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# The Mark of a Resold Good

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## THE MARK OF A RESOLD GOOD

*Yvette Joy Liebesman\* and Benjamin Wilson\*\**

### INTRODUCTION

The cosmetics giant Mary Kay requires that its Independent Beauty Consultants purchase at least \$200 worth of product each month.<sup>1</sup> Unfortunately for Amy Weber, her relationship with Mary Kay was terminated because she failed to purchase the monthly minimum.<sup>2</sup> To dispose of her large inventory of unsold products, Mrs. Weber sold the products through her website, [touchofpinkcosmetics.com](http://touchofpinkcosmetics.com), and through her “Touch of Pink” eBay store.<sup>3</sup>

In 2008, Mary Kay brought action against Mrs. Weber in a Texas federal court under the Lanham Act, alleging that she was an unaffiliated online reseller of Mary Kay cosmetics and that her sales therefore constituted unfair competition, passing off, and trademark infringement.<sup>4</sup> In its pleadings, Mary Kay claimed that the website and eBay store’s names created confusion as to affiliation or sponsorship—that is, consumers would wrongly assume that Weber was an authorized Independent Beauty Consultant affiliated with Mary Kay, even if that confusion ended prior to sale.<sup>5</sup>

In her motion for summary judgment, Mrs. Weber argued that the first sale and nominative fair use doctrines rendered her sales lawful under the Lanham Act.<sup>6</sup> The court, however, denied her motion,<sup>7</sup> and Mrs. Weber

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<sup>1</sup> *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 845 (N.D. Tex. 2009).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.* at 845-46.

<sup>4</sup> *Id.* at 846; Original Complaint for Damages and Injunctive Relief and Motion for Leave to Conduct Expedited Discovery at 16, *Mary Kay*, 601 F. Supp. 2d 839 (No. 3:08-CV-0776-G). Mary Kay also included state claims of tortious interference. *Mary Kay*, 601 F. Supp. 2d at 846.

<sup>5</sup> *Mary Kay, Inc. v. Weber*, No. 3:08-CV-0776-G, 2009 WL 2569070, at \*5 (N.D. Tex. Aug. 14, 2009); Original Complaint, *supra* note 4, at 17.

<sup>6</sup> *Mary Kay*, 601 F. Supp. 2d at 852, 854.

ultimately lost at trial.<sup>8</sup> As a result, Mrs. Weber was enjoined from using the name “Touch of Pink” as her store name,<sup>9</sup> from “using any portion of Mary Kay’s product descriptions to describe the products for sale on the defendant’s website,”<sup>10</sup> from “[r]epresenting to consumers that Touch of Pink is a ‘one stop shop’ for all of a consumer’s Mary Kay needs,”<sup>11</sup> and from “[r]epresenting to consumers that Touch of Pink carries authentic products from former consultants that have never been tested or used.”<sup>12</sup> Mrs. Weber was thus prohibited from selling genuine products in the secondary market—an activity that thousands of individuals do on a regular basis at garage sales, flea markets, and secondhand stores.

With the Internet revolutionizing secondary market sales, Mrs. Weber’s problem looms large.<sup>13</sup> This Article focuses on websites that resell genuine goods in the secondary market and the trademark infringement claims that are affecting their ability to legally market these goods.<sup>14</sup> Poli-

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<sup>7</sup> *Id.* at 864. The court held that genuine issues of material fact precluded summary judgment. *Id.* at 854, 859.

<sup>8</sup> *Mary Kay, Inc. v. Weber*, 661 F. Supp. 2d 632, 638 (N.D. Tex. 2009).

<sup>9</sup> *Id.* at 642. The Webers had also operated an eBay store called “marykay1stop,” but had ended its use and complied with many of Mary Kay’s other demands prior to the commencement of litigation. *Mary Kay*, 2009 WL 2569070, at \*1. Weber was also enjoined from selling expired products even though Mary Kay did so—even when labeled as such. *Mary Kay*, 661 F. Supp. 2d at 643.

<sup>10</sup> *Mary Kay*, 661 F. Supp. 2d at 644.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* Weber was also enjoined from other actions, including “representing to consumers that Touch of Pink provides ‘a place for consultants and consumers to locate hard to find and retired product or even new Mary Kay items at a great discount.’” *Id.* at 646.

<sup>13</sup> *See, e.g.*, Ashby Jones, *On Coach and the Counterfeit Crackdown That Wasn’t*, WALL ST. J. L. BLOG (Feb. 11, 2011, 10:45 AM), <http://blogs.wsj.com/law/2011/02/11/on-coach-and-the-counterfeit-crackdown-that-wasnt>.

<sup>14</sup> Recent scholarship has focused on such areas as:

- (1) trademark infringement as it relates to metatags and search engines, *see, e.g.*, Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 782 (2004); Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105, 107 (2005); Rachel R. Friedman, Note, *No Confusion Here: Proposing a New Paradigm for the Litigation of Keyword Advertising Trademark Infringement Cases*, 12 VAND. J. ENT. & TECH. L. 355, 357 (2010); Tyson Smith, Note, *Googling a Trademark: A Comparative Look at Keyword Use in Internet Advertising*, 46 TEX. INT’L L.J. 231, 233 (2010);
- (2) online first sale doctrine with regard to copyright infringement, *see, e.g.*, Benjamin Wilson, Comment, *Notice, Takedown, and the Good-Faith Standard: How to Protect Internet Users from Bad-Faith Removal of Web Content*, 29 ST. LOUIS U. PUB. L. REV. 613, 623 (2010);
- (3) free-riding, *see* Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137, 140 (2010); and
- (4) trademark bullying, *see, e.g.*, Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625, 628.

Other scholars focus on competitors who infringe by misleading traffic away from the mark owner’s website to the competitor’s site—where the consumer sees the competitor’s goods, instead of the mark owner’s. *See, e.g.*, Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 561 (2005).

cies that advance the mark owner's ability to control all distribution channels would harm consumers and disincentivize competition; manufacturers would have less motivation to innovate and improve their product when they control all distribution of goods beyond their first sale.<sup>15</sup>

This Article argues for an end to spurious claims of confusion where genuine goods are sold outside the manufacturer's distribution channel, as long as the reseller clearly disclaims any affiliation with the manufacturer or authorized distributor. This is in accord with the work of other scholars who have reached similar conclusions regarding irrelevant confusion,<sup>16</sup> the weak state of trademark fair use,<sup>17</sup> and the inadequacy of trademark defenses.<sup>18</sup> As with arguments in these areas, this Article contends that mark owners' attempts to increase the scope of their control over distribution channels thwart competition while doing little to protect consumers from deception.<sup>19</sup> These suggestions would protect the lawful sale of goods in the secondary market while allowing manufacturers to prevent counterfeit products from being sold online.

To begin this discussion, Part I looks at the nature of the Internet resale business, and the issues facing resellers regarding the use of the marks that are attached to the goods sold. This section tackles some of the practical difficulties that confront small resellers attempting to defend themselves against the mark owners in court. Part II focuses on the substantive legal issues that arise when a manufacturer uses initial interest confusion and a reseller's non-affiliation with "official" distribution channels of the good to limit competition. This Part examines how some courts have interpreted the law regarding fair use and confusion with regard to the online resale of genuine goods in a way that weakens the first sale doctrine in the process,

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<sup>15</sup> See generally Lemley & McKenna, *supra* note 14, at 187.

[Trademark law] is designed to facilitate a competitive marketplace by allowing consumers to know what they are buying . . . . But a trademark law that is distorted into a right to own markets—one that seeks out and tries to forbid all free riding on a mark—ends up interfering with rather than enabling competition.

*Id.*

<sup>16</sup> Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 414 (2010); see also Lemley & McKenna, *supra* note 14, at 170 (“[I]t is not enough that consumers misunderstand the relationship between the plaintiff's and the defendant's goods. If that misunderstanding has no consequence for consumers—if they are not hurt as a result—it is not something trademark law should care about.”).

<sup>17</sup> William McGeeveran, *Rethinking Trademark Fair Use*, 94 IOWA L. REV. 49, 110 (2008).

<sup>18</sup> Michael Grynberg, *Things Are Worse Than We Think: Trademark Defenses in a “Formalist” Age*, 24 BERKELEY TECH. L.J. 897, 902 (2009).

<sup>19</sup> Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 486-87 (1999); see also Grynberg, *supra* note 18, at 965 (“Without material confusion the trademark plaintiff's claim of an injury in fact looks dubious.”).

as well as the overlap of trademark and copyright infringement claims in the online resale market.

Part III elaborates on trademark law's fair use and first sale defenses, and some courts' reluctance to recognize these defenses in the case of re-sold goods. Part IV proposes that courts strengthen trademark's nominative fair use and first sale doctrines, while discounting the controversial doctrine of initial interest confusion, to protect legitimate online merchants while recognizing the need for manufacturers to stop online counterfeiters. We conclude that the first sale doctrine, which is well-established in patent and copyright law, and considered by both the courts and Congress as an important limitation to a mark owner's Lanham Act rights in the brick-and-mortar setting, should include a presumption of non-infringement when a reseller is using a mark to truthfully inform consumers about the source of a genuine good.

## I. THAT'S GONNA LEAVE A MARK

When one buys a Waterford crystal vase, the Waterford mark remains associated with the vase. No matter how many times that vase is sold, traded, gifted, regifted, or bequeathed, it remains identified as a Waterford vase. This serves a trademark's dual function of identifying the source of the vase and protecting the Waterford brand equity.<sup>20</sup> "[T]rademark law protects the producer from pirates and counterfeiters" and others who would attempt to exploit the good will established by Waterford.<sup>21</sup> However, merely because the Waterford mark remains inextricably linked to its vases as a source indicator does not and should not protect Waterford from controlling downstream sales of their goods outside their own distribution chains.<sup>22</sup> And while the Lanham Act is intended to promote quality goods and services by protecting producers' good will, it is irrelevant whether the customer even knows the identity of the source.<sup>23</sup> Consumers need not be able to identify the company behind a mark—for example, the fact that Kimberly-Clark makes "Huggies" disposable diapers is unimportant, so long as the consum-

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<sup>20</sup> See S. REP. NO. 100-515, at 4 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5580 (stating that trademark protection serves a dual purpose: it "protects the public by making consumers confident that they can identify brands they prefer and can purchase those brands without being confused or misled"). In addition, the report states that the second function of trademark law is to protect the brand equity of mark owners, who spend "considerable time and money bringing a product to the marketplace." *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (*per curiam*) ("[T]he right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product.").

