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# Probabilistic Knowledge of Third-Party Trademark Infringement

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# Stanford **Technology** Law Review

## Probabilistic Knowledge of Third-Party Trademark Infringement

MARK P. MCKENNA\*

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### ABSTRACT

¶1

This essay views secondary trademark liability in light of tort law's treatment of parties whose actions expose a plaintiff to third-party wrongdoing. Broadly speaking, tort law imposes liability on a party for contributing to the tortious activity of another in two different ways. In vicarious and accomplice liability cases, courts impose on defendants the same liability to which the direct tortfeasors would have been subject, had they been defendants. If, for example, the third-party wrongdoer was a batterer, then the defendant is liable for battery. Another line of cases imposes liability for unreasonably putting a defendant at risk of third-party wrongdoing, and these cases are often based on knowledge of probabilistic harm. But crucially, these are negligence cases: even if the third-party wrongdoer is a batterer, the defendant's liability in these cases is for negligence and not for battery. The Supreme Court's *Inwood* decision preserves this important distinction between secondary liability for third-party tortious conduct and direct liability for one's own negligent conduct by requiring knowledge that particular actors are likely to infringe as a condition of secondary liability. If, however, courts were inclined to take more seriously their claims that trademark secondary liability law derives from general principles of tort law, then cases involving probabilistic harm would be viewed as negligence cases rather than trademark infringement cases. Liability in these cases would turn on an evaluation of the reasonableness of the defendant's conduct in preventing harm, taking into account the full cost of alternative precautions. It would also turn on the trademark owner's ability to prove causation—both in-fact and proximate—concepts that are generally absent from trademark cases.

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\* © Mark P. McKenna, Professor, Notre Dame Law School. Thanks to Adam Barea, Mark Bartholomew, Joe Bauer, David Bernstein, Stacey Dogan, Jeff Pojanowski, Vince Rougeau, Jay Tidmarsh, and Fred Yen for helpful conversations about the ideas in this essay, and to Catherine Mitros for excellent research assistance.

## INTRODUCTION

¶2 “Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts.”<sup>1</sup> So says the Second Circuit, and virtually every other court that has decided a secondary trademark infringement case, including the Supreme Court. But despite their confidence in this apparent truism, courts make surprisingly little effort to determine the circumstances under which tort law actually imposes liability for third-party wrongdoing. In fact, as I argue here, the secondary liability standard the Supreme Court articulated in *Inwood v. Ives*<sup>2</sup> is a higher one than tort law employs. This is not particularly surprising, both because the Supreme Court didn’t actually engage tort cases in developing the *Inwood* standard, and because, even if it had, the most analogous tort cases involve not secondary liability for the actions of third parties, but negligence claims for unreasonably exposing the plaintiff to harm. That is, if trademark secondary liability really derived from tort law, liability would exist in cases of probabilistic knowledge only when the defendant unreasonably failed to take precautions in the face of the known risk of infringement. Unreasonableness would be measured, as it generally is in tort cases, by evaluating the probability of harm to the plaintiff and the potential magnitude of that harm, and comparing the product to the cost of the foregone precautions. Secondary liability cases also would entail analysis of causation-in-fact and proximate causation, concepts utterly lacking from trademark cases now.

¶3 This Essay has three Parts. Part I describes three categories of cases in which parties are held liable in tort for third-party wrongdoing: (1) cases of vicarious liability; (2) cases of accomplice liability; and (3) cases of negligence liability for exposing the plaintiff to third-party wrongdoing. It notes particularly the level of knowledge of the third party’s wrongful conduct that is required for each of these types of liability and the nature of the liability imposed in each context. Part II compares the Supreme Court’s *Inwood* standard for secondary liability to tort liability for third-party wrongdoing and concludes that *Inwood*—like the accomplice liability cases imposing secondary liability, but unlike the tort cases imposing liability for negligently exposing the plaintiff to third-party wrongdoing—requires particularized knowledge. Part III considers the possibility of treating cases of probabilistic knowledge like they would be treated in tort law—as negligence cases. It uses the facts of *Tiffany (NJ) v. eBay* as a frame to consider the circumstances under which liability for negligently exposing a plaintiff to third-party infringement would be imposed.

## I. TORT LIABILITY FOR THIRD-PARTY WRONGDOING

¶4 Tort law imposes liability on a party for exposing the plaintiff to the risk of third-party wrongdoing in three broad categories of cases: (1) cases of vicarious liability; (2) accomplice liability cases; and (3) cases in which the defendant fails to take reasonable precautions to prevent a statistically likely harm. These categories are discussed below, with particular attention to the level of knowledge required for each type of liability.

1. *Vicarious Liability*

¶5 Tort law imposes *vicarious liability* on defendants for the harms imposed by third parties when the defendant and the third-party wrongdoer stand in certain relationships. The paradigmatic case for vicarious liability, of course, arises in the context of the employer-employee relationship, where the employee<sup>3</sup> is acting within the scope of her employment.<sup>4</sup> In these cases the defendant’s knowledge

<sup>1</sup> *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010).

<sup>2</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

<sup>3</sup> An employee, as opposed to an independent contractor, “is an agent whose principal controls or has the right to control the manner and means of the agent’s performance of work.” See RESTATEMENT (THIRD) OF AGENCY § 7.07(3) (2006). This control test, however, typically is resolved by application of a multifactor test. See *id.* § 7.07 cmt. f (listing a number of factual indicia “relevant to whether an agent is an employee,” including the “extent of control that the agent and principal have agreed the principal may exercise over details of the work”; “whether the type of work done by the agent is customarily done under a principal’s direction or without supervision”; “whether the agent is paid by the job or by the time worked”; and “whether the

of the third party's actions, and even the defendant's contribution to that wrongdoing (beyond the fact of having employed the wrongdoer), is irrelevant. Liability is purely a function of the relationship.<sup>5</sup>

¶6

Vicarious liability has broadened somewhat over time to make employers responsible for some actions of independent contractors through recognition of non-delegable duties, such as in cases in which the work for which an independent contractor is hired is "likely to create during its progress a peculiar risk of physical harm to others unless special precautions are taken"<sup>6</sup> or where the "employer knows or has reason to know [that the work] involve[s] an abnormally dangerous activity."<sup>7</sup> Nevertheless, vicarious liability remains fairly narrow, and courts have been reluctant to expand it beyond the employment context.<sup>8</sup> Parents, for example, generally are not vicariously liable for the torts of their children,<sup>9</sup> nor are spouses responsible for the acts of their partner.<sup>10</sup>

### B. *Accomplice Liability: Knowledge as Intent*

¶7

Courts and scholars persuaded by the suggestion that secondary liability principles are based on longstanding tort law doctrines often analogize to cases of accomplice liability, and particularly to the more specific category of "aiding and abetting" liability.<sup>11</sup> Generally speaking, aiding and abetting

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principal and agent believe that they are creating an employment relationship").

<sup>4</sup> According to section 7.07(2) of the RESTATEMENT (THIRD) OF AGENCY, "[a]n employee acts within the scope of employment when performing work assigned by the employer or engaging in a course of conduct subject to the employer's control." *Id.* § 7.07(2). The modern trend is to hold acts as "incidental" to the employee's job responsibilities and within the scope of employment when they happen at the employer's place of business during work hours and are generally related to the accomplishment of the work. *See id.* § 7.07 cmt. d (describing personal acts during the work day as within the scope of employment since they are "incidental to the employee's performance of assigned work").

<sup>5</sup> *See* RICHARD A. EPSTEIN, CASES AND MATERIALS ON TORTS 432 (9th ed. 2008) ("Notwithstanding some early hesitation, from 1700 on, vicarious liability turned on the tort arising out of the servant's employment, not on the negligence of the employer in selection or supervision, and certainly not on the narrow theory that the employer had authorized, expressly or impliedly, the commission of the very tort for which he was vicariously charged.").

<sup>6</sup> RESTATEMENT (SECOND) OF TORTS § 416 (1979). The Restatement uses as an example a situation in which the defendant hires an independent contractor to tear down a townhouse, knowing that special precautions must be taken to avoid injury to the party whose unit is connected by the common wall. *Id.* § 416 cmt. c, illus. 2. *See also* *McMillan v. United States*, 112 F.3d 1040 (9th Cir. 1997) (applying this exception where the contractor was involved in clear cutting of large trees, which the court found to be an inherently dangerous activity). Section 427 of the Second Restatement similarly provides that where the work "involv[es] a special danger to others which the employer knows or has reason to know to be inherent in or normal to the work, or which he contemplates or has reason to contemplate when making the contract, [the employer] is subject to liability for physical harm caused to such others by the contractor's failure to take reasonable precautions against such danger." *Id.* § 427.

<sup>7</sup> *Id.* § 427A.

<sup>8</sup> One exception might be the so-called "owner-consent" statutes, which impose liability on the owner of a vehicle who gives consent to another to use the vehicle, even if the driver is not engaged in the owner's business. *See* N.Y. VEH. & TRAF. LAW § 388(1) (McKinney 2005).

<sup>9</sup> RESTATEMENT (THIRD) OF TORTS: LIAB. FOR PHYS. & EMOT. HARM § 41 (Proposed Final Draft No. 1, 2005) suggests that parents might sometimes be liable for breach of a duty to take reasonable steps to control a child for whom the parent has notice of the propensity to cause harm.

The duty imposed by this Section is to exercise reasonable care under the circumstances. It is not to insure that the other person is controlled. If a risk exists, an actor must take reasonable steps, in light of the foreseeable probability and magnitude of any harm, to prevent it from occurring . . . If the actor neither knows nor should know of a risk of harm, no action is required. Thus, if a person in custody appears to pose no risk to others, the custodian is not negligent if the person in custody then harms another.

