidding but is not quite succeeding this year – perhaps next year.

But I think a more trademark-specific explanation that goes especially to *Tiffany* and *Rosetta Stone* may be that courts in the U.S. in particular are still not completely sold on the importance of trademarks themselves as intermediaries and on the social value of brand equity—a good example of this is what amounts to the judicial nullification of antidilution protection in the U.S. On one side of cases like *Tiffany* or *Rosetta Stone*, these courts have fantastically impressive high-technology intermediaries like eBay or Google—the very pride of American capitalism. On the other side, they have Tiffany or Louis Vuitton or even Rosetta Stone. This balance affects courts’ overall social welfare calculation and motivates courts to shift enforcement costs over to trademark owners. It is likely that this trend will continue, particularly as the high-technology companies grow ever more capable, through technological measures like eBay’s “fraud engine” or Google’s “counterfeit filter,” of imposing on trademark owners the unwelcome burden of being the lower-cost enforcers of their rights.