<sup>23</sup> *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955); S. REP. NO. 100-515, at 4, *reprinted in* 1988 U.S.C.C.A.N. at 5580; 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 3:7 (4th ed. 2012).

er recognizes that the “Huggies” mark identifies a single source of the good.<sup>24</sup>

A. *From Garage Sales and Consignment Shops to the Internet*

Over the past ten years, casual resellers have migrated from garage sales, swap meets, and classified ads to eBay and Craigslist, turning side hobbies into lucrative businesses. Today, there are hundreds of books about selling goods online;<sup>25</sup> every month 30 million new ads are posted on Craigslist,<sup>26</sup> and every day six million new listings are posted on eBay.<sup>27</sup> The explosive online market has affected the sales of new goods, troubling manufacturers;<sup>28</sup> in turn, mark owners seek to curtail the growth of this secondary market through several avenues—some legitimate, and others not so much.<sup>29</sup> For example, to combat diversion to resellers outside of its official distribution chain, Tiffany, Inc., the well-known jeweler, attempted to institute a policy of limiting retail sales of identical items to lots of five or fewer, though this proved to be unsuccessful due to its sporadic enforcement.<sup>30</sup>

Manufacturers have also used other means to stifle the resale market, such as filing claims of trademark and copyright infringement against both resellers and auction sites,<sup>31</sup> attempting wholesale removal of their goods on

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<sup>24</sup> See 1 MCCARTHY, *supra* note 23, § 3:7.

<sup>25</sup> A search on Amazon.com for “selling on ebay” produced 1,629 results. Search for “selling on ebay”, AMAZON.COM, [http://www.amazon.com/s/ref=nb\\_sb\\_ss\\_c\\_1\\_15?url=search-alias%3Dstrip-books&field-keywords=selling+on+ebay&x=0&y=0&srefix=selling+on+ebay](http://www.amazon.com/s/ref=nb_sb_ss_c_1_15?url=search-alias%3Dstrip-books&field-keywords=selling+on+ebay&x=0&y=0&srefix=selling+on+ebay) (last visited Sept. 9, 2012).

<sup>26</sup> reComparison Contributor, *eBay vs. Craigslist*, RECOMPARISON, <http://recomparision.com/comparisons/100646/ebay-vs-craigslist> (last visited Sept. 9, 2012).

<sup>27</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 475 (S.D.N.Y. 2008), *aff'd in part*, 600 F.3d 93 (2d Cir. 2010).

<sup>28</sup> Ellie Mercado, Note, *As Long As “It” Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 116 (2010).

<sup>29</sup> See *Tiffany*, 576 F. Supp. 2d at 473 (stating that “rights holders . . . have obvious economic incentives to curtail the sale of . . . authentic goods on the Internet—after all, every sale . . . on eBay potentially represents a lost sales opportunity via [the manufacturer’s] own authorized distribution channels”); Grinvald, *supra* note 14, at 628.

<sup>30</sup> See *Tiffany*, 576 F. Supp. 2d at 473. The policy did not apply to corporations and international trade accounts which could buy large quantities of identical items, opening an avenue for someone to legitimately receive several identical items. *Id.* at 483.

<sup>31</sup> See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 96, 98 (2d Cir.), *cert. denied*, 131 S. Ct. 647 (2010) (noting that “[r]educing 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: [i]t would diminish the competition in the market for genuine Tiffany merchandise”); *Adobe Sys. Inc. v. Kornrumpf*, 780 F. Supp. 2d 988, 990-91 (N.D. Cal. 2011); *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 846 (N.D. Tex. 2009).

auction websites and other unauthorized distribution channels,<sup>32</sup> and using auction site take-down notice procedures that are supposed to be reserved for removing counterfeit and infringing goods.<sup>33</sup> These actions go beyond trademark bullying and are more than merely stopping a merchant from using the owner's mark—the goal is to remove the reseller's goods from the market altogether.<sup>34</sup>

Courts have aided manufacturers by ignoring the lack of confusion as to a good's source and finding that online initial interest confusion as to sponsorship or affiliation of the distribution channel—even when the goods are the genuine goods of the mark owner—constitutes infringement.<sup>35</sup> *Mary Kay, Inc. v. Weber*,<sup>36</sup> for example, illustrated this phenomenon.<sup>37</sup> These courts' reasoning is contradicted by strong evidence showing that many consumers visit sites like eBay and Craigslist for the purpose of finding genuine goods at lower costs than they would find buying directly from the mark owner or authorized retailer, and are therefore not confused as to affiliation regarding distribution channel.<sup>38</sup> This is just one of many reasons, unrelated to trying to find the mark owner, for a consumer to use the mark in question as an Internet search term.<sup>39</sup>

## B. *Genuine Goods*

As long as the customer is not confused as to the source of these genuine goods, then the identity of the purveyor of the goods—whether it be the mark owner's own distribution channel or a reseller<sup>40</sup>—should be irrelevant. As source identifiers, marks “provide[] consumers with information they

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<sup>32</sup> See generally *Mary Kay*, 601 F. Supp. 2d at 846; *Tiffany*, 576 F. Supp. 2d at 481.

<sup>33</sup> See *Tiffany*, 576 F. Supp. 2d at 478.

<sup>34</sup> See Goldman, *supra* note 14, at 574; Grinvald, *supra* note 14, at 651.

<sup>35</sup> Goldman, *supra* note 14, at 585. Under a claim of initial interest confusion, a mark owner is arguing that there is trademark infringement because, even though the consumers' confusion is “dispelled before an actual sale occurs,” the end result is that the defendant “impermissibly capitalizes on the [good will] associated with a mark . . . .” *Playboy Enters. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1025 (9th Cir. 2004).

<sup>36</sup> 601 F. Supp. 2d 839 (N.D. Tex. 2009).

<sup>37</sup> *Id.* at 852; see *supra* notes 1-12 and accompanying text.

<sup>38</sup> See Goldman, *supra* note 14, at 577. Professor Eric Goldman discusses how customer surveys and other data show a variety of reasons for the use of trademark search terms, including finding distribution sources other than those authorized by the mark owner, and that there no evidence of confusion based on use of search terms. See *id.* at 522, 565.

<sup>39</sup> *Cf. id.* at 521 (“[O]ne cannot make any legally-supportable inferences about [Internet consumers'] search[] objectives based on the keywords used.”).

<sup>40</sup> 1 MCCARTHY, *supra* note 23, § 3:7. Assuming there is no deception or fraud whereby the consumer is led to believe that the reseller is affiliated with the mark owner. See Rothman, *supra* note 14, at 187 (noting that “misrepresent[ing] a website . . . should be used as evidence of likely confusion”).

need (and cannot otherwise readily obtain) in order to match their desires to particular products.”<sup>41</sup> Indeed, the legislative history of the Lanham Act and related case law recognizes the need to protect consumers from passing off or otherwise confusing customers into purchasing goods that are not the genuine goods of the mark owner.<sup>42</sup> Trademarks serve to (1) foster competition in the marketplace;<sup>43</sup> (2) encourage manufacturers to maintain the quality of goods;<sup>44</sup> (3) “discourage[] those who hope to sell inferior products by capitalizing on a consumer’s inability quickly to evaluate the quality of an item offered for sale”;<sup>45</sup> (4) help consumers locate products and services more efficiently;<sup>46</sup> and (5) serve as a “species of advertising.”<sup>47</sup> And while trademark protection may have some anticompetitive consequences, “such protection may nevertheless remain justified so long as the mark improves the flow of otherwise indiscernible information concerning . . . the product to consumers, and . . . consumer desires to producers.”<sup>48</sup>

### C. *The Harsh Realities of Pursuing Justice*

Although it would appear that—based on nominative fair use and first sale/exhaustion principles—online secondary-sale merchants have a strong and valid affirmative defense against any claims of trademark infringement and should thus be free from interference by the mark owners, the reality of fighting these charges in court, or even battling take-down notices from

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<sup>41</sup> Lunney, *supra* note 19, at 369; *see also* 1 MCCARTHY, *supra* note 23, § 3:12 (“A trademark is not merely a symbol of good will but is often the most efficient agent for the very creation of good will and consumer acceptance.”).

<sup>42</sup> *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985); S. REP. NO. 79-1333, at 3 (1946); H. Peter Nesvold & Lisa M. Pollard, Essay, *Foreword: Half a Century of Federal Trademark Protection: The Lanham Act Turns Fifty*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 49, 49 (1996).

<sup>43</sup> S. REP. NO. 79-1333, at 4 (“To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.”). *See generally* Nesvold & Pollard, *supra* note 42, at 50.

<sup>44</sup> *Park 'N Fly*, 469 U.S. at 198 (“[T]rademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.”); 1 MCCARTHY, *supra* note 23, § 2:4; ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* § 25.3, at 547 (2003).

<sup>45</sup> SCHECHTER & THOMAS, *supra* note 44, § 25.3, at 547 (quoting *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 164 (1995)).

<sup>46</sup> *See, e.g., Qualitex Co.*, 514 U.S. at 163-64; *see also* SCHECHTER & THOMAS, *supra* note 44, § 25.3, at 547; William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 275 (1987).

<sup>47</sup> *Northam Warren Corp. v. Universal Cosmetic Co.*, 18 F.2d 774, 774 (7th Cir. 1927); 1 MCCARTHY, *supra* note 23, § 3:12.

<sup>48</sup> Lunney, *supra* note 19, at 431. “Where a trademark serves as a source of otherwise indiscernible information concerning a product, protecting the trademark enables consumers to connect their desires to a specific good on the store shelf.” *Id.* at 431-32.



Internet service providers (“ISPs”) and online auction sites, may be enough to shut down a secondary market business.<sup>49</sup> The ISPs and auction sites also may face accusations of contributory infringement should they refuse to remove listings for the allegedly offending goods.<sup>50</sup>

The roadblocks faced by small resellers who choose to defend themselves against the mark owners in court find the odds stacked against them even in getting to the courthouse steps. Even those who want to either proactively fight mark owners through declaratory judgment actions or defend themselves against infringement may not have the resources to do so.