But as the Draft makes clear, "[t]he duty imposed by this Section subjects an actor to liability for the actor's *own tortious conduct*. Thus, liability for breach of the duty provided in this Section is not vicarious and does not depend on whether the third party also committed a tort." *Id.* § 41 cmt. c. (emphasis added). Thus, the liability parents might have under this section is simply a species of negligence liability imposed on people who fail to control third parties whom they have a duty to control. *See* RESTATEMENT (SECOND) OF TORTS §§ 316-320.

<sup>10</sup> Indeed, the trend here is for less vicarious liability rather than more, as some states used to make husbands vicariously liable for the acts of their wives. *See, e.g.*, FLA. STAT. ANN. § 741.23 (West 2010) ("The common-law rule whereby a husband is liable for the torts of his wife is hereby abrogated."). The negligence of a husband or a wife generally does not even bar the other spouse from recovery for his or her own harm through the doctrine of contributory negligence. *See* RESTATEMENT (SECOND) OF TORTS § 487.

<sup>11</sup> *See* Mark Bartholomew & Patrick F. McArdle, *Causing Infringement*, 64 VAND. L. REV. 675, 694-96 (2011) (noting courts' frequent claims that secondary liability principles spring from tort law principles and identifying aiding and abetting liability as the primary source of contributory liability rules, or at least the primary source of courts' statements about contributory liability); *see also* *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992) (claiming that trademark infringement is a "species of tort" and the "appropriate boundaries" of contributory infringement liability are therefore "guide[d]")

cases impose liability on a party who has knowledge of the underlying tortious act and substantially assists the wrongful act.<sup>12</sup> But as Mark Bartholomew and Patrick McArdle note, “courts have not yet come to agreement on aiding and abetting law’s exact features.”<sup>13</sup> Nor would the analogy to aiding and abetting liability be complete even if the contours of that liability were clear, as there are several related theories under which a claim might be considered one of accomplice liability. One other line of cases, for example, imposes liability for inducing tortious conduct or for permitting use of one’s instrumentalities with knowledge the other will act tortiously.<sup>14</sup>

¶8 However broadly one groups these cases, they have in common a significant knowledge requirement; courts frequently emphasize that actual knowledge of the underlying conduct, not just recklessness, is necessary.<sup>15</sup> Indeed, it is no coincidence that these cases overwhelmingly involve third-party intentional wrongdoing, since courts have long accepted that knowledge with substantial certainty of outcome counts as intent in intentional tort cases generally.<sup>16</sup> In this sense, accomplice liability might fairly be seen less as secondary liability for putting the plaintiff at risk of third-party wrongdoing, and more as direct liability for intentionally causing the plaintiff’s harm.

¶9 In the classic case of *Hudson v. Craft*,<sup>17</sup> for example, the court held the promoters of a boxing match liable for the battery committed by the contestants in that match.<sup>18</sup> The promoters obviously never threw any punches themselves, so their liability was a function of their arrangement of the boxing match and their knowledge of what would transpire during the bout.<sup>19</sup> Specifically, the promoters were responsible for the battery committed by one of the boxers because they induced the parties to fight and were substantially certain the fighters would in fact make contact with each other. So certain were the promoters, in fact, that they could fairly be described as having intended the battery.

¶10 Cases like *Hudson v. Craft* teach something important about the specificity of knowledge necessary to trigger aiding and abetting liability: not only is actual knowledge required, but the defendants in these cases know that a particular person is going to inflict a particular type of harm. The promoters in *Hudson v. Craft* didn’t just know there would be a boxing match; they knew specifically who would be fighting, when, and where. That knowledge was, of course, probabilistic in the sense that the promoters could not have known with absolute certainty that the combatants would in fact land their punches. But since harmful contact was the whole point of the event, it was

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by “common law”).

<sup>12</sup> Aiding and abetting liability is generally thought to be captured in § 876(b) of the RESTATEMENT (SECOND) OF TORTS. See Bartholomew & McArdle, *supra* note 11, at 695 n.111.

<sup>13</sup> Bartholomew & McArdle, *supra* note 11, at 696.

<sup>14</sup> See RESTATEMENT (SECOND) OF TORTS § 877(a), (c) (1979) (describing liability for one who “(a) orders or induces the conduct, if he knows or should know of circumstances that would make the conduct tortious if it were his own,” or who “(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”). Bartholomew and McArdle suggest two other related theories of liability: (1) conspiracy; and (2) liability under section 876(c) of the Second Restatement, for giving “substantial assistance to the other in accomplishing a tortious result [where] his own conduct, separately considered, constitutes a breach of duty to the third person.” Bartholomew & McArdle, *supra* note 11, at 695 n.110 (internal quotation marks omitted). The latter resembles liability discussed above for failing to control third parties whom one has a duty to control.

<sup>15</sup> Cf. Bartholomew & McArdle, *supra* note 11, at 696 n.112 (“Moreover, most common law civil courts require *actual* knowledge before holding a defendant liable for aiding and abetting.”) (emphasis added).

<sup>16</sup> Section 8A of the RESTATEMENT (SECOND) OF TORTS uses the term “intent” to “denote that the actor desires to cause consequences of his act, or that he believes that the consequences are substantially certain to result from it.” RESTATEMENT (SECOND) OF TORTS § 8A. Section 1 of the draft Third Restatement similarly defines intent to produce a consequence as “(a) . . . act[ing] with the purpose of producing that consequence; or (b) . . . act[ing] knowing that the consequence is substantially certain to result.” RESTATEMENT (THIRD) OF TORTS: LIAB. FOR PHYS. & EMOT. HARM § 1 (2010).

<sup>17</sup> 204 P.2d 1 (Cal. 1949).

<sup>18</sup> Technically the legal issue in *Hudson* was whether the promoters could rely on consent of the participants in the boxing match as a defense to the battery claim even though the boxing match was conducted in violation of state law. *Id.* at 4. But of course the promoters would only have needed the defense of consent if the plaintiff could otherwise have validly asserted a battery claim against them despite the fact that they did not make contact with the plaintiff.

<sup>19</sup> Obviously the promoter in this case supplied the means for the bout to take place, and in that sense the case might be seen as consistent with those cases imposing liability for providing the instrumentality of harm. But the promoter did not actually supply the instrumentality of the battery (the fighter’s fists), so the case fits more easily with inducement cases or the others involving encouragement of tortious conduct.

hardly unfair to impute knowledge to them, or indeed to conclude the promoters intended the contact. Accomplice liability reflected a judgment that the promoters' culpability was equal to that of the boxers themselves.

¶11 Courts require particularized knowledge even in the few accomplice liability cases in which the direct tortfeasor was merely negligent: the defendants in these cases knew of, and contributed to, negligent conduct by particular identifiable people. And while these defendants might not be substantially certain that harm will materialize, they have little doubt about the nature of the direct tortfeasor's conduct, nor can they reasonably doubt that such conduct breaches a duty of care. In fact, virtually all of the cases in which the underlying wrongdoing is negligence involve (a) concerted action, where the defendant was engaged in the same type of conduct as the direct tortfeasor but happened not to be the one whose conduct directly caused the particular harm;<sup>20</sup> (b) a defendant who was actively leading the direct cause's vehicle;<sup>21</sup> or (c) passengers in a vehicle driven under the influence.<sup>22</sup> All of these cases involve small numbers of people and specific, actual knowledge of the actions of the direct tortfeasors. In fact, most of these cases are not really secondary liability cases at all, since courts frequently require that the alleged accomplice acted negligently herself.<sup>23</sup>

¶12 Some of the early secondary trademark infringement cases actually fit this pattern, both because they refer to the defendant's "inducement," "purpose," or "design," and because they require fairly particularized knowledge. In *William R. Warner & Co. v. Eli Lilly & Co.*,<sup>24</sup> for example, the court held the defendant pharmaceutical company liable for unfair competition when it sold preparations to druggists who then passed off the preparations as though they came from the plaintiff.<sup>25</sup> The court found liability for the pharmaceutical company appropriate, even though it did not pass off the preparations itself, because "[o]ne who *induces* another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury."<sup>26</sup> This type of tort liability also bears the

<sup>20</sup> In *Hellums v. Raber*, 853 N.E.2d 143 (Ind. Ct. App. 2006), for example, the defendant and another person were deer hunting together when the plaintiff was accidentally shot. The bullet that struck the plaintiff did not come from the defendant's gun, but the court nevertheless reversed the district court's grant of summary judgment for the defendant on the ground that the defendant's firing of his gun in the direction of the plaintiff might have been sufficient encouragement of the shooter to do the same. *Id.* at 147. The court in *Hellums* emphasized that it was essential that "each particular defendant who is to be charged with responsibility shall be proceeding tortiously, which is to say with intent to commit a tort, or with negligence." *Id.*

<sup>21</sup> See, e.g., *Winters v. Wangler*, 898 N.E.2d 776 (Ill. App. Ct. 2008) (finding allegations regarding defendant's negligence in acting as a "lead escort" for a farm tractor pulling a wide load, which collided with plaintiff's decedent's vehicle, sufficient to state a cause of action for acting "in concert" liability); *Kuczynski v. McLaughlin*, 835 A.2d 150, 156 (Del. Super. Ct. 2003) (finding questions of fact regarding liability where defendant acted as "lead vessel" for the boat that collided with plaintiff's vessel and plaintiff alleged that "the manner in which [the defendant] operated his vessel was a proximate cause of the collision").

<sup>22</sup> See, e.g., *Reilly v. Anderson*, 727 N.W.2d 102 (Iowa 2006) (upholding jury verdict imposing liability on a defendant who was the front seat passenger in a car driven by a co-defendant, where the passenger took over the steering wheel so the co-defendant could use his marijuana pipe, and the plaintiff, a back seat passenger, was injured in the resulting crash). In a similar case, the court in *Buchanan ex rel. Buchanan v. Vowell*, 926 N.E.2d 515 (Ind. Ct. App. 2010), reversed dismissal of a claim against the mother of a drunk driver who encouraged the daughter to drive by agreeing to follow behind the daughter in her own car.