Oftentimes, the small reseller is unable to afford an attorney to defend itself,<sup>51</sup> or if on the offensive, the stakes are too small for it to be economically feasible for an attorney to pursue a claim on behalf of the client.<sup>52</sup> One illustration of the hardships fighting these claims involves reseller Karen Dudnikov, who, along with her husband, Michael Meadors, owns an eBay online auction store called Tabber’s Temptations.<sup>53</sup> Shortly after Ms. Dudnikov began listing goods for sale on eBay, she started having to defend

<sup>49</sup> See Grinvald, *supra* note 14, at 653; Ina Steiner, *David Versus Goliath: eBay Sellers Take on Corporate America*, ECOMMERCEBYTES (Aug. 5, 2003), <http://www.ecommercebytes.com/cab/abn/y03/m08/i05/s02>.

<sup>50</sup> See *infra* Part II.D.

<sup>51</sup> Grinvald, *supra* note 14, at 647-48.

A trademark owner’s threat that it will sue the small business or individual if they do not comply with its demands is often enough economic pressure to force the small business or individual into compliance. Additionally, bullying occurs (when coupled with an unreasonable interpretation of rights) when trademark owners include a demand for attorney’s fees in their cease-and-desist letters—even if the recipient complies—or claims that attorney’s fees and costs will be awarded when the litigation against the small business or individual is found in favor of the large corporation (and the letter is often couched in terms that lead the recipient to conclude that the only outcome is that the large corporation will win). The small business or individual has no way of knowing that attorney’s fees are awarded only in rare instances of trademark infringement.

*Id.* (footnotes omitted).

<sup>52</sup> Melvin Simensky & Eric C. Osterberg, *The Insurance and Management of Intellectual Property Risks*, 17 CARDOZO ARTS & ENT. L.J. 321, 337 (1999).

One of the consequences of the soaring cost of litigation is that many businesses simply cannot afford the expense of bringing an infringement suit, even if attorneys’ fees may be recovered in the end. This problem is exacerbated by the fact that many significant technological innovations are developed by smaller businesses lacking the financial resources to sue larger companies which are likely to defend vigorously. Furthermore, many intellectual property lawyers are unwilling to litigate such cases on a contingency fee basis.

*Id.* (footnote omitted); see also Karen Dudnikov & Michael Meadors, *Tabberone’s Trademark & Copyright Abusers’ Hall of Shame*, TABBER’S TEMPTATIONS, <http://www.tabberone.com/Trademarks/trademarks.shtml> (last visited Sept. 9, 2012).

<sup>53</sup> Dudnikov v. Chalk & Vermilion Fine Arts, Inc., 514 F.3d 1063, 1068 (10th Cir. 2008); Steiner, *supra* note 49. Karen Dudnikov had given up her life as an accountant to run this business selling home-made and used goods online. *Id.*

herself against take-down notices submitted by the mark owners associated with the goods she was selling.<sup>54</sup> At various times, Ms. Dudnikov's auctions were shut down due to recurring take-down notices, even though each time she successfully defended the claim and had the item relisted.<sup>55</sup> But in 2003, Major League Baseball ("MLB") had eBay delist items containing various baseball team logos,<sup>56</sup> and was able to have some of Ms. Dudnikov's auctions shut down for several days.<sup>57</sup>

The attorneys with whom they spoke advised the couple either they had no case, or that it wasn't worth pursuing,<sup>58</sup> so Dudnikov and Meadors chose to bring a declaratory judgment action against MLB pro se, based on the trademark nominative fair use and copyright first sale doctrines.<sup>59</sup> Eventually, MLB agreed to settle the matter and have its complaints against Dudnikov's eBay account expunged.<sup>60</sup> The couple spent an enormous

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<sup>54</sup> Steiner, *supra* note 49; Dudnikov & Meadors, *supra* note 52; *see also Colorado Seamstress Sues Major League Baseball Over Right to Use Their Licensed Fabrics*, BASEBALL INFORMATION CENTER, <http://infoonbaseball.com/articles/issue19.php> (last visited Sept. 9, 2012) [hereinafter *Seamstress Sues*].

<sup>55</sup> *See* Dudnikov & Meadors, *supra* note 52.

<sup>56</sup> Karen Dudnikov & Michael Meadors, *Tabberone Strikes Back Again!*, TABBER'S TEMPTATIONS, <http://www.tabberone.com/Trademarks/HallOfShame/MLB/MLB.shtml> (last visited Sept. 9, 2012); Steiner, *supra* note 49; *see also* Letter from William G. Pecau, Steptoe & Johnson LLP, to Karen Dudnikov & Michael Meadors (Aug. 21, 2003), *available at* <http://www.tabberone.com/Trademarks/HallOfShame/MLB/ourlawsuit/Settlement.shtml>.

<sup>57</sup> Steiner, *supra* note 49. This was the fifth, billion-dollar company that had interfered with their eBay auctions and accused them of trademark or copyright infringement. *Id.* The couple had also fought back against Disney, who had previously contacted eBay to remove auction items, claiming that Dudnikov and Meadors were not selling licensed Disney products that Dudnikov had made out of copyrighted Disney fabric that had been legally purchased, and turned into aprons, tissue box holders, and comforters. *Id.* The case was settled, with Disney agreeing to stop their attempts to close down Dudnikov's and Meadors' online sale of products made with Disney fabric because the products made were not copyrightable works. *See* Letter from Mary Fossier on behalf of Disney Enters., Inc., to Karen Dudnikov & Michael Meadors (Feb. 3, 2003), *available at* <http://www.tabberone.com/Trademarks/DisneyLawsuit/Agreement.shtml>. Trademark infringement is not grounds for a takedown under Section 512 of the Copyright Act. *See* 17 U.S.C. § 512(c) (2006) (discussing copyright infringement but making no mention of trademark infringement).

<sup>58</sup> *See, e.g.*, Dudnikov & Meadors, *supra* note 52 ("We did consult lawyers and we were told we did not have a chance. So we ignored the lawyers and represented ourselves.").

<sup>59</sup> Dudnikov & Meadors, *supra* note 56; *see* Davidoff & Cie, S.A. v. PLD Int'l Corp., 263 F.3d 1297, 1301 (11th Cir. 2001) ("Under what has sometimes been called the 'first sale' or 'exhaustion' doctrine, the trademark protections of the Lanham Act are exhausted after the trademark owner's first authorized sale of that product."); *see also* 4 MCCARTHY, *supra* note 23, § 25:41. *But see* Au-Tomotive Gold Inc. v. Volkswagen of Am., Inc., 603 F.3d 1133, 1138-39 (9th Cir. 2010) (holding that the first sale doctrine did not apply to a manufacturer who attached lawfully purchased VW logos to marquee license plate frames due to post-purchase confusion). The Ninth Circuit distinguished Au-Tomotive Gold's use of the VW logo from other forms of resale in that "customers buy marquee license plates principally to demonstrate to the general public an association with Volkswagen." *Id.* at 1138.

<sup>60</sup> *See* Letter from William G. Pecau, Steptoe & Johnson LLP, to Karen Dudnikov & Michael Meadors, *supra* note 56.

amount of time researching the law, and lost sales every time their auctions were shut down.<sup>61</sup> In addition, the cease-and-desist letters continued from other mark owners.<sup>62</sup>

Karen Dudnikov chose to fight and publicized their struggle online against these large corporations.<sup>63</sup> Her inability to hire an attorney to represent them in her declaratory judgment action exemplifies one of several roadblocks facing resellers when they seek to defend their livelihoods.<sup>64</sup> And many small businesses would most likely choose to close shop rather than spend the energy and money required to defend themselves against the behemoths.<sup>65</sup> Due to the high costs of prolonged litigation, resellers who most likely would have a valid nominative fair use claim may not be able to defend themselves.<sup>66</sup> As noted by Professor William McGeeveran, several ways in which courts that do follow *New Kids on the Block v. News America Publishing, Inc.*<sup>67</sup> apply nominative fair use in a way to make it “less effective in delivering clear and swift resolutions that reduce chilling effects on speech.”<sup>68</sup>

Reseller-defendants may face the same fate as Veoh Networks, which, even though it was cleared of copyright infringement liability, was fatally wounded defending itself.<sup>69</sup> “Veoh is legal, but Veoh is dead—killed by rightsowner lawfare that bled it dry. Meanwhile, rightsowners wrongly assessed the legality of Veoh, but the worst consequence they suffered was overpaying their lawyers.”<sup>70</sup> Likewise, resellers may be dead right, but dead nonetheless if they attempt to fight big plaintiffs who are more concerned with shutting down competition than proving infringement.

## II. WAGING LAWFARE

In addition to using threatening cease-and-desist letters, mark owners have not been shy about pursuing their claims in court.<sup>71</sup> The most common

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<sup>61</sup> Steiner, *supra* note 49. At one point, Ms. Dudnikov had to again find accounting work. *Id.*

<sup>62</sup> Ms. Dudnikov’s and Mr. Meadors’ auctions continued to be shut down by, and they received threatening letters from Precious Moments, Wiggles, MGA Entertainment, and many others. *See* Dudnikov & Meadors, *supra* note 52.

<sup>63</sup> *See id.*

<sup>64</sup> *See supra* notes 51-52 and accompanying text.

<sup>65</sup> *See* Grinvald, *supra* note 14, at 663.

<sup>66</sup> McGeeveran, *supra* note 17, at 62-63.

<sup>67</sup> 971 F.2d 302 (9th Cir. 1992).

<sup>68</sup> McGeeveran, *supra* note 17, at 90.

<sup>69</sup> *See* Eric Goldman, UMG v. Shelter Capital: A Cautionary Tale of Rightsowner Overzealousness, TECH. & MKTG. LAW BLOG (Dec. 27, 2011), [http://blog.ericgoldman.org/archives/2011/12/umg\\_v\\_shelter\\_c.htm](http://blog.ericgoldman.org/archives/2011/12/umg_v_shelter_c.htm).

<sup>70</sup> *Id.*

<sup>71</sup> *See* McGeeveran, *supra* note 17, at 63-64.

suits brought against online resellers are claims of either infringement,<sup>72</sup> or false designation of origin or description<sup>73</sup> regarding the reseller's affiliation with the mark owner as an "authorized" distributor, often based on initial interest confusion.<sup>74</sup> Other claims are sometimes also alleged, including trademark dilution,<sup>75</sup> tortious interference with business relations,<sup>76</sup> copyright infringement,<sup>77</sup> and false advertising.<sup>78</sup>

#### A. *Claiming All Sorts of Confusion*

When asserting a claim of confusion as to affiliation, in her prima facie case, a plaintiff mark owner must demonstrate that (1) she is the owner of a registered mark; (2) the defendant has used a mark in commerce in connection with goods or services as an indicator of source or sponsorship;

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<sup>72</sup> 15 U.S.C. § 1114(1) provides relief for registered marks:

Any person who shall, without the consent of the registrant —  
 . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . .  
 shall be liable in a civil action by the registrant[.]

15 U.S.C. § 1114(1) (2006); *see also* SCHECHTER & THOMAS, *supra* note 44, at 636 n.4.

<sup>73</sup> Under 15 U.S.C. § 1125(a)(1),

Any person who, on or in connection with any goods or services. . . uses in commerce any word, term, name, symbol, or device. . . or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—  
 . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . .  
 shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

*Id.* § 1125(a).

<sup>74</sup> *See, e.g.,* *Mary Kay, Inc. v. Weber*, 601 F. Supp 2d 839, 846 (N.D. Tex. 2009). For more information about confusion regarding the reseller's affiliation with authorized distributors, *see Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350, 352 (9th Cir. 1969).

<sup>75</sup> 15 U.S.C. § 1125(c)(1) ("Subject to the principles of equity, the owner of a famous mark that is distinctive . . . shall be entitled to an injunction against another person who, at any time after owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the a famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.").

<sup>76</sup> *See, e.g.,* *Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co.*, 173 F.3d 725, 733 (9th Cir. 1999).

<sup>77</sup> *See infra* note 253 and accompanying text.

<sup>78</sup> *See Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964, 970 (10th Cir. 2002).

and (3) this use is likely to cause customer confusion.<sup>79</sup> Of these elements, the last is the key in any infringement suit.<sup>80</sup> Supposedly, “likelihood” is not the mere possibility of confusion; customer confusion must be “probable,”<sup>81</sup> and the likelihood of confusion must affect an “appreciable or substantial number of consumers.”<sup>82</sup> Each circuit uses a similar set of factors to make this determination.<sup>83</sup> The factors adopted by the Second Circuit in *Polaroid Corp. v. Polarad Electronics Corp.*<sup>84</sup> are typical of those used by other circuits.<sup>85</sup>

Resellers are usually accused of confusion as to affiliation or sponsorship<sup>86</sup>—that is, the consumer is likely to think that the reseller is an authorized distributor or affiliated with the mark owner, even if, upon visiting the

<sup>79</sup> See, e.g., *Dep’t of Parks & Recreation v. Bazaar del Mundo, Inc.*, 448 F.3d 1118, 1124 (9th Cir. 2006).

<sup>80</sup> *Bird v. Parsons*, 289 F.3d 865, 877 (6th Cir. 2002) (“Generally speaking, the key question in cases where a plaintiff alleges trademark infringement and unfair competition is whether the defendant’s actions create a likelihood of confusion as to the origin of the parties’ goods or services.”).

<sup>81</sup> *Rodeo Collection, Ltd. v. West Seventh*, 812 F.2d 1215, 1217 (9th Cir. 1987); SCHECHTER & THOMAS, *supra* note 44, § 29.1, at 638.

<sup>82</sup> *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44, 47 (2d Cir. 1978) (per curiam); SCHECHTER & THOMAS, *supra* note 44, § 29.1, at 639.

<sup>83</sup> See SCHECHTER & THOMAS, *supra* note 44, § 29.1, at 640.

<sup>84</sup> 287 F.2d 492 (2d Cir. 1961).

<sup>85</sup> *Id.* at 495; SCHECHTER & THOMAS, *supra* note 44, § 29.1, at 640.

Polaroid is a world-renowned manufacturer of photographic equipment, sheet-polarizing material, optical desk lamps, and other electronics products. *Polaroid*, 287 F.2d at 494. Polaroid sued Polarad Electronics (manufacturer of microwave devices and television-studio equipment) for trademark infringement due to the similarity of its name and the proximity of the goods the two corporations manufactured. *Id.* at 493-95. In ruling in favor of Polaroid, the Second Circuit listed eight factors to be used to determine whether there is a likelihood of confusion: (1) the strength of the plaintiff’s mark; (2) the degree of similarity between the plaintiff’s and the defendant’s marks; (3) the proximity of the products or services covered by the marks; (4) the likelihood that the plaintiff will bridge the gap; (5) evidence of actual confusion of consumers; (6) the defendant’s good faith in adopting the mark; (7) the quality of the defendant’s product or service; and (8) consumer sophistication. *Id.* at 495.

Other circuits have adopted their own, similar versions of the *Polaroid* factors. For example, the Tenth Circuit uses a six-factor test first delineated in *Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964, 972 (10th Cir. 2002), declaring that, for determining likelihood of confusion, courts in that circuit examine

(1) the degree of similarity between the marks; (2) the intent of the alleged infringer in adopting the mark; (3) evidence of actual confusion; (4) similarity of products and manner of marketing; (5) the degree of care likely to be exercised by purchasers; and (6) the strength or weakness of the marks.

*Id.*; see also *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1240 (10th Cir. 2006) (noting that “[n]o one factor is dispositive, and likelihood of confusion is a question of fact”).

<sup>86</sup> See, e.g., *Designer Skin, LLC v. S & L Vitamins, Inc.*, 560 F. Supp. 2d 811, 818 (D. Ariz. 2008) (where the mark owner argued “that the visible uses of its marks on the websites in close association with [the defendant’s] own logo” was a form of initial interest confusion). This claim failed on summary judgment. *Id.* at 827.

reseller's website, the consumer immediately realizes this is not the case.<sup>87</sup> As noted by Professors Mark Lemley and Mark McKenna, "'sponsorship' or 'affiliation' could refer to virtually any relationship between the parties," even ones that do not create any material confusion on the part of the consumer.<sup>88</sup> These terms are not defined in the Lanham Act, "so courts must interpret those terms and their interaction with the confusion requirement."<sup>89</sup>

In their assertions, mark owners often compare this initial interest confusion to a "bait and switch"—the plaintiff claims that the defendant has used the plaintiff's mark in a way that gains the consumers' initial atten-

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<sup>87</sup> See 15 U.S.C. § 1125(a)(1) ("Any person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof . . . which . . . is likely to . . . deceive as to the affiliation, connection, . . . or as to the origin, sponsorship, or approval of his or her goods, services . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act."). This is considered forward confusion, which occurs when the mark owner is arguing that "the alleged trademark infringer [is taking] advantage of the reputation and good will of a senior trademark owner by adopting a similar or identical mark." *Harlem Wizards Entm't Basketball, Inc. v. NBA Props., Inc.* 952 F. Supp. 1084, 1091 (D.N.J. 1997). The two other major forms of confusion—reverse and post-sale confusion—are less prevalent in claims by mark owners against internet resellers. In reverse confusion, "a larger, more powerful entity adopts the trademark of a smaller, less powerful trademark user and thereby causes confusion as to the origin of the senior trademark user's goods or services." *Id.* "Post-sale confusion occurs when use of a trademark leads individuals (other than the purchaser) mistakenly to believe that a product was manufactured by the trademark-holder." *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539, 549 (6th Cir. 2005). It can occur, in some courts' views, when a manufacturer offers a consumer a cheap knockoff of a more expensive Louis Vuitton bag; the buyer acquires the prestige of owning what appears to be the more expensive product. See *Malletier v. Dooney & Bourke, Inc.* 561 F. Supp. 2d 368, 384 n.112 (S.D.N.Y. 2008). And while the purchaser knows it is a knock-off of a Louis Vuitton bag, others seeing the purchaser with the bag are not aware of this, and instead associate the cheap knock-off with the mark owner's product. *Id.* at 384. In addition to the mark owner being associated with inferior goods,

[t]he creation of confusion in the post-sale context can be harmful in that if there are too many knockoffs in the market, sales of the originals may decline because the public is fearful that what they are purchasing may not be an original. Furthermore, the public may be deceived in the resale market if it requires expertise to distinguish between an original and a knockoff. Finally, the 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.

*Hermes Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000). For further discussion on post-sale confusion and the first sale doctrine with regard to resold goods, see David W. Barnes, *Free-Riders and Trademark Law's First Sale Rule*, 27 SANTA CLARA COMPUTER & HIGH TECH. L.J. 457, 485-90 (2011).

<sup>88</sup> See Lemley & McKenna, *supra* note 16, at 427.

<sup>89</sup> Grynberg, *supra* note 18, at 964; see also 15 U.S.C. § 1125(a) (2006).

tion.<sup>90</sup> Initial interest confusion relies on the notion that, due to being initially drawn to the competitor,

[e]ven though the consumer eventually may realize that the product is not the one originally sought, he or she may stay with the competitor. In that way, the competitor has captured the trademark holder's potential visitors or customers.

Even if the consumer eventually becomes aware of the source's actual identity, or where no actual sale results, there is nonetheless damage to the trademark. This damage can manifest itself in three ways: (1) the original diversion of the prospective customer's interest to a source that he or she erroneously believes is authorized; (2) the potential consequent effect of that diversion on the customer's ultimate decision whether to purchase caused by an erroneous impression that two sources of a product may be associated; and (3) the initial credibility that the would-be buyer may accord to the infringer's products—customer consideration that otherwise may be unwarranted and that may be built on the strength of the protected mark, reputation and [good will].<sup>91</sup>

Initial interest confusion is a controversial claim and has not been accepted by all circuits. On the one hand, the Ninth Circuit recognizes “that the use of another's trademark in a manner calculated ‘to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion, may be still an infringement.’”<sup>92</sup> The Fourth Circuit, however, describes it as “relatively new and sporadically applied” and has refused to consider the doctrine as a legitimate claim under the Lanham Act.<sup>93</sup>

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<sup>90</sup> See *Vail Assocs., Inc. v. Vend-Tel-Co.*, 516 F.3d 853, 872 (10th Cir. 2008) (“Initial interest confusion is a ‘bait and switch’ tactic that permits a competitor to lure consumers away from a service provider by passing off services as those of the provider, notwithstanding that the confusion is dispelled by the time of sale.”). For a synopsis of the case history of initial interest confusion, see Rothman, *supra* note 14, at 114-21. In spite of Rothman's fervent attack on the doctrine, initial interest confusion has unfortunately yet to meet its demise. *Id.* at 121-30.