<sup>23</sup> See, e.g., *Winters*, 898 N.E.2d at 781 (emphasizing that the case "should in no way be construed to suggest drivers of escort vehicles may be liable merely because they escorted a negligent driver of farm implement" and noting that the plaintiff's allegations regarding the manner of the defendant's escorting could instead "arguably demonstrate duty, breach, and legal causation" as to the defendant himself); *Hellums*, 853 N.E.2d at 147 ("[W]e note that it is not sufficient to show that [the defendant and the party who shot the plaintiff] were shooting in approximately the same direction at approximately the same time. First, [the plaintiff] must show that [the defendant's] own actions were negligent."); *Kuczynski*, 835 A.2d at 156 (noting that a reasonable jury could impose liability if it concluded that the defendant agreed to lead the direct causer of harm back to port and set an unreasonable speed for the two vessels in doing so).

<sup>24</sup> 265 U.S. 526 (1924).

<sup>25</sup> *Id.* at 530.

<sup>26</sup> *Id.* at 530-31 (emphasis added). See also *Coca Cola Co. v. Gay-Ola Co.*, 200 F. 720, 723 (6th Cir. 1912) ("[E]ven if [the original purchasers] thoroughly understand that they are buying the counterfeit, and not the genuine, the manufacturer of the counterfeit will be enjoined from selling it to dealers with the purpose and expectation that it shall be used by the dealers to deceive the consumer."); *N.K. Fairbank Co. v. R.W. Bell Mfg. Co.*, 77 F. 869, 875 (2d Cir. 1896) (finding a manufacturer liable despite the fact that it did not sell directly to end consumers because "it seem[ed] impossible for any intelligent mind to escape the conviction that the new form of package was devised with a clear intent to simulate to a greater or less extent the complainant's package"); *Hostetter Co. v. Brueggeman-Reinert Distilling Co.*, 46 F. 188, 189 (C.C.E.D. Mo., 1891) ("Customers of defendant, who have thus been advised and induced to use genuine bottles and labels in the manner above mentioned, are clearly guilty of a wrongful act which a court of equity will enjoin; and a person who counsels and advises another to perpetrate a fraud, and who also furnishes him the means of consummating the same, is himself a wrong-doer, and, as such, is liable for the injury inflicted.")

greatest similarity, at least terminologically, to inducement liability under *Grokster*,<sup>27</sup> though in contemplating liability for inducing unidentified people acting at unknown times in the future, *Grokster* clearly departs from these tort cases in terms of the specificity of knowledge it demands.<sup>28</sup>

### B. Negligence and Probabilistic Harm

¶13 Finally, there are the cases in which the defendant is accused of putting the plaintiff at risk of some probabilistic harm. The harm in these cases is not “probabilistic” only in the limited sense that one does not know for certain whether the direct tortfeasor will finish swinging her arm; in that sense every case that counts knowledge with substantial certainty as intent involves probabilistic harm. Instead, these cases involve a defendant who almost certainly knows there is some chance that harm will result from another person’s actions, but the defendant’s knowledge does not relate to the actions of particular, identifiable third parties. The “knowledge” instead derives simply from a statistical likelihood that some harm will follow from a course of action that involves enough unique opportunities for harm. As Alfred Yen put it, these are cases in which the certainty of harm “arises through the repeated imposition of [a] less-than-certain risk.”<sup>29</sup>

¶14 As a general matter, tort law does not impose liability on the basis of this kind of statistical knowledge. Gun manufacturers, for example, know that some of the guns they produce are going to be used unlawfully. They may not know which consumers will be the wrongdoers, at least absent some additional evidence, but they know with substantial certainty that some of their guns are going to be used for ill, and that some people will be harmed as a result. Yet tort law does not treat gun manufacturers like promoters of prizefights, because of the gun manufacturers’ knowledge is only probabilistic. The certainty of harm that follows from the sale of guns is merely a function of the “repeated imposition of [a] less-than-certain risk.”<sup>30</sup>

¶15 There are, however, some cases in which courts have imposed tort liability where the defendant’s knowledge of third-party wrongdoing is probabilistic in this sense. One set of cases involves a defendant whose negligence puts the plaintiff at risk of being intentionally harmed by a third party. In *Hines v. Garrett*,<sup>31</sup> for example, a railroad conductor negligently carried the eighteen-year-old plaintiff almost a mile beyond her stop, letting her off at nighttime at a place where she had to walk back through an unsettled area. During her walk, the plaintiff was raped twice by unrelated parties, and she sued the railroad.<sup>32</sup> After making clear it did “not wish to be understood as questioning the general proposition that no responsibility for a wrong attaches whenever an independent act of a third person intervenes between the negligence complained of and the injury,” the court found the

<sup>27</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936-37 (2005) (“[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”). *See also id.* at 930 (“One infringes contributorily by intentionally inducing or encouraging direct infringement . . .”).

<sup>28</sup> There was no allegation in the *Grokster* case that the defendants induced any particular infringers. The evidence of inducement was instead focused generally on the defendant’s communication of an inducing message to its customers. *See id.* at 937-38 (noting that, among other things, “StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement,” that “[t]hose who accepted StreamCast’s OpenNap program were offered software to perform the same services,” and that “Grokster distributed an electronic newsletter containing links to articles promoting its software’s ability to access popular copyrighted music”). The best evidence of more particularized knowledge was the fact that the defendants “respond[ed] affirmatively to requests for help in locating and playing copyrighted materials.” *Id.* at 938.

<sup>29</sup> Alfred C. Yen, *Torts and the Construction of Inducement and Contributory Liability in Amazon and Visa*, 32 COLUM. J.L. & ARTS 513, 520 (2009).

<sup>30</sup> *Id.* Yen uses a similar example comparing a case in which a hotel rents a room to a guest knowing that bedbugs infest the room with a case in which an automobile manufacturer knows that one of its cars will eventually hit a pedestrian. He argues—correctly, in my view—that the hotel’s rental of the bug-infested room would be treated as an intentional tort because the hotel has substantial certainty of the result, but that the hypothetical car maker would be exposed, at most, to negligence liability. *Id.* at 519-20.

<sup>31</sup> 108 S.E. 690 (Va. 1921).

<sup>32</sup> *Id.* at 691.

railroad liable for negligently exposing the plaintiff to the danger of attack.<sup>33</sup> According to the court, “wherever a carrier has reason to anticipate the danger of an assault upon one of its passengers, it rests under the duty of protecting such passenger against the same.”<sup>34</sup> The Restatement takes the same position: “An act or an omission may be negligent if the actor realizes or should realize that it involves an unreasonable risk of harm to another through the conduct of the other or a third person which is intended to cause harm, even though such conduct is criminal.”<sup>35</sup>

¶16 A second set of cases imposes liability on negligent parties for the harms caused by negligent third parties. In *Bigbee v. Pacific Telephone & Telegraph Co.*,<sup>36</sup> for example, the California Supreme Court held that the phone company, which negligently located and maintained its telephone booth, could be held responsible for injuries sustained when the plaintiff was unable to escape the phone booth before it was hit by a drunk driver careening out of control.<sup>37</sup> According to the court, it was “of no consequence that the harm to plaintiff came about through the negligent or reckless acts of [the drunk driver].”<sup>38</sup>

¶17 A significant number of these cases imposing liability for harms caused by negligent third parties involve negligent health care providers, the need for whose care was created by the defendants’ negligent conduct. In *Pridham v. Cash & Carry Building Center, Inc.*,<sup>39</sup> for example, Pridham, the plaintiff’s decedent, was injured when the rope that secured a pile of vinyl panels was negligently untied by the clerk at the defendant’s showroom.<sup>40</sup> Pridham’s initial injuries were serious enough to require immediate attention, but they were exacerbated when the driver of the ambulance in which he was being taken to the hospital suffered a heart attack and crashed into a tree, and Pridham died later the same day from the cumulative injuries.<sup>41</sup> The New Hampshire Supreme Court ultimately upheld the trial court’s instruction that the defendant was liable to the plaintiff for any harm resulting from normal efforts of third parties rendering aid, in addition to any harm the defendant itself directly caused.<sup>42</sup> Importantly, while Pridham’s additional injuries did not result from negligence on the part of the ambulance driver, the court made clear that a defendant is responsible for harm caused by third-party aid-givers whether or not the third parties are themselves negligent.<sup>43</sup> In other words, a negligent party is liable to the plaintiff for the injuries caused by third parties rendering aid *even if* those third parties are negligent themselves in their care-giving.<sup>44</sup>

<sup>33</sup> *Id.* at 695.

<sup>34</sup> *Id.*; see also *Bell v. Bd. of Educ.*, 687 N.E.2d 1325 (N.Y. 1997) (refusing to say, as a matter of law, that the school district was not liable for the intervening act of rape committed by three boys who accosted the plaintiff when she was forced to walk home alone following the defendants negligently leaving her behind at a sixth grade drug awareness fair); *Britton v. Wooten*, 817 S.W.2d 443, 449 (Ky. 1991) (rejecting the defendant’s argument that an intervening act of arson relieved the defendant of liability for negligently stacking boxes and refuse in such a manner that they might exacerbate a fire, and noting that “the appendices to the *Restatement (Second) of Torts* §§ 448 and 449, are replete with numerous cases, perhaps one hundred in number, from throughout these United States, acknowledging [ ] §§ 448 and 449 as authority and deciding the negligence of a defendant is actionable as a contributing cause, wherein the immediate cause is a subsequent criminal act”); *Brauer v. New York Cent. & H.R.R.*, 103 A. 166 (N.J. 1918) (holding the railroad, the negligent operation of whose train led to a collision with a horse-drawn wagon, liable for the loss of the contents of the wagon, which were stolen by thieves when the driver of the wagon’s injuries left him unable to protect them).