<sup>91</sup> *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238-39 (10th Cir. 2006) (citations omitted); see also *Lamparello v. Falwell*, 420 F.3d 309, 315-16 (4th Cir. 2005) (“[T]he Lanham Act forbids a competitor from luring potential customers away from a producer by initially passing off its goods as those of the producer's, even if confusion as to the source of the goods is dispelled by the time any sales are consummated.”) (quoting *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996)); Deborah F. Buckman, *Initial Interest Confusion Doctrine Under Lanham Trademark Act*, 183 A.L.R. FED. 553, 578-82 (2003).

<sup>92</sup> *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.* 174 F.3d 1036, 1062 (9th Cir. 1999).

<sup>93</sup> *Lamparello*, 420 F.3d at 315-16. The First Circuit also rejects initial interest confusion. See *N. Light Tech., Inc. v. N. Lights Club*, 97 F. Supp. 2d 96, 113 (D. Mass. 2000) (noting that “initial confusion . . . is not cognizable under trademark law in the First Circuit.”) (citing *Astra Pharm. Products, Inc. v. Beckman Instruments, Inc.*, 718 F.2d 1201, 1207 (1st Cir. 1983)), *aff'd*, 236 F.3d 57 (1st Cir. 2001); see also Goldman, *supra* note 14, at 565-66 (“[Initial interest confusion] is predicated on multiple mistaken and empirically unsupported assumptions about searcher behavior. . . . [It is based on the unsupported assumption] that a searcher using a trademarked keyword is looking for the trademark owner (or, perhaps, some authorized licensee or secondary user.” (footnote omitted)). Professor Goldman discusses in detail the various reasons—other than trying to find the mark owner—for a consumer to be using the mark in question as a search term. *Id.* at 521-28.

The initial interest confusion doctrine “is at odds with the purpose, intent, and literal meaning of the Lanham Act”<sup>94</sup> and we should question the outright validity of the doctrine.<sup>95</sup> As Professor Jennifer Rothman argues,

[a]pplication of the initial interest confusion doctrine prevents comparative advertisements, limits information available to consumers, and shuts down speech critical of trademark holders and their products and services. The initial interest confusion doctrine undermines the free market system under a misguided notion that competition in and of itself is unfair.<sup>96</sup>

### B. *Acts of Aggression*

Encouraged by the expansion of trademark protection in the courts, mark owners have become increasingly aggressive in policing their marks.<sup>97</sup> Since “the middle part of the twentieth century, courts [have] expanded the range of actionable confusion beyond confusion over the actual source of a product—trademark law’s traditional concern—to include claims against uses that might confuse consumers about whether the trademark owner sponsors or is affiliated with the defendant[.]”<sup>98</sup> Courts are finding liability even when consumers “couldn’t possibly have been confused about the actual source of the defendants’ products.”<sup>99</sup>

The actionable confusion, according to these courts, was not confusion that would have led consumers to buy the wrong product, or even to wrongly think they were buying from the trademark owner. Rather, the theory in [the examples described by Professors Lemley and McKenna] was that consumers would think there was some relationship between the trademark owner and the defendant based on the defendant’s use of the trademark. The problem with this formulation is that it fails to specify the types of relationships about which confusion is relevant or the harm that supposedly flows from confusion about those relationships.<sup>100</sup>

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<sup>94</sup> Lisa M. Sharrock, *Realigning the Initial Interest Confusion Doctrine with the Lanham Act*, 25 WHITTIER L. REV. 53, 54 (2003); see also Rothman, *supra* note 14, at 108 (“The creation and application of initial interest confusion doctrine directly contravenes the Lanham Act, the goals underlying trademark protection, other intellectual property laws, and the First Amendment.”).

<sup>95</sup> Rothman, *supra* note 14, at 111 (arguing that “the doctrine is wrong as a matter of policy and . . . it represents an assault on the fundamental principles of trademark law”).

<sup>96</sup> *Id.* at 108.

<sup>97</sup> See generally Lemley & McKenna, *supra* note 16, at 416-21 (evinced that the recipients of cease-and-desist letters from mark owners—who claim consumers would wrongly assume that the mark owner had granted permission or otherwise sponsored the mark’s use by the defendant—usually cease using the mark, even when such use was most likely legitimate). “The recipients of all these threats . . . knew well that they had to take the asserted claims seriously because courts have sometimes been persuaded to shut down very similar uses.” *Id.* at 418.

<sup>98</sup> *Id.* at 414.

<sup>99</sup> *Id.* at 421.

<sup>100</sup> *Id.* at 421-22.



Resellers are often at the mercy of spurious trademark and copyright infringement claims, and some courts have ignored affirmative defenses in finding infringement.<sup>101</sup> As discussed *supra*, and as illustrated in the *Mary Kay* decision, some courts have accepted that confusion with regard to distribution of genuine goods is a valid form of trademark infringement, ignoring that there is no confusion as to the source of the goods—thus eviscerating the first sale affirmative defense.<sup>102</sup> These forms of confusion, however, were not envisioned to apply to a competitor's use of the mark to sell the mark owner's own goods.<sup>103</sup> Rather, it "results when a consumer seeks a particular trademark holder's product and instead is lured to the product of a competitor by the competitor's use of the same or a similar mark."<sup>104</sup>

Thus, in spite of the genuineness of the article sold through resellers, these online resale businesses face the prospect of infringement suits, due to courts' broadening interpretation of what constitutes actionable confusion.<sup>105</sup> By rejecting a first sale defense based on initial interest confusion—which lowers the bar for a finding of a likelihood of confusion and thus infringement liability—"courts have made it very difficult to resell goods online."<sup>106</sup> In essence, the ability to successfully claim initial interest confusion based on the distribution channel eviscerates the first sale/exhaustion defense for Internet resellers, even when any confusion ends before the sale is consummated.<sup>107</sup> For Amy Weber, this meant that her claim that she was

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<sup>101</sup> Grinvald, *supra* note 14, at 660-61.

<sup>102</sup> See *supra* notes 4-12, 86-91, and accompanying text.

<sup>103</sup> *Mary Kay, Inc. v. Weber*, No. 3:08-CV-0776-G, 2009 WL 2569070, at \*3 (N.D. Tex. Aug. 14, 2009).

<sup>104</sup> *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238 (10th Cir. 2006).

<sup>105</sup> Lunney, *supra* note 19, at 371, 385. Since 1958, "the law's traditional willingness to permit a considerable degree of confusion in order to leave room for competitive imitation vanished, and courts began to seize on the slightest evidence of confusion as proof of infringement." *Id.* at 385.

<sup>106</sup> Rothman, *supra* note 14, at 140-45.

<sup>107</sup> See Buckman, *supra* note 91, at 607-08.

selling genuine Mary Kay goods fell on deaf ears.<sup>108</sup> Such decisions seem contradictory to both congressional intent and Supreme Court precedent.<sup>109</sup>

### C. *Mixing It Up*

Mark owners have also sought to indirectly stifle resellers by accusing the resellers' web hosts of infringement through claims of contributory infringement.<sup>110</sup> ISPs and online auction sites would find it very useful if there were an Internet safe harbor provision in the Lanham Act similar to the one that currently exists for copyright owners.<sup>111</sup> Under Section 512 of the Copyright Act, if a rights holder notifies a service provider such as eBay that infringing copyrighted material is stored in its system, in order to be immune from a suit for monetary damages, the service provider must promptly remove the allegedly infringing work.<sup>112</sup> The limitations of copyright

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<sup>108</sup> *Mary Kay*, 2009 WL 2569070, at \*1, \*8. While most courts have not addressed Internet resale directly with regard to initial interest confusion, other courts have, with mixed results. *Compare* *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238-40 (10th Cir. 2006) (recognizing claim of initial interest confusion and noting that resellers' disclaimers cannot prevent damage from initial interest confusion) and *PACCAR Inc. v. TeleScan Techs., L.L.C.*, 319 F.3d 243, 256 (6th Cir. 2003) ("A disclaimer disavowing affiliation with the trademark owner read by a consumer after reaching the web site comes too late. This 'initial interest confusion' is recognized as an infringement under the Lanham Act."), *overruled on other grounds by* *KP Permanent Make-up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 121-23 (2004), with *Standard Process, Inc. v. Banks*, 554 F. Supp. 2d 866, 871 (E.D. Wis. 2008) (finding no initial interest confusion where trademark holder's unaltered products were available through reseller's website) and *S&L Vitamins, Inc. v. Austl. Gold, Inc.*, 521 F.Supp.2d 188, 201 (E.D.N.Y. 2007) (finding initial interest confusion cannot be established before determination of whether the reseller used the trademarks in a trademark sense).

<sup>109</sup> See *infra* notes 219-232 and accompanying text.

<sup>110</sup> Cf. John T. Cross, *Contributory Infringement and Related Theories of Secondary Liability for Trademark Infringement*, 80 IOWA L. REV. 101, 101-02 (1994); Elizabeth K. Levin, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability After Tiffany v. eBay*, 24 BERKELEY TECH. L.J. 491, 506 (2009).

<sup>111</sup> Levin, *supra* note 110, at 518-21.

<sup>112</sup> 17 U.S.C. § 512 states:

A service provider shall not be liable for monetary relief . . . for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider—

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstance from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement . . . responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

rights, however, should, in theory, thwart attempts to remove listings of genuine items for resale.<sup>113</sup> However, this copyright misuse leaves the mark owners vulnerable to lawsuits under Section 512(f) of the Digital Millennium Copyright Act (“DMCA”).<sup>114</sup>

The Copyright Act of 1976 provides copyright owners the exclusive right to reproduce, make adaptations, distribute, publicly display, and publicly perform their works.<sup>115</sup> Since photographing a three-dimensional copyrighted work results in a reproduction and adaptation of that work, photographing a Waterford vase, even for the purpose of posting the photograph in an advertisement selling the lamp, would theoretically infringe on the copyright owner’s reproduction and adaptation right, and avail the copyright owner of the Section 512 take-down provisions.<sup>116</sup>

There are, however several limitations on these exclusive rights,<sup>117</sup> including one which protects such activities. Congress created a narrow exception to the exclusive reproduction and adaptation rights in copyrighted

17 U.S.C. § 512(c)(1) (2006). The written notification required under § 512(c)(1)(C) must include (among other requirements):

- (ii) [i]dentification of the copyrighted work claimed to have been infringed . . .
- (iii) [i]dentification of the material that is claimed to be infringing . . . that is to be removed . . . and information reasonably sufficient to permit the service provider to locate the material.