<sup>35</sup> RESTATEMENT (SECOND) OF TORTS § 302B.

<sup>36</sup> 665 P.2d 947 (Cal. 1983).

<sup>37</sup> *Id.* at 952.

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

<sup>39</sup> 359 A.2d 193 (N.H. 1976).

<sup>40</sup> *Id.* at 195.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* at 197 (“The instruction given by the trial court is based on the principle that if a tortfeasor’s negligence causes harm to another which requires the victim to receive medical, surgical or hospital services and additional bodily harm results from a normal effort of persons rendering such services, whether done in a proper or negligent manner, the original tortfeasor’s negligence is a legal cause of the injuries received because of the injury party’s involuntary submission to such services.”).

<sup>43</sup> *Id.* at 197 (“It is to be noted that the rule enunciated applies even if the services rendered were not negligent.”).

<sup>44</sup> See also *Atherton v. Devine*, 602 P.2d 634 (Okla. 1979) (“It has long been the rule in Oklahoma that an original wrongdoer, negligently causing injury to another is liable for the negligence of a physician who treats the injured person where the negligent treatment results in the aggravation of injuries, so long as the injured person exercises good faith in the choice of his physician.”).

¶18 Both of these types of cases—those where a party’s negligence exposes the plaintiff to third-party intentional wrongdoing and those where the party’s negligence exposes the plaintiff to third-party negligence—impose liability for creating a risk of harm at the hands of third parties. And in that sense, they impose liability on parties whose knowledge of third-party wrongdoing is only probabilistic. But to characterize the cases that way would be misleading: because these are negligence cases and not secondary liability cases, the defendants’ liability does not depend on their knowledge at all. The court in *Hines* did not hold the railroad secondarily liable for the battery committed by the plaintiff’s attackers; it held the railroad directly liable for its own negligence. Foreseeability of third-party wrongdoing was relevant to the question of whether the railroad’s negligence could be considered a *cause* of the plaintiff’s harm, but the defendant’s knowledge was not a condition of liability.<sup>45</sup> In *Bigbee* the court similarly held that the phone company could be liable for its own negligence in locating and maintaining the phone booth, and that the injuries the plaintiff suffered when hit by the drunk driver were within the class of harms foreseeably caused by the phone company’s negligence.<sup>46</sup> It did not hold the phone company responsible for the driver’s tortious conduct. And in *Pridham* the court held that one who negligently causes injuries is responsible for additional injuries suffered at the hands of third parties who render aid because those additional injuries are foreseeable. It did not contemplate holding the store owner liable for the negligence of third parties who rendered aid. All of these cases imposed liability on the defendants for their own negligence, and the probability of third-party harmful conduct simply went to the foreseeability of injury.

## II. EVALUATING SECONDARY TRADEMARK LIABILITY

¶19 Against this tort law backdrop it is clear that the standard for secondary trademark infringement articulated by the Supreme Court in *Inwood v. Ives*<sup>47</sup> is much more like the accomplice liability standard in cases like *Hudson v. Craft* than the standard for negligence liability in cases like *Hines* and *Bigbee*.

¶20 According to *Inwood*, a party is secondarily liable for trademark infringement when it either (a) intentionally induces infringement, or (b) continues to supply a product to one it knows or has reason to know is engaging in trademark infringement.<sup>48</sup> The knowledge required here is particularized—the defendant must know, or have reason to know, that particular third parties are engaging in trademark infringement. Indeed, the Court expressly rejected a “reasonable anticipation” standard. In his concurrence, Justice White specifically disapproved of the Second Circuit’s approach because he believed it adopted a “reasonable anticipation” standard, which he characterized as “dilut[ed].”<sup>49</sup> The majority disagreed with Justice White’s reading of the Second Circuit’s opinion, but it agreed that the Second Circuit would have been wrong to adopt a “reasonable anticipation” standard, since that standard is “watered down and incorrect.”<sup>50</sup>

<sup>45</sup> See RESTATEMENT (SECOND) OF TORTS § 448 (taking the position that an intentional tort or crime is not a “superseding cause” that relieves a negligent party of liability if the party “at the time of his negligent conduct realized or should have realized the likelihood that [a situation which afforded an opportunity for another to commit an intentional tort or crime] might be created, and that a third person might avail himself of the opportunity to commit such a tort or crime”); *id.* § 449 (“If the likelihood that a third person may act in a particular manner is the hazard or one of the hazards which makes the actor [the defendant] negligent, such an act [by another person] whether innocent, negligent, intentionally tortious, or criminal, does not prevent the actor [the defendant] from being liable for harm caused thereby.”).

<sup>46</sup> By contrast, in *Central of Georgia Ry. v. Price*, the court refused to impose liability on a railroad that negligently took the plaintiff past her desired station and put her up for the evening in a hotel, where a kerosene lamp exploded and set fire to the mosquito netting covering her bed and she burned herself trying to extinguish the flames. 32 S.E. 77 (Ga. 1898). The railroad was not responsible for the plaintiff’s injuries because her injuries “were not the natural and proximate consequences of carrying her beyond her station, but were unusual, and could not have been foreseen or provided against by the highest practicable care.” *Id.* at 78.

<sup>47</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

<sup>48</sup> *Id.* at 854.

<sup>49</sup> *Id.* at 860-62 (White, J., concurring).

<sup>50</sup> See *id.* at 854 n.13 (“If the Court of Appeals had relied upon that statement [that the generic manufacturers ‘could reasonably anticipate’ illegal substitution by the pharmacists] . . . the court indeed would have applied a ‘watered down’ and incorrect standard.”) (quoting Justice White’s concurring opinion).

¶21 *Inwood* therefore obviously requires something more than reasonable anticipation of infringement. To be secondarily liable, a defendant must continue to supply a product to *particular actors* it knows or has reason to know are engaging in trademark infringement.<sup>51</sup> Justice White’s characterization of *William R. Warner*<sup>52</sup> underscored this requirement of particularized knowledge: “*William R. Warner* . . . made clear that a finding of contributory infringement requires proof of either an intent to induce illegal substitution or continued sales to *particular* customers whom the manufacturer knows or should know are engaged in improper palming off.”<sup>53</sup> And if there was any doubt that the rest of the Court was on the same page as Justice White, that doubt surely was erased by the Supreme Court in *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>54</sup> in which the Court made clear its understanding of the *Inwood* standard:

[In *Inwood*] we observed that a manufacturer or distributor could be held liable to the owner of a trademark if it intentionally induced a merchant down the chain of distribution to pass off its product as that of the trademark owner's or if it continued to supply a product which could readily be passed off to a *particular merchant* whom it knew was mislabeling the product with the trademark owner's mark.<sup>55</sup>

¶22 Indeed, after emphasizing the difference between the copyright and trademark secondary liability standards, the Court made clear that Sony’s sales of its Betamax devices to unidentified customers, many of whom Sony clearly could have anticipated would use the devices to infringe, would not have met *Inwood*’s standard:

If *Inwood*’s narrow standard for contributory trademark infringement governed here, respondents’ claim of contributory infringement would merit little discussion. Sony certainly does not ‘intentionally induce[]’ its customers to make infringing uses of respondents’ copyrights, nor does it supply its products to *identified individuals* known by it to be engaging in continuing infringement of respondents’ copyrights.<sup>56</sup>

¶23 In this respect, *Inwood*’s knowledge standard is consistent with the heightened knowledge requirement characteristic of the accomplice liability cases, and distinct from negligence cases like *Hines*, which impose liability on defendants who could merely foresee wrongdoing by unidentified third parties.<sup>57</sup> *Inwood* declines to impose secondary liability based solely on the statistical probability

<sup>51</sup> *Id.* at 854.

<sup>52</sup> *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924).

<sup>53</sup> *Inwood*, 456 U.S. at 860 (White, J., concurring) (emphasis added).

<sup>54</sup> 464 U.S. 417 (1984).

<sup>55</sup> *Id.* at 439 n.19 (emphasis added).

<sup>56</sup> *Id.* (alteration in original) (emphasis added).

<sup>57</sup> The district court decision in *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, implied in dicta that secondary liability might also attach if the defendant:

[C]ontinued sales [of its Polar Cola] to bars without taking some precautionary measures [and] had known or a normal bottler would have known that most bar customers specifically ordered Coca-Cola [as opposed to “Cuba Libre” or “rum and cola”] and [] consequently a normal bottler would [have] infer[red] from defendant’s large volume of sales that many bars which bought defendant’s product were using defendant’s product as a substitute in the case of specific orders of Coca-Cola and were not merely using it as an ordinary cola when a customer placed a general order for a “Cuba Libre” or a “rum (or whiskey) and cola.

64 F. Supp. 980, 989 (D. Mass. 1946). That statement sounds much more like the negligence liability the *Hines* court imposed, but I think some have made far too much out of this fragment of a district court opinion. See, e.g., David H. Bernstein & Michael R. Potenza, *Why the Reasonable Anticipation Standard Is the Reasonable Way to Assess Contributory Trademark Liability in the Online Marketplace*, 2011 STAN. TECH. L. REV. 9, 12-13 (relying heavily on the District Court opinion in *Snow Crest*); Brief for the Int’l Anticounterfeiting Coal. as Amicus Curiae Supporting Petitioners, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 08-3947) (similarly relying extensively on *Snow Crest*). Despite the fact that *Inwood* cites *Snow Crest* approvingly as general authority, it is hard to imagine that the Court meant to endorse this particular quoted language. For one thing, the Court never specifically referred to this part of *Snow Crest*—not even to make clear that the language was inapplicable on the facts in *Inwood*. As a matter of fact, the *only* time the Supreme Court cited a specific portion of *Snow Crest* was to emphasize that there is *no* secondary liability when the defendant can merely “anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown pharmacists.” *Inwood*, 456 U.S. at 860-61 (White, J., concurring) (noting that “a finding of contributory infringement requires proof of either an intent to induce illegal substitution or continued sales to particular customers whom the manufacturer knows or should know are engaged in improper palming off” and claiming that *Snow Crest* “stands for this very proposition”); see also *id.* (quoting, in support of the observation that *Snow Crest*’s manufacture of a product identical in appearance to Coca-Cola was not contributory infringement, Judge Wyzanski’s observation in the *Snow Crest* District Court decision that “any man of common sense knows that in any line of business . . . there are some unscrupulous persons who, when it is to their financial

of third-party wrongdoing: secondary trademark liability requires knowledge of, and contribution to, the wrongdoing of particular, identifiable parties.<sup>58</sup> It is not enough that a defendant have reason to know that *someone* will infringe.<sup>59</sup>

¶24 Indeed, if we are to take seriously that trademark secondary liability principles derive from tort law, then to hold a defendant secondarily liable for trademark infringement based on probabilistic knowledge would be to collapse an important distinction the tort cases work hard to maintain. Defendants in accomplice liability cases are held liable for the same tort as the direct tortfeasor. The promoters in *Hudson v. Craft*, for example, were liable for battery even though they never threw any punches. But the harshness of this consequence is counterbalanced by a particularly stringent knowledge requirement: only very particularized knowledge, in addition to a material contribution, suffices for accomplice liability. In cases like *Hines*, by contrast, probabilistic knowledge is sufficient to demonstrate foreseeability of third-party wrongdoing, but liability depends on the defendants' own negligence, not solely the harmful conduct of third parties.

¶25 In its case against eBay, Tiffany asked the court to find eBay secondarily liable for the direct infringements of customers who posted and sold counterfeit Tiffany merchandise, even though eBay indisputably took a number of affirmative steps to limit infringement—both generally and particularly with respect to Tiffany goods—and responded to notifications of infringement by removing the accused listing.<sup>60</sup> The liability for which Tiffany argued, then, was not for the specific infringements brought to eBay's attention, but for other, unidentified users' infringements, which Tiffany believed eBay should have done more to prevent. Tiffany, in other words, was arguing against precisely the distinction I just described: it was asking the Second Circuit to incorporate the liability consequences of accomplice liability—making eBay liable for trademark infringement just as if it was the direct infringer—but not its knowledge requirement. The Second Circuit was right to reject that attempt.

¶26 If, however, courts were really to take seriously the tort law analogy, they would not treat cases involving probabilistic knowledge as secondary trademark infringement cases at all; they would treat them as negligence cases.<sup>61</sup> So understood, a defendant's liability in these cases would be a function of its fault, which would be evaluated by asking whether the defendant's breach of a duty owed to the plaintiff was the actual and proximate cause of the plaintiff mark owner's injuries.<sup>62</sup> With respect

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advantage to do so, will palm off on customers a different product from that ordered by the customer" (citing *Snow Crest*, 64 F. Supp. at 988-89)). Thus the suggestion that secondary liability could be based on the defendant's knowledge that some unidentified customers will infringe is not supported by the Supreme Court's actual use of *Snow Crest* in the *Inwood* opinion. It is also clearly at odds with the Supreme Court's interpretation of *Inwood* in *Sony*.

<sup>58</sup> Because this knowledge requirement entails the ability of the defendant to determine whether the third party's acts constitute direct infringement, there is good reason to wonder whether *Inwood* applies in the *eBay* context at all—not because eBay provided a service rather than a product, as the defendant did in *Inwood*, but because eBay was not situated such that it could determine the authenticity of the purported Tiffany merchandise sold through the eBay site. The Electronic Frontier Foundation pressed this argument before the Second Circuit, but the court declined to consider it since eBay abandoned the argument that it was not subject to *Inwood*. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 106 n.10 (2d Cir. 2010) (quoting the Electronic Frontier Foundation's amicus brief, which argued that *Inwood* did "not govern where, as here, the alleged contributory infringer has no direct means to establish whether there is any act of direct infringement in the first place").

<sup>59</sup> Bernstein and Potenza make much of the fact that *Inwood*, like many of the contributory infringement cases that pre-date it, does not require actual knowledge of third-party infringement, but only that the defendant "should know" or has "reason to know" of the infringement. See Bernstein & Potenza, *supra* note 57, at 10-12. But this conflates the actual knowledge versus constructive knowledge question with the question of whose conduct the defendant must have knowledge about. Saying that constructive knowledge ("reason to know") is sufficient does not answer the question of whether one must have reason to know of infringing acts by particular actors, or whether it is sufficient, as Bernstein and Potenza suggest it should be, that the defendant has reason to know of infringement by some unidentified actors at some unidentified times. On the former issue, I agree with Bernstein and Potenza that *Inwood* adopts a "reason to know" standard—one could hardly deny this, as the opinion declares specifically that a party is secondarily liable if it "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." See *Inwood*, 456 U.S. at 854 (emphasis added). But Bernstein and Potenza are wrong to suggest that acceptance of constructive knowledge means the *Inwood* court also accepted that the constructive knowledge need not relate to the actions of particular parties. The *Inwood* opinion was equally clear on this point, as *Sony* reiterated.

<sup>60</sup> *Tiffany (NJ) v. eBay*, 600 F.3d at 98-100.

<sup>61</sup> I do not mean to suggest here that secondary liability would actually be state law negligence liability rather than liability under federal common law borrowing substantively from state law. The former approach entails a significant loss of uniformity and a number of difficult choice of law problems. I thank Tyler Ochoa for emphasizing this point to me.

<sup>62</sup> See Yen, *supra* note 29, at 529-30 (criticizing *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) and *Perfect*

to eBay, regarding the question of breach, a court would have focused on the nature of the precautions eBay took and alternative precautions it might have taken to prevent harm to Tiffany. And it would have asked whether eBay's failure to take any cost-justified precautions was the cause-in-fact and proximate cause of Tiffany's injuries, whatever those were. Descriptively, much of the Second Circuit's opinion, while not speaking the language of negligence, was in fact directed towards the issue of reasonable precautions; that is why the court went to such lengths to describe eBay's efforts to deal with counterfeiting on its site.<sup>63</sup> But as I demonstrate below, eBay's legal obligations would have been more clearly stated had the court evaluated its conduct in explicitly negligence-based terms.

### III. EBAY'S CALCULUS OF RISK

¶27 Viewed through the lens of negligence law, a court considering eBay's liability would have determined whether eBay breached a duty to Tiffany by asking whether eBay failed to take reasonable precautions to prevent third-party infringement. As the Second Circuit's opinion makes clear, eBay took a lot of precautions to protect mark owners, so the question here is a more particular one about additional precautions eBay might have taken. And the reasonableness of additional precautions is evaluated by asking whether the potential harm to Tiffany from eBay's failure to take the precautions (L), discounted by the probability of that harm materializing (P), outweighed the burden that would have been imposed on eBay to prevent the harm (B).<sup>64</sup> Implicit in this formulation, but worth stating explicitly here, is that negligence law contemplates that there will be times in which the defendant reasonably refrains from taking additional precautions, with the consequence that the plaintiff goes uncompensated for its loss.

¶28 According to the District Court opinion,<sup>65</sup> the principal precaution Tiffany alleged eBay failed to take was to "ban any eBay seller from listing five (5) or more 'Tiffany' jewelry items at any given time."<sup>66</sup> But Tiffany also claimed that eBay should have banned the sale of silver "Tiffany" jewelry, the vast majority of which Tiffany claimed was counterfeit; banned the sale of any "Tiffany" item that was advertised as being counterfeit or as being "inspired by Tiffany"; refrained from advertising the sale of "Tiffany" merchandise; and removed sponsored links to "Tiffany" on any search engine.<sup>67</sup> Neither the District Court nor the Second Circuit evaluated these precautions individually, probably because they felt constrained by the language of *Inwood*, which treats refusal to continue providing a product (or a service, under the Second Circuit's extension of *Inwood*) as the only relevant precaution. The *Inwood* approach, in other words, pushes courts away from considering incremental precautions since it presents a binary choice revolving solely around the continued supply of a product (or service): either the defendant should have refrained from supplying its product (service), or it was free to do so without modification. And, to be fair, even if the *Inwood* formulation was more sensitive to incremental precautions, the Second Circuit might reasonably have seen Tiffany as making a pretty sweeping claim: though the District Court focused more on Tiffany's demand that eBay ban listings of five (5) or more Tiffany items at a time, several of Tiffany's demands came much closer to a demand that eBay disallow all sales of "Tiffany" merchandise.

¶29 If in fact a court were to have approached the case from a negligence perspective, however, each of the precautions Tiffany identified would need to be evaluated incrementally, both because the

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10, Inc. v. Visa Int'l Serv. Ass'n, 494 F.3d 788 (9th Cir. 2007)—and copyright secondary liability cases more generally—on the ground they pay insufficient attention to the distinction between intentional tort and negligence and arguing that "courts should reformulate the law of traditional contributory liability to better express the nuances of negligence law").

<sup>63</sup> See *Tiffany*, 600 F.3d at 98-100.

<sup>64</sup> This formulation comes most famously from *United States v. Carroll Towing Co.*, 159 F.2d 169 (2d Cir. 1947). Using this approach, a party has breached its duty when  $P \times L > B$ . Not every court uses this so-called "Hand Formula," at least not in a formulaic way, but courts universally evaluate the reasonableness of the defendant's actions, or failure to act, to determine whether it breached a duty.

<sup>65</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

<sup>66</sup> *Id.* at 482.