\* \* \*

- (v) [a] statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law[, and]

- (vi) [a] statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

*Id.* § 512(c)(3).

<sup>113</sup> *See id.* § 512(f).

<sup>114</sup> *Id.*

Misrepresentations.—Any person who knowingly materially misrepresents under this section—

- (1) that material or activity is infringing, or
  - (2) that material or activity was removed or disabled by mistake or misidentification,
- shall be liable for any damages, including costs and attorneys’ fees, incurred by the alleged infringer . . . who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing, or in replacing the removed material or ceasing to disable access to it.

*Id.*

<sup>115</sup> *Id.* § 106.

<sup>116</sup> *See id.* §§ 106(1)–(2).

<sup>117</sup> The Copyright Act grants the owner of the copyright the exclusive rights of reproduction, adaptation, distribution, public performance, public display, and digital broadcasts of sound recordings. *See* 17 U.S.C. § 106 (2006). However, there are several exceptions to these exclusive rights, such as fair use (§ 107), first sale (§ 109) and compulsory licenses (§ 115).

works that have been lawfully reproduced in “useful article[s],” such as a lamp, or an article of clothing.<sup>118</sup> Section 113(c) of the Act declares that it is not an infringement of the reproduction right<sup>119</sup> for others to make and distribute pictures or photos of a useful article, such as our hypothetical Tiffany lamp, in connection with ads or commentaries related to the distribution or display of such articles, so long as the lamp has been offered for sale or distributed to the public.<sup>120</sup> Consequently, it is lawful for a furniture store to feature a picture in a news ad or catalog of the lamp whose base is a statue, even though that would involve making a two-dimensional photographic reproduction of the statue. And, despite MLB’s protestations, it was lawful as a matter of copyright law for Karen Dudnikov to display a photograph of MLB-logo items on her listing web page.<sup>121</sup> Since the photographs may be used to advertise goods for sale, this use should not expose the reseller to trademark infringement liability; otherwise Section 113 of the Copyright Act is meaningless.<sup>122</sup>

Yet mark owners persist in bullying resellers to remove photographs of their items from websites based on a trademark likelihood of confusion claim, eviscerating the exception delineated in Section 113.<sup>123</sup> For example, Standard Process separately sued two resellers of dietary supplements—Total Health Discount<sup>124</sup> and chiropractor Scott J. Banks<sup>125</sup>—for trademark infringement, based in part on their use of photographs of Standard Process’s products that were being resold online by the defendants.<sup>126</sup>

Standard Process sent cease-and-desist letters to the two defendants, stating that use of Standard Process’s photographs violated trademark law,<sup>127</sup> and the defendants complied by removing the product photo-

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<sup>118</sup> *Id.* § 113.

<sup>119</sup> *Id.* § 106(1).

<sup>120</sup> *Id.* § 113(c) (“In the case of a work lawfully reproduced in useful articles that have been offered for sale or other distribution to the public, copyright does not include any right to prevent the making, distribution, or display of pictures or photographs of such articles in connection with advertisements or commentaries related to the distribution or display of such articles, or in connection with news reports.”).

<sup>121</sup> *See id.* Of course this presupposes that the manufacture of the utilitarian article is a lawful reproduction of the work. If the maker of the lamps never secured permission to use the statues as lamp bases, then the Section 113(c) exception does not apply. *Id.*

<sup>122</sup> *See id.*

<sup>123</sup> *See* Rebecca Tushnet, *Supplemental Complaint: Internet Resale Case Survives Summary Judgment*, REBECCA TUSHNET’S 43(B)LOG (June 12, 2008), <http://tushnet.blogspot.com/2008/06/supplemental-complaint-internet-resale.html>; *see also* Standard Process, Inc. v. Total Health Disc., Inc., 559 F. Supp. 2d 932, 936 (E.D. Wis. 2008); Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866, 868 (E.D. Wis. 2008).

<sup>124</sup> *Total Health*, 559 F. Supp. 2d at 935-36.

<sup>125</sup> *Banks*, 554 F. Supp. 2d at 868.

<sup>126</sup> *Total Health*, 559 F. Supp. 2d at 936; *Banks*, 554 F. Supp. 2d at 868.

<sup>127</sup> *Total Health*, 559 F. Supp. 2d at 936; *Banks*, 554 F. Supp. 2d at 868.

graphs.<sup>128</sup> Yet in addition to Section 113, the trademark first sale doctrine includes the ability to “stock, *display*, and resell”; posting photographs of products online amounts to displaying the products.<sup>129</sup> There was no reason the defendants should have removed the photographs. Their removal, according to Professor Rebecca Tushnet, is “caving to bullying” and unwarranted.<sup>130</sup>

Since the first sale doctrine was originally borrowed from copyright law,<sup>131</sup> courts should consider that, since copyright law does not limit the right to use photographs of copyrighted material to advertise the sale of useful articles,<sup>132</sup> the same use should not be grounds for a trademark infringement claim. The evident purpose is to allow further sales in commerce,<sup>133</sup> and the same limitation should be recognized with regard to trademark infringement claims. Moreover, product photographs can actually help mark owners identify counterfeit products.<sup>134</sup> So, ironically, by creating an environment in which product photographs cause liability, mark owners make it even more difficult—for themselves and consumers—to identify counterfeit products.<sup>135</sup>

Of course, a major motive for removing photographs from the reseller’s auction listings is that this will hurt sales. “[D]etailed information and photographs . . . help entice buyers.”<sup>136</sup> eBay even lists as one of its

<sup>128</sup> *Total Health*, 559 F. Supp. 2d at 936; *Banks*, 554 F. Supp. 2d at 868. Banks even agreed to a permanent injunction prohibiting him from putting photographs of Standard Process’ products on his website or in his email solicitations. *Banks*, 554 F. Supp. 2d at 870.

<sup>129</sup> *See* *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam) (emphasis added) (“It is the essence of the ‘first sale’ doctrine that a purchaser who does no more than stock, display, and resell a producer’s product under the producer’s trademark violates no right conferred upon the producer by the Lanham Act.”); *see also* *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1241 (10th Cir. 2006).

<sup>130</sup> Tushnet, *supra* note 123. In *Standard Process, Inc. v. Banks*, the court found that Banks’ website did not impermissibly give the impression he was an authorized dealer because, in addition to posting disclaimers, he “does not include any pictures . . .” 554 F. Supp. 2d at 869. It is unfortunate that the cases discussed imply that photographs connote sponsorship or affiliation, even though under the Trademark first sale doctrine, removing photographs is unwarranted.

<sup>131</sup> *S&L Vitamins, Inc. v. Austl. Gold, Inc.*, 521 F. Supp. 2d 188, 202 (E.D.N.Y. 2007) (citing *Luxottica Grp. S.p.A. v. Bausch & Lomb Inc.*, 160 F. Supp. 2d 545, 552 (S.D.N.Y. 2001)).

<sup>132</sup> 17 U.S.C. § 113(c) (2006); *see also* Rebecca Tushnet, *Australian Gold-Digging: Reseller of Genuine Goods Receives Mixed Ruling*, REBECCA TUSHNET’S 43(B)LOG (Oct. 11, 2007), <http://tushnet.blogspot.com/2007/10/australian-gold-digging-reseller-of.html>.

<sup>133</sup> S. REP. NO. 105-190, at 1 (1998); Levin, *supra* note 110, at 514.

<sup>134</sup> Michelle C. Leu, Comment, *Authenticate This: Revamping Secondary Trademark Liability Standards to Address A Worldwide Web of Counterfeits*, 26 BERKELEY TECH. L.J. 591, 616-17 (2011); *Four Easy Tips to Spot Counterfeit MAC Products: eBay Guides*, EBAY, <http://reviews.ebay.com/Four-easy-tips-to-spot-Counterfeit-MAC-Products?ugid=1000000004884212> (last visited Sept. 9, 2012) [hereinafter *Four Easy Tips*].

<sup>135</sup> *See* Leu, *supra* note 134, at 616-17; *Four Easy Tips*, *supra* note 134.

<sup>136</sup> Phil Hall, *Let’s Make an E-Deal*, HARTFORD COURANT, May 18, 2008, at D1 (quoting a man who sold a tanning bed on eBay).

most effective strategies the use of “photos from a variety of angles.”<sup>137</sup> If mark owners were able to claim that a reseller’s use of photographs constitutes trademark infringement, this would be an end run around Section 113 of the Copyright Act and eviscerate any protection it affords.<sup>138</sup>

We can see an illustration of this misclaiming of rights in Disney’s actions against Karen Dudnikov. In 2002, Disney sought to remove items from Ms. Dudnikov’s website that were crafted from legally purchased bulk fabric<sup>139</sup> that contained licensed Disney characters.<sup>140</sup> Eventually Disney

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<sup>137</sup> *Top 10 Tips*, EBAY, <http://pages.ebay.com/sellerinformation/howtosell/top10.html> (last visited Sept. 9, 2012).

<sup>138</sup> See 17 U.S.C. § 113(c) (2006).

<sup>139</sup> Complaint & Plaintiffs’ Motion for Declaratory Judgment ¶¶ 3-6, *Tabbers Temptations v. Disney Enters.*, No. 02-WM-2402 (PAC), (D. Colo. Dec. 24, 2002), available at <http://www.tabberone.com/Trademarks/DisneyLawsuit/ourlawsuit/complaint.html>.

15. Based upon information and belief, the defendant aggressively protects the copyrighted images. These actions include policing of flea markets, craft shows, craft malls, and Internet auctions sites. At crafts shows and flea markets, when hand-crafted items are found that use the fabrics portraying the copyrighted images owned by the defendant, cease and desist letters are distributed. On the auction sites, the auctions featuring similar fabric items are terminated at the request of the defendant.

16. Based upon information and belief, Disney counsel knows, or reasonably should know, the fabric items are not derivatives as defined by federal courts, federal law and recognized authorities on copyrights. The intimidation tactics used by Disney are therefore illegal and immoral. They rely on the fact people can’t fight back because of the potential enormous legal expense.