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

costs and benefits of each precaution are different, and because some of the precautions Tiffany sought—such as refraining from advertising “Tiffany” merchandise—would impose on eBay obligations that exceed, and may be in conflict with, obligations imposed by substantive trademark law. And as the following sections illustrate, express evaluation of the proposed precautions reveals the weakness of many of the assumptions built into Tiffany’s claims—and many of the assumptions regarding harm in trademark cases generally.

### A. Probability and Magnitude of Harm

¶30 First, to evaluate the probability that eBay’s failure to take additional precautions would harm Tiffany, a court would need to identify more particularly the harms that allegedly flow from the sale of counterfeit Tiffany merchandise on the eBay site. Ironically, courts would be on unfamiliar ground focusing on harm, since they rarely engage in rigorous examination of the purported harms in trademark cases, often simply accepting empirically questionable theories of harm as unquestionably true.<sup>68</sup> And harm turns out to be a difficult issue in the eBay context, since the probability and magnitude of likely harm both depend on assumptions about consumer motivation in shopping for Tiffany merchandise on eBay’s site. In the offline context, it is quite unlikely that many purchasers are harmed when they purchase counterfeit luxury goods, since most are probably getting exactly what they are looking for. Someone who buys a “Louis Vuitton” bag on Canal Street, for example, isn’t misled about what she is getting: she very likely intended to buy a knockoff bag, and at the very least the context, and particularly the price, provides significant clues about the bag’s authenticity.<sup>69</sup> Indeed, courts have constructed an entire doctrine of post-sale confusion for the purpose of eliding the fact that purchasers of counterfeit luxury goods are rarely confused about the provenance of the goods they are getting.<sup>70</sup> Post-sale confusion, at least where it focuses on confusion at all, most frequently concentrates on the confusion of non-purchasers who encounter a counterfeit product, and who courts speculate might somehow hold against the genuine brand their reaction to the counterfeit.<sup>71</sup>

¶31 But as I have argued before, courts’ attempts to characterize post-sale confusion in consumer confusion terms are mostly, if not entirely, pretextual: post-sale confusion is transparently concerned with preserving artificial scarcity so that consumers can use luxury brands to signal status and brand owners can capture the associated brand premium.<sup>72</sup> Indeed, courts are often fairly candid about this

<sup>68</sup> See Mark P. McKenna, *Testing Modern Trademark Law’s Theory of Harm*, 95 IOWA L. REV. 63 (2009) (evaluating various theories of harm of infringement in non-competing goods cases and finding them substantially weaker than generally presumed).

<sup>69</sup> See Jonathan M. Barnett, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 Va. L. Rev. 1381, 1393 (2005) (noting that “counterfeits are usually sold in venues, such as New York’s Canal Street, that almost certainly are populated by unauthorized dealers (for example, street vendors), even in the eyes of the relatively untrained consumer” and that, as a result, “there does not seem to be any significant problem of purchasers who mistakenly purchase fakes when intending to purchase the original”) (citing *People v. Rosenthal*, 800 N.Y.S.2d 354, 2003 WL 23962174, at \*2 (N.Y. Crim. Ct. Mar. 4, 2003) (“There may indeed be the occasional tourist who actually believes that he is buying a genuine Rolex for \$20 from a man selling watches out of a briefcase in Battery Park. One can safely assume, however, that such naivete is the exception rather than the rule.”)).

<sup>70</sup> See Jeremy N. Sheff, *Veblen Brands and Invisible Hands in the Market for Social Expansion*, 96 Minn. L. Rev. \_\_\_\_ (forthcoming 2012) (manuscript at 7) (draft available at <http://ssrn.com/abstract=1798867>) (noting that post-sale confusion is an invention of the lower federal courts that serves as a “key weapon in the arsenal of luxury brand owners”).

<sup>71</sup> Jeremy Sheff calls this theory “bystander” confusion, which allegedly arises when “a defendant sells its product to a non-confused purchaser, observers who see the non-confused purchaser using the defendant’s [knockoff] product mistake it for the plaintiff’s [genuine] product, and those observers draw conclusions from their observations that influence their future purchasing decisions.” See Sheff, *supra* note 70 (manuscript at 8). As Sheff acknowledges when he notes that sometimes the “chain of events culminating in a trademark injury appears to be assumed *sub silentio*,” this description might even give courts too much credit, since courts frequently do not even tie observers’ confusion to future purchasing decisions, suggesting liability is appropriate where observers simply mistake the defendant’s product for the genuine product, even without more. *Id.* (manuscript at 16); see, e.g., *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 493 n.3, 495 (S.D. Fla. 1986) (admitting that it could “only speculate as to the forms [that] cheapening or dilution [of the Rolex brand] might take and the injuries that might ensue” but imposing liability anyway on the possibility that, for example, airport security guards might be confused when a counterfeit watch set off a metal detector). Sheff identifies “downstream confusion”—confusion among purchasers in a secondary market—as another theory of post-sale confusion that depends (albeit speculatively) on consumer confusion about the source of the goods. Sheff, *supra* note 70 (manuscript at 18-22).

<sup>72</sup> Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1908-09 (2007); see also Sheff, *supra* note 70 (manuscript at 8) (describing “status confusion”—confusion about the consumers of products that might

true purpose. In *Rolex Watch*, for example, the court noted its concern that “[non-purchasers] who see the watches bearing the Rolex trademarks on so many wrists might find themselves discouraged from acquiring a genuine because the items have become too common place and no longer possess the prestige once associated with them.”<sup>73</sup> Likewise in *Ferrari S.P.A. Esercizio Fabbriche Automobili E Corse v. Roberts*,<sup>74</sup> the court was concerned that the defendant’s kit cars would destroy Ferrari’s rarity:

If the country is populated with hundreds, if not thousands, of replicas of rare, distinct, and unique vintage cars, obviously they are no longer unique. Even if a person seeing one of these replicas driving down the road is not confused, Ferrari’s exclusive association with this design has been diluted and eroded. If the replica Daytona looks cheap or in disrepair, Ferrari’s reputation for rarity and quality could be damaged.<sup>75</sup>

¶32

Notably, the rhetoric of these cases focuses overwhelmingly on the financial interests of the mark owners rather than consumer interests—courts are focused on the harm to a brand from loss of exclusivity. This is not to say that there is no sense in which consumers benefit from the exclusivity of brands (or, to put it in the negative, that there is no sense in which consumers are harmed when copyists destroy those brands’ exclusivity).<sup>76</sup> Loss of the ability to signal status, however, is not the sort of harm trademark law is ordinarily concerned with, since that harm does not necessarily depend on confusion of any kind.<sup>77</sup> And even if we were inclined to consider loss prestige a relevant harm to certain consumers, many other consumers *gain* when status symbols are more accessible, and those other consumers are hurt when courts deny them access by excluding imitation products. At best, then, post-sale confusion cases entail competing consumer interests: the interests of consumers who wish to maintain scarcity in order to preserve their ability to signal status are opposed to those of consumers who want access to the lower-priced goods.<sup>78</sup> And given that exclusivity depends on limiting access to brands, one can reasonably assume the consumers seeking access and lower-priced goods are the more numerous group.

¶33

As a result, if a court were to consider carefully the probability and magnitude of harm, and if consumer harm were the primary concern, it would be difficult to justify any trademark liability for sales of knock-off luxury goods in the brick-and-mortar context, let alone secondary liability built on the back of post-sale confusion. In eBay’s case, the question would be whether there is any reason to believe that consumer expectations are different in the online context than they are on Canal Street—whether, unlike their offline counterparts, eBay shoppers expect “Tiffany” goods to be genuine and are deceived into buying inauthentic merchandise. And even if there were reason to believe some such risk existed in the online context, the focus here would have to be on the extent to which

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negatively impact the brand’s exclusivity—as “the legal theory that most often serves to justify liability against the manufacturers of knock-off luxury branded goods”).

<sup>73</sup> *Rolex Watch*, 645 F. Supp. at 495.

<sup>74</sup> 944 F.2d 1235 (6th Cir. 1991).

<sup>75</sup> *Id.* at 1245 (quoting *Ferrari S.P.A. Esercizio Fabbriche Automobili e Corse v. McBurnie*, 11 U.S.P.Q.2d 1843, 1848 (S.D. Cal. 1989)).

<sup>76</sup> *Cf.* *Hermes Int’l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000) (“[T]he purchaser of an original is harmed by the widespread existence of knockoffs because the high value of originals, which derives in part from their scarcity, is lessened.”).

<sup>77</sup> Indeed, the trademark concept most closely associated with loss of exclusivity is dilution, which of course does not depend at all on confusion. See 15 U.S.C. § 1125(c)(2)(B) (2006) (defining dilution by blurring as “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark”); see also *id.* § 1125(c)(2)(B)(iii) (considering as relevant to the question of blurring “[t]he extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark”).

<sup>78</sup> See Sheff, *supra* note 70 (manuscript at 2) (arguing against the post-sale confusion doctrine on the ground that it protects against status confusion, which invokes the aid of the state in privileging some speakers over others in social, rather than commercial, discourse); see also Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60, 63 (2008) (“Rather than viewing trademark litigation strictly as combat between competing sellers, courts should be aware of its parallel status as conflict between differing classes of consumers. In this view, consumer confusion is both a harm and a cause of harm. When a defendant’s purportedly confusing conduct is enjoined, those consumers who benefit from the practice suffer a loss. Consequently, if courts err on the side of trademark protection, they privilege certain consumer classes (sometimes the gullible, sometimes the hypothetical) over others. Nonconfused consumers may have a significant interest in the continuation of a defendant’s actions. Treating them as effective parties in interest would force courts to grapple explicitly with the consequences of expanding trademark liability.”).

consumers would have been marginally less likely to have been deceived if eBay had taken some additional precaution. After all, eBay voluntarily took a number of precautions that limited the risk.

¶34 Uncertainty about harm remains even if we assume mark owner interests are of primary concern here—a fair assumption since mark owner interests are likely driving the post-sale confusion cases. In terms of the most direct form of potential harm to Tiffany—diverted sales—the likelihood and magnitude of harm to Tiffany from counterfeiting depends, just as it would if consumer interests were paramount, on whether consumers are likely to buy “Tiffany” merchandise on eBay believing it to be genuine. If eBay shoppers are not likely to be so deceived, then Tiffany sales are not being diverted to “Tiffany” products,<sup>79</sup> except insofar as one is willing to indulge the assumption that sales of known counterfeits substitute for sales of genuine goods. Whatever the validity of that assumption in other contexts, it is not justified in the context of luxury goods.<sup>80</sup> And obviously there can be no legitimate argument that consumers will hold against Tiffany their views of the quality of the merchandise if consumers are aware of the status of the counterfeit goods. Thus, the extent to which Tiffany is harmed in a conventional sense from online sales of “Tiffany” goods depends on whether consumers are more frequently deceived about the genuineness of products in the online context.

¶35 Tiffany’s concerns, of course, were almost certainly not confined to sales diversion or being blamed for poor quality. Instead, Tiffany was likely concerned with the same loss of exclusivity that other luxury brands asserted as trademark harm in the post-sale confusion cases: specifically, the concern that the presence of so many additional “Tiffany” products would destroy the rarity of genuine Tiffany products. In this sense, the question of harm is simply a manifestation of a bigger question about the interests of mark owners that trademark law legitimately protects. And as I have explained elsewhere, in my view, trademark law should not be an all-purpose tool for enabling a mark owner to extract all of the value of a brand. It should instead work as a limited tool to prevent deception about responsibility for the quality of goods or services or other characteristics material to consumer purchasing decisions.<sup>81</sup> Since “loss of rarity” has no place in this limited approach, whatever harm it causes ought to be irrelevant.

¶36 Finally, it is worth noting that both the District Court and the Second Circuit suspected that Tiffany’s real complaint was about the existence of a secondary market for legitimate Tiffany goods.<sup>82</sup> This was no stretch, since several of the precautions Tiffany demanded eBay take would certainly have had the effect of reducing, and perhaps even eliminating, second-hand sales of legitimate Tiffany goods: for example, Tiffany’s demands that eBay ban the sale of silver “Tiffany” jewelry and jewelry advertised as being “inspired by Tiffany.” But it is well-settled that Tiffany has no right to block re-sales of genuine goods, no matter how much it believes it is harmed by those re-sales.<sup>83</sup> Nor

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<sup>79</sup> Diversion of sales is unlikely even if consumers *do* think that they are buying genuine Tiffany merchandise on eBay, at least as long as they believe they are buying used merchandise, since as the Second Circuit noted, Tiffany does not sell used merchandise. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 97 (2d Cir. 2010).

<sup>80</sup> Here we have some recent empirical work that suggests that counterfeiting *helps* rather than *hurts* high end brands. See Yi Qian, *Counterfeiters: Foes or Friends?* (Nat’l Bureau of Econ. Research, Working Paper No. w16785, 2011), available at <http://ssrn.com/abstract=1759857>. As Qian demonstrates,

[C]ounterfeits have both advertising effects for the brand and substitution effects for authentic products. The advertising effect dominates substitution effect for high-end authentic product sales, and the substitution effect outweighs advertising effect for low-end product sales. The positive effect of counterfeits is most pronounced for the high-fashion products (such as women’s high-leg boots) and for the high-end shoes of the brands that were not yet well-known at the time of the entry by counterfeiters.

*Id.* (manuscript at 2).

<sup>81</sup> See Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137, 142-43 (2010) (arguing that trademark law should not consider market preemption and free-riding to be legitimate trademark harms and should require trademark harm in the form of confusion about responsibility for quality or other material characteristics); Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 429 (2010) (rejecting broad sponsorship or affiliation confusion theories and focusing on responsibility for quality or other material confusion).

<sup>82</sup> See *Tiffany (NJ)*, 600 F.3d at 98 (“Reducing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces, through eBay’s website would benefit Tiffany in at least one sense: It would diminish the competition in the market for genuine Tiffany merchandise.”) (citing *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 510 n.36 (S.D.N.Y. 2008) (“[T]here is at least some basis in the record for eBay’s assertion that one of Tiffany’s goals in pursuing this litigation is to shut down the legitimate secondary market in authentic Tiffany goods.”)).

<sup>83</sup> See *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924) (holding that repackaging and resale of goods under original trademark was not infringing; “[a] trade-mark only gives the right to prohibit the use of it so far as to protect the owner’s good will

does it have the right to prevent advertising of competing goods, even if those goods are “inspired by Tiffany.”<sup>84</sup>

### B. Burden of Preventing Harm

¶37 This factor considers the burden on the defendant of taking the precautions necessary to avoid harm. This cost obviously depends on the nature of the precaution at issue, but the costs to eBay of the precautions demanded by Tiffany are potentially quite high. As became clear in the Second Circuit’s decision, it was exceedingly difficult for eBay to determine what merchandise for sale on eBay was counterfeit. The first and most obvious problem is the sheer number of products available on eBay’s site at any given time, which makes individualized determinations extremely costly. Second, even reviewing individual listings would likely not be enough to reduce the risk of harm significantly, since evaluating the authenticity of jewelry requires physical inspection—which, given the nature of its service, eBay does not do.<sup>85</sup> And third, even if it could have physically inspected the “Tiffany” products on its site, it still would have been difficult for eBay to identify counterfeit Tiffany merchandise since eBay lacked the expertise needed to distinguish counterfeits.<sup>86</sup> The difficulty of making these individual judgments suggests the burden of any incremental precautions requiring individualized decision-making would be extremely high. As a relative matter, then, the rough rules Tiffany proposed, which prohibit categories of conduct but do not require individualized decision-making, might have imposed a lesser monitoring burden on eBay. But the burden on eBay would remain significant even under those more categorical rules: blocking any listing that used the word “Tiffany,” for example, wouldn’t prevent someone from posting pictures of the merchandise with a Tiffany blue box.

¶38 And of course the more categorical rules would be over-inclusive and would therefore impose higher costs on consumers, whose interests should be reflected here too.<sup>87</sup> Tiffany’s demand that eBay ban all listings of silver “Tiffany” jewelry, for example, might eliminate counterfeit silver jewelry, but it would also cost consumers a legitimate secondary market for Tiffany merchandise.<sup>88</sup> The same is true of Tiffany’s demand that eBay block listings of jewelry advertised as “inspired by” Tiffany. This cost could be significant, particularly since with each additional precaution, the proportion of legitimate merchandise on the eBay site should rise such that successive precautions

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against the sale of another's product as his . . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.”); *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61-62 (2d Cir. 1992) (“As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner. Thus, a distributor who resells trademarked goods without change is not liable for trademark infringement. In addition, even repackaging of goods is not trademark infringement if it does not deceive the public or damage the mark owner’s goodwill.”) (footnote omitted) (citations omitted).

<sup>84</sup> See *Calvin Klein Cosmetics Corp. v. Lenox Labs., Inc.*, 815 F.2d 500, 504 (8th Cir. 1987) (“[A]n imitator is entitled to truthfully inform the public that it believes that it has produced a product equivalent to the original and that the public may benefit through lower prices by buying the imitation”); *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968) (finding defendant’s comparative advertisements non-infringing because defendant’s challenges to consumers, such as “We dare you to try to detect any difference between Chanel #5 (25.00) and Ta’Ron’s 2nd Chance \$7.00,” were not likely to cause confusion). Legitimate comparative advertising must be non-confusing, so one cannot say with certainty that any “inspired by Tiffany” claims would be considered fair use. But the determination of whether a particular ad is fair depends on a highly contextual inquiry that eBay is poorly situated to undertake, since such a determination would require close review of each such advertisement. One can safely conclude, however, that a rule against all advertisements for jewelry “inspired by Tiffany” would certainly prevent some legitimate ads.

<sup>85</sup> See *Tiffany (NJ)*, 600 F.3d at 98 (“Because eBay ‘never saw or inspected the merchandise in the listings,’ its ability to determine whether a particular listing was for counterfeit goods was limited.”).

<sup>86</sup> *Id.* (“Even had it been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit.”). This difficulty was likely exacerbated with respect to apparently used goods, since price differential could not be used as an indicator: used goods are reasonably priced lower than new goods even if they are genuine.

<sup>87</sup> Courts in tort cases frequently consider the harms to third parties that might have arisen if the defendant had taken the precautions the plaintiff requested. See, e.g., *Cooley v. Pub. Serv. Co.*, 10 A.2d 673 (N.H. 1940) (finding the defendant’s failure to use metal baskets as to protect against telephone wires falling onto electrical wires was not negligent on the ground that using the baskets would have posed a danger of electrocution on the ground, which was a greater danger than the risk to telephone subscribers like the plaintiff, who suffered harm from a loud noise through her phone when the telephone wire fell onto the electrical wire).

might affect more legitimate sales. Indeed, even short of blocking all “Tiffany” merchandise, each additional precaution has some error associated with it, and that error would often materialize in the form of a limitation on legitimate second-hand goods.<sup>89</sup>

### C. Causation

¶39 Even if we could conclude that eBay in fact breached its duty of care by failing to take adequate precautions in making its platform available for “Tiffany” merchandise knowing that some percentage of users would sell counterfeit merchandise, Tiffany would have to establish actual (“but-for”) and proximate causation in order for eBay to have liability.<sup>90</sup> Here again, courts would be out of their comfort zone, since trademark cases rarely take causation seriously—indeed, courts almost never even mention causation in trademark cases.<sup>91</sup>

¶40 One reason courts in earlier secondary infringement cases focused on the continued provision of goods to parties one had knowledge would use those goods to infringe is that causation-in-fact (or “but-for” causation) is relatively straightforward in those cases: but-for the defendant’s providing of the goods to direct infringer, no infringement would have happened. The goods provided to the direct infringers in those cases *were* the infringing goods—they were not infringing at the time they were provided by the defendants to the direct infringers because the direct infringers were not the end consumers and were not confused about the source of the goods, but they were the same goods ultimately used to infringe. But causation-in-fact is much more difficult where, as in *Tiffany*, the defendant is not actually supplying the instrument of infringement. Indeed, it is far from obvious that, but-for eBay’s listing service, the same third parties would not have made their infringing sales. Unlike in *William R. Warner*, where the direct infringers could not have made any infringing sales without the goods supplied by the defendant, sellers of fake Tiffany goods have many other opportunities to sell their counterfeit goods. This is not to say that sales of counterfeit goods are not made easier on the eBay platform, nor that the ease of using eBay might not have made counterfeiting more attractive to some. But it is to say that some (and probably a significant number) of counterfeit sales would have happened regardless, and that eBay cannot reasonably be considered a cause-in-fact of all of the counterfeit sales.