17. Based upon information and belief, on September 4, 2002, the defendant requested eBay® terminate three auction listing [sic] by Tabberone, falsely alleging to eBay® in an affidavit that the articles offered on these auctions were infringing items.

18. When asked, a representative of the defendant, a Deborah Perry, responded that the auctions were terminated because the fabric items were considered to be derivatives and therefore infringing upon the copyrights held by the defendant.

*Id.* ¶¶ 15-18.

<sup>140</sup> Disney licenses the sale of bulk fabric containing Disney characters, which is then sold through authorized distributors such as Amazon.com and Joann Fabrics. Search Results for “Disney Licensed Fabric” in Arts, Crafts, and Sewing, AMAZON.COM, [http://www.amazon.com/gp/search/ref=sr\\_nr\\_i\\_0?rh=k%3Adisney+licensed+fabric%2Ci%3Aarts-crafts&keywords=disney+licensed+fabric&ie=UTF8&qid=1315085872](http://www.amazon.com/gp/search/ref=sr_nr_i_0?rh=k%3Adisney+licensed+fabric%2Ci%3Aarts-crafts&keywords=disney+licensed+fabric&ie=UTF8&qid=1315085872) (last visited Sept. 9, 2012); Search Results for “Disney Fabric”, JOANN.COM, [http://www.joann.com/search/\\_disney\\_fabric](http://www.joann.com/search/_disney_fabric) (last visited Sept. 9, 2012). Some sites selling Disney licensed fabric even advertise the projects that can be made with the fabric. See, e.g., *Disney Fabrics: Little Mermaid, Cars, Toy Story and Other Favorite Disney Characters*, DISNEY FABRICS, <http://www.disneyfabrics.com> (last visited Sept. 9, 2012). That Disney licenses the production of these fabrics can easily be seen as an implied license by Disney for purchasers to cut and use the fabric to make various items of clothing, quilts, and knick-knacks. For further reading on implied licenses, see Michael Grynberg, *Property Is a Two-Way Street: Personal Copyright Use and Implied Authorization*, 79 *FORDHAM L. REV.* 435, 454-58 (2010). In his article, Professor Grynberg argues that “courts should appreciate the reasonable expectations of consumers in their control of personal property used to interact with the protected works.” *Id.* at 435-36. Karen Dudnikov used legally purchased Disney licensed fabric in her creations:

backed down and agreed that Ms. Dudnikov's creations from licensed Disney fabric were not infringing uses.<sup>141</sup> Disney claimed copyright infringement to shut down her eBay auction, yet Disney's objection to Ms. Dudnikov displaying her crafts on her website was in direct conflict with the exemption under Section 113.<sup>142</sup> Thus, despite a demonstrably false copyright infringement claim, manufacturers such as Disney attempt to use the take-down provisions in Section 512 of the Copyright Act to remove online auction items listings.<sup>143</sup>

Misusing copyright and trademark law points to a single objective: to decrease the competition of secondary markets.<sup>144</sup> Small dealers are faced with either defending themselves or ceasing operations.<sup>145</sup> And as previously discussed, even when a successful defense is likely, the costs of such litigation can be prohibitively expensive, and even the threat of litigation leads the secondary market merchants to abandon their online ventures.<sup>146</sup>

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22. The defendant, directly and through licensees, has released innumerable different copyrighted fabrics in the last few years through an estimated ten thousand national fabric outlets including Wal-Mart, Hancock Fabrics, and Joann Fabrics. It was the intention of the defendant that the fabric be cut, shaped, and sewn into fabric items such as pillows, bedding, wearing apparel, accessories, etc. There is no other purpose for selling uncut fabric.

23. The Plaintiffs lawfully purchased the copyrighted fabric from retail outlet sources. Since the plaintiffs use of the copyrighted fabric was consistent with the intended purpose of the sale of the fabric, the subsequent sales of the fabric items falls wholly under the First Sale Doctrine.

Complaint & Plaintiffs' Motion for Declaratory Judgment, *supra* note 139, ¶¶ 22-23.

<sup>141</sup> Letter from Mary Fossier on behalf of Disney Enters., Inc. to Karen Dudnikov & Michael Meadors, *supra* note 57 ("You [TabberOne] represent that you have already stopped and agree that in the future you will no longer make or use copies of [Disney Enterprises, Inc.] copyrighted and/or trademark characters (or other intellectual properties) in connection with your business except it is understood that you make and sell hand-crafted items from licensed fabric bearing [Disney] properties and will use photographs, including close-up shots of the licensed fabric used to make the item, as reasonably necessary to show the item for sale in a particular auction and to describe the item as being made from licensed Disney fabric.").

<sup>142</sup> Complaint & Plaintiffs' Motion for Declaratory Judgment, *supra* note 139, ¶ 6; *see* 17 U.S.C. § 113(c). Disney's actions could lead to lawsuits similar to Stephanie Lenz' against Universal Music Corporation, where she claimed that her fair use of Prince's song "Let's go Crazy"—played briefly in the background of a video of her baby dancing—should have been considered by Universal's attorneys before filing their take-down notice with YouTube. *See* Wilson, *supra* note 14, at 616.

<sup>143</sup> Complaint & Plaintiffs' Motion for Declaratory Judgment, *supra* note 139, ¶ 6; *see also* Standard Process, Inc. v. Total Health Disc., Inc., 559 F. Supp. 2d 932, 936-37 (E.D. Wis. 2008); Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866, 868 (E.D. Wis. 2008); Tushnet, *supra* note 123.

<sup>144</sup> *See* Grinvald, *supra* note 14, at 650-51.

<sup>145</sup> *See id.* at 647.

<sup>146</sup> *See supra* notes 51-52 and accompanying text.

#### D. *Further Pursuits*

In addition to attacking resellers, in their aggressive pursuit to shut down the Internet resale market, mark owners have also taken their fight to ISPs and online auction sites, alleging contributory infringement based on resellers' use of these sites to advertise the mark owners' goods.<sup>147</sup> The Supreme Court has held that

[e]ven if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. . . . [I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.<sup>148</sup>

In their suits, mark owners allege that auction sites are not doing enough to stop counterfeiters; however, the mark owners also have the objective of removing genuine goods from this alternative distribution channel.<sup>149</sup> For example, in 2002, Tiffany & Co., the well-known jewelry company, began pressuring eBay to summarily remove Tiffany goods that met some general criteria—such as merchants selling more than five items—alleging that any Tiffany items sold in bulk outside Tiffany's normal distribution chain had to be counterfeit.<sup>150</sup> When eBay refused to do so, Tiffany sued, contending that eBay was “facilitating and advertising the sale of ‘Tiffany’ goods that turned out to be counterfeit.”<sup>151</sup>

eBay was successful in defending both direct and indirect infringement claims based on the defenses of nominative fair use<sup>152</sup> and lack of control over the merchants who use the site.<sup>153</sup> The Second Circuit declined to find eBay contributorily liable, stating “that eBay's practice was promptly to remove the challenged listing from its website, warn sellers and buyers,

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<sup>147</sup> See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 101 (2d Cir.), cert. denied, 131 S. Ct. 647 (2010).

<sup>148</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.* 456 U.S. 844, 853-54 (1982).

<sup>149</sup> See, e.g., *Tiffany*, 600 F.3d at 98.

<sup>150</sup> This allegation was rejected by both the district court and on appeal. *Id.* at 109 n.13.

<sup>151</sup> *Id.* at 101. Tiffany claimed these actions “constituted direct and contributory trademark infringement, trademark dilution, and false advertising.” *Id.*

<sup>152</sup> *Id.* at 103 (agreeing “with the district court that eBay's use of Tiffany's mark on its website and in sponsored links was lawful. eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. And none of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website.”).

<sup>153</sup> *Id.* at 106, 109 (holding that eBay was not contributorily liable because it had not continued “to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement” (quoting *Inwood Labs., Inc.*, 456 U.S. at 854)).



cancel fees it earned from that listing, and direct buyers not to consummate the sale of the disputed item.”<sup>154</sup>

While the court found that eBay did possess general knowledge that counterfeit items were listed on its website, it held that under the Supreme Court test outlined in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,<sup>155</sup> generalized knowledge was not sufficient “to impose upon eBay an affirmative duty to remedy the problem.”<sup>156</sup> Other websites have also successfully defended themselves against similar suits.<sup>157</sup>

In spite of winning in court, these websites want to avoid suits for contributory infringement, and will take an unnecessarily strong conservative approach regarding accused listings.<sup>158</sup> The hosts want to ensure that they are viewed merely as “conduits” between the buyer and seller with no direct control over the listed goods,<sup>159</sup> and will usually remove listings based on any accusation by the mark owner.<sup>160</sup> If it is later proved (by the entity listing the good for sale) that it is indeed a genuine good and there is no confusion as to “distribution channel” affiliation, the item is relisted.<sup>161</sup> This cycle

<sup>154</sup> *Id.* at 106.

<sup>155</sup> 456 U.S. 844, 853-54 (1982).

<sup>156</sup> *Tiffany*, 600 F.3d at 107 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 508 (S.D.N.Y. 2008), *aff'd in part*, 600 F.3d 93 (2d Cir. 2010)). “The [district] court reasoned that *Inwood*’s language explicitly imposes contributory liability on a defendant who ‘continues to supply its product [—in eBay’s case, its service—] to one whom it knows or has reason to know is engaging in trademark infringement.’” *Id.* (quoting *Tiffany*, 576 F. Supp. 2d at 508).

<sup>157</sup> *See, e.g.*, *GMA Accessories, Inc. v. BOP, LLC*, 765 F. Supp. 2d 457, 465 (S.D.N.Y. 2011) (holding that the plaintiff’s “allegation of constructive knowledge . . . based upon the federal registration [did] not establish that Electric Wonderland knew or had reason to know of the [Plaintiff’s] trademark”); *Sellify Inc. v. Amazon.com, Inc.*, No. 09 Civ. 10268(JSR), 2010 WL 4455830, at \*4 (S.D.N.Y. Nov. 4, 2010) (finding that there was “no evidence that Amazon had particularized knowledge of, or direct control over” infringing material and promptly acted when it received a demand letter from the plaintiff); *see also* *1-800 Contacts, Inc. v. Lens.com, Inc.*, 755 F. Supp. 2d 1151, 1184 (D. Utah 2010). “For contributory trademark infringement liability to lie’ with a service provider, however, it ‘must have more than a general knowledge or reason to know that its service is being used to [infringe]. Some contemporary knowledge of which particular [acts] are infringing or will infringe in the future is necessary.’” *Id.* (quoting *Tiffany*, 600 F.3d at 107). Importantly, “the doctrine of contributory trademark infringement should not be used to require defendants to refuse to provide a product or service to those who merely might infringe the trademark.” *1-800 Contacts*, 755 F. Supp. 2d at 1184 (quoting *Tiffany*, 576 F. Supp. 2d at 509-10).