¶41 As Mark Bartholomew and Patrick McArdle have noted, courts in contributory infringement cases often have not engaged in rigorous factual causation analysis because they have allowed policy considerations about the effects of infringement—particularly in the online context—to confound the issue.<sup>92</sup> But whatever the effects of online infringement, the factual causation requirement is intended to focus courts’ attention on the legitimacy of assigning responsibility for those consequences to a particular actor. And while policy considerations are widely believed to drive proximate causation, it only matters that a defendant’s actions proximately caused the plaintiff’s harm once causation-in-fact has already been established.<sup>93</sup>

¶42 One final issue deserves brief mention here. Courts have long struggled in tort cases to articulate clear rules for when defendants are liable for negligent omissions (as opposed to actions). First year torts students learn a general rule, usually derived from *Moch Co. v. Rensselaer Water Co.*,<sup>94</sup> that there is

<sup>89</sup> It is worth noting here that, within some reasonable limits, a negligence frame can be sensitive to a particular defendant’s characteristics when considering the burden of taking a particular precaution, since obviously the burden of taking even the same precaution varies for differently-situated defendants. Thus, reasonable precautions for eBay are not necessarily reasonable for every other defendant.

<sup>90</sup> Causation-in-fact entails the conclusion that the defendant’s negligent conduct was a necessary factor in bringing about the plaintiff’s harm. See RESTATEMENT (SECOND) OF TORTS § 432(1) (“[T]he actor’s negligent conduct is not a substantial factor in bringing about harm to another if the harm would have been sustained even if the actor had not been negligent.”).

<sup>91</sup> Cf. Bartholomew & McArdle, *supra* note 11, at 705 (noting that “many contributory infringement cases are decided without any causal analysis at all”). This is not only true of contributory trademark infringement cases, however—it is true of trademark cases generally.

<sup>92</sup> See Bartholomew & McArdle, *supra* note 11, at 706-14

<sup>93</sup> See *id.* at 708-09 (describing tort law’s bifurcation of causation into causation-in-fact and proximate causation over the course of the twentieth century).

<sup>94</sup> 159 N.E. 896 (N.Y. 1928).

no affirmative duty to act for the benefit of another.<sup>95</sup> Put differently, the general rule is that there can be liability for misfeasance, but not mere nonfeasance—for acts, but not omissions.<sup>96</sup> This general rule has proven too harsh, of course, and courts have created a number of exceptions to it.<sup>97</sup> But aside from the exceptions, the act/omission distinction has often proven elusive because, depending on how the facts are described, a set of circumstances can be seen as either an omission or part of a longer, more complex set of acts. Is the failure to provide water to a fire hydrant a mere omission on the part of the water company, or is it part of a broader negligent operation of a water company?<sup>98</sup> Is a contractor's failure to light the hole he dug in a highway simply an omission, or is that omission embedded in the larger act of negligently digging the hole?<sup>99</sup> Some cases seem more reasonably described one way or the other, but there are “no settled criteria for distinguishing pure nonaction from conduct that includes a negligent omission.”<sup>100</sup>

¶43

Uncertainty about the act/omission distinction matters in the context of secondary liability because many of these cases involve facts that fall precisely in this grey area. Was eBay's failure to implement additional precautions to prevent counterfeiting on its site merely an omission to protect Tiffany, or was it part of a broader act that included that negligent omission as one part? Courts in aiding and abetting cases have been fairly reluctant to impose liability for conduct that could be characterized as a mere omission;<sup>101</sup> indeed, to the extent contributory infringement doctrine aims to be consistent with aiding and abetting cases, liability would not exist where the defendant merely creates the environment in which infringement takes place.<sup>102</sup> But even if courts in secondary trademark liability cases were focusing on negligence cases rather than aiding and abetting cases, the act/omission difficulty remains salient. In general, cases imposing liability for negligently exposing the plaintiff to third-party wrongdoing involve conduct that includes some fairly unambiguous *act*—dropping the plaintiff off past her railroad stop, driving a car, or something similar. And it is far from obvious that eBay's failure to take additional precautions to prevent counterfeiting is analogous.

<sup>95</sup> *Id.* at 898 (“The query always is whether the putative wrongdoer has advanced to such a point as to have launched a force or instrument of harm, or has stopped where inaction is at most a refusal to become an instrument for good.”).

<sup>96</sup> *See* DAN B. DOBBS, *THE LAW OF TORTS* § 314 (2000).

<sup>97</sup> There are, for example, exceptions for those in special relationships with the plaintiff, those who caused the plaintiff's peril, and those who have undertaken to aid the plaintiff, even if that undertaking was gratuitous. *See id.* at 854-55 (“The exceptional cases in which a duty of care may require reasonable affirmative steps by the defendant include: (1) the defendant or his instrumentalities, innocently or not, have created risks or caused harm to the plaintiff; (2) the defendant is in a special relationship to the plaintiff that is deemed to create a duty of care that encompasses affirmative action; (3) the defendant takes affirmative action that is either cut short or performed negligently; and (4) the defendant has assumed a duty of affirmative care by action or promise that evinces such an assumption.”).

<sup>98</sup> *Moch*, 159 N.E. 896 (finding the failure to supply water a mere omission).

<sup>99</sup> *Newton v. Ellis*, (1855) 119 Eng. Rep. 424 (K.B.); 5 El. & Bl. 115 (finding the failure to light only one part of a course of affirmative conduct).

<sup>100</sup> DOBBS, *supra* note 96, at 856. Sometimes a court's willingness to look past the act/omission distinction—or, perhaps, its willingness to characterize omissions as embedded in a larger course of conduct—is a function of its views of the relationship between the parties. *See, e.g.*, *Kline v. 1500 Mass. Ave. Apartment Corp.*, 439 F.2d 477 (D.C. Cir. 1970) (holding that landlords have a duty to take steps to protect tenants from foreseeable criminal acts committed by third parties).

<sup>101</sup> *See* *Bartholomew & McArdle*, *supra* note 11, at 717 (noting that “[m]erely having the ability to stop tortious conduct and failing to act is usually not enough to satisfy the substantial assistance requirement” in aiding and abetting cases).

<sup>102</sup> *See id.* Courts in tort cases also have been reluctant to count verbal acts as relevant acts, raising questions about the extent to which mere encouragement to infringe should give rise to liability. *See, e.g.*, *Yania v. Bigan*, 155 A.2d 343 (Pa. 1959) (“The complaint does not allege that Yania slipped or that he was pushed or that Bigan made any *physical* impact upon Yania. On the contrary, the only inference deducible from the facts alleged in the complaint is that Bigan, by the employment of cajolery and inveiglement, caused such a *mental* impact on Yania that the latter was deprived of his volition and freedom of choice and placed under a compulsion to jump into the water. Had Yania been a child of tender years or a person mentally deficient then it is conceivable that taunting and enticement could constitute actionable negligence if it resulted in harm. However, to contend that such conduct directed to an adult in full possession of all his mental faculties constitutes actionable negligence is not only without precedent but completely without merit.”). This reluctance is not universal, however, and courts have been willing to consider verbal acts that engender detrimental reliance sufficient to give rise to liability. *See, e.g.*, *Marsalis v. LaSalle*, 94 So. 2d 120 (La. Ct. App. 1957) (imposing liability for defendant's failure to quarantine cat that had scratched plaintiff through no fault of defendant because defendant had told plaintiff he would keep the cat and plaintiff relied on the assurance).

## CONCLUSION

¶44 Courts regularly claim that trademark secondary liability derives from common law tort principles, yet they rarely attempt to determine the circumstances under which tort law imposes liability based on third-party wrongdoing. The Supreme Court's *Inwood* standard is most similar to accomplice liability, particularly in terms of its knowledge requirement, though that analogy is imperfect. There is another category of tort cases in which courts impose liability based on knowledge of third-party wrongdoing that is only probabilistic, but these cases are really negligence cases imposing direct liability on a party for its own negligent conduct rather than secondary liability for third-party tortious conduct. If they took seriously the idea that trademark secondary liability should track tort law, courts would consider imposing similar liability for negligently exposing trademark owners to third-party infringement.

¶45 Simply recognizing that liability might exist for negligently exposing a party to third-party infringement would not, however, necessarily mean that defendants like eBay would be found liable. For negligence liability would be appropriate only where the plaintiff could prove the defendant breached a duty of care to the plaintiff—breach being a function of whether the defendant failed to take some cost-justified precaution to prevent genuine harm—and that the defendant's failure to take that precaution caused the plaintiff's injury. Most of these concepts, and particularly harm and causation, are entirely absent from trademark cases, and forcing courts to consider them explicitly is likely to highlight the inappropriateness of secondary liability in most cases. It is also likely to cast doubt on direct liability in a variety of cases in which courts now routinely impose liability. In that respect, mark owners should be careful what they wish for in inviting greater reliance on tort law principles.