<sup>158</sup> *See, e.g.*, *Tiffany*, 600 F.3d at 98-99.

<sup>159</sup> *See Sellify*, 2010 WL 4455830, at \*4 (“[A] service provider may be liable for contributory infringement only when it has ‘[d]irect control . . . of the instrumentality used by a third party to infringe’ on the plaintiff’s trademark.” (second alteration in original) (quoting *Tiffany*, 600 F.3d at 104-05)).

<sup>160</sup> *See Tiffany*, 600 F.3d at 103; *cf. Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093 n.14 (C.D. Cal. 2001) (describing eBay’s process of searching for and removing infringing listings).

<sup>161</sup> *Cf. Tiffany*, 576 F. Supp. 2d at 474, 517 (noting that “*Tiffany* has occasionally been wrong [in alleging that an item listed on eBay was counterfeit] and later requested that listings be reinstated”). The Second Circuit noted that, since a substantial number of authentic Tiffany goods are sold on eBay, “[r]educing or eliminating the sale of all second-hand Tiffany goods, including genuine Tiffany pieces,

of removing/disputing/relisting, however, costs the resellers of genuine goods time, money, and frustration<sup>162</sup> and creates added burdens to both the reseller and the auction site, stifling the sale of goods for both parties.<sup>163</sup> Under the eBay model, every time an item is listed, the auction site earns a fee, and another fee is earned when the item is sold.<sup>164</sup> Yet when a “take down” occurs, the listing fee is returned to the seller, depriving the host of the fee for a legitimate good.<sup>165</sup> If the reseller eventually gives up due to the burden of constantly having to defend legitimate auction listings to the host, then both the reseller and the host lose the income that is generated from the listing and sale of the good.<sup>166</sup>

A clearly defined and strong trademark first sale doctrine, however, would give auction hosting sites less concern over potential lawsuits by mark owners who don’t like their items being sold outside their authorized distribution channels.<sup>167</sup>

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through eBay’s website would benefit Tiffany in at least one sense: It would diminish the competition in the market for genuine Tiffany merchandise.” *Tiffany*, 600 F.3d at 98.

<sup>162</sup> See, e.g., *Tiffany*, 576 F. Supp. 2d at 517 n.39. The district court noted that,

[i]n addition, it is certainly possible that other listings have been erroneously reported. Tiffany refuses to authenticate items without proof that the items were purchased from a Tiffany store. Several sellers have complained to Tiffany that their items were inappropriately reported, only to have Tiffany refuse to offer any meaningful way of validating their legitimacy.

*Id.*

<sup>163</sup> An additional burden on the seller is recreating the listing. See *Why Did eBay Remove My Listing?*, EBAY, <http://pages.ebay.com/help/sell/questions/listing-ended.html> (last visited Sept. 9, 2012) (“If we agree that your item was removed in error, you can relist it. Unfortunately, you’ll have to recreate the listing from scratch.”).

<sup>164</sup> *Fees for Selling on eBay*, EBAY, <http://pages.ebay.com/help/sell/fees.html> (last visited Sept. 9, 2012) (“The basic cost of selling an item is the insertion fee plus the final value fee. . . . When you list an item on eBay, you’re charged an insertion fee. If the item sells, you’re also charged a final value fee.”).

<sup>165</sup> *Why Did eBay Remove My Listing?*, *supra* note 163 (“If we removed your listing because of a policy violation, we may or may not refund your fees for that listing, depending on the policy you violated and whether you’ve violated our policies in the past. If we refund your fees, all fees related to the removed listing will be automatically credited to your account within one billing cycle.”).

<sup>166</sup> *Cf. Tiffany*, 576 F. Supp. 2d at 516 (“In addition to removing the [allegedly offending] listing, eBay also warned sellers and buyers, cancelled all fees associated with the listing, and directed buyers not to consummate the sale of the listed item.”).

<sup>167</sup> “[T]rademark law needs a theory of trademark injury that distinguishes harm to legitimate interests the law should protect from a mere desire to capture a benefit enjoyed by another.” Lemley & McKenna, *supra* note 14, at 137.

### III. GETTING DEFENSIVE

It has been repeatedly acknowledged that the producer of a good cannot prevent others from using the good's mark to truthfully describe the good.<sup>168</sup> This basic belief is the foundation for both nominative fair use and first sale defenses, and "reflects the simple insight that anybody should be free to refer to goods and services by their brand names."<sup>169</sup>

#### A. *Repackaged, Repaired, Resold*

There are several ways to use another's mark in commerce which do not constitute infringement. These include, among others,<sup>170</sup> (1) the vendor is selling repackaged goods; (2) the vendor is selling used or repaired goods; (3) or the vendor is reselling a genuine good.<sup>171</sup>

While using a mark to identify repackaged goods may be done in a non-infringing way, the repackager does not receive absolute protection under the first sale doctrine—the repackaging "can present a non-trivial harm to the producer's good will, and can deceive consumers who, in addition to identifying the trademark, have come to expect or rely upon a particular type of packaging in their purchasing decisions."<sup>172</sup>

When a "reseller's repackaging interferes with the trademark owner's ability to control the quality of its products . . . two harms can arise: harm to the consuming public in the form of deception and harm to the trademark owner in the form of loss of [good will]."<sup>173</sup> Consequently, as packaging becomes more and more important in swaying a potential consumer's purchasing decision, shoddy packaging may cause increasing harm to the mark owner's good will, resulting in a higher likelihood of trademark infringement liability.<sup>174</sup>

In order to avoid Lanham Act liability, when sellers purchase genuine goods and then repackage the goods for resale, these resellers generally

<sup>168</sup> See, e.g., *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 307-08 (9th Cir. 1992); Grynberg, *supra* note 18, at 956.

<sup>169</sup> Grynberg, *supra* note 18, at 956.

<sup>170</sup> Other defenses that are not relevant to this Article include comparative fair use, 15 U.S.C. § 1125(c)(3)(A) (2006), descriptive fair use, *id.*, and geographic restrictions, *id.* § 1115(b)(4). See generally *New Kids on the Block*, 971 F.2d at 306-07 (defining comparative and descriptive fair use); *Burger King of Fla., Inc. v. Hoots*, 403 F.2d 904, 907 (7th Cir. 1968) (describing geographic restrictions on the use of a registered mark).

<sup>171</sup> Justin D. Swindells, *Repackaging Original Trademarked Goods: Trademark Exhaustion or Consumer Confusion?*, 7 FED. CIR. B.J. 391, 391-92 (1997).

<sup>172</sup> *Id.* at 393.

<sup>173</sup> *Id.* at 402.

<sup>174</sup> *Id.* at 401-02. Mr. Swindells argues for a repackaging exception to the first sale/exhaustion doctrine. See *id.* at 409-16.

must (1) disclose that they have repackaged the goods; (2) include their own name; (3) provide notice on the package that they are not affiliated with the manufacturer; and (4) must not give “undue prominence” to the good’s mark.<sup>175</sup> These rules for repackaged goods illustrate the underlying philosophy governing all sellers and resellers—an obligation to tell the truth regarding the source of the goods.<sup>176</sup>

Other resellers repair goods and then resell them with the original trademark on the goods or the packaging.<sup>177</sup> A reseller who is selling a repaired good “has the right to resell the original product with the original trademark attached, as long as he tells the truth about the origin of the repaired goods and about his responsibility for any repairs.”<sup>178</sup> And just as a reseller must state that repackaged goods have been repackaged, a reseller of repaired goods must state that they have been repaired.<sup>179</sup> At some point, however, repairs may be so extensive that the product “cannot properly be considered the same any longer”<sup>180</sup> and the mark no longer truthfully describes the goods attached to it.

#### B. *Trademark Nominative Fair Use*

Supposedly, “[u]se of the mark alone is not sufficiently probative of” an intent to deceive the public into believing that the mark owner endorsed or somehow supported the defendant’s products or services.<sup>181</sup> Accordingly,

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<sup>175</sup> SCHECHTER & THOMAS, *supra* note 44, § 31.1.2, at 731. In the foundational nominative fair use case of *Prestonettes, Inc. v. Coty*, the Supreme Court recognized that when a “mark is used in a way that does not deceive the public,” there is “no such sanctity in the word as to prevent its being used to tell the truth.” *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924); *see also* *Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1086 (9th Cir. 1998) (holding that providing notice that a good was repackaged is necessary to prevent customer confusion).

<sup>176</sup> *See* *Prestonettes*, 264 U.S. at 368.

<sup>177</sup> *Barnes, supra* note 87, at 482-83, 486.

<sup>178</sup> *Id.* at 486.

<sup>179</sup> SCHECHTER & THOMAS, *supra* note 44, § 31.1.2, at 732; *see also* *Nitro Leisure Prods., L.L.C. v. Acushnet Co.*, 341 F.3d 1356, 1361 (Fed. Cir. 2003) (“The Supreme Court acknowledged that, in some cases, used and repaired goods can be sold under the trademark of the original manufacturer, without ‘deceiv[ing] the public,’ so long as the accused infringer had attempted to restore ‘so far as possible’ the original condition of the goods and full disclosure is made about the true nature of the goods, for example, as ‘used’ or ‘repaired.’” (alteration in original) (quoting *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947))); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 24 cmt. d (1995) (“One may use another’s mark in marketing genuine goods that are used, repaired, reconditioned, or altered if consumers are not likely to be confused into believing that the goods are new or in their original form or that the alterations were performed or approved by the trademark owner.”).

<sup>180</sup> SCHECHTER & THOMAS, *supra* note 44, § 31.1.2, at 732; *see also* *Champion Spark Plug*, 331 U.S. at 129 (“Cases may be imagined where the reconditioning or repair would be so extensive or so basic that it would be a misnomer to call the article by its original name, even though the words ‘used’ or ‘repaired’ were added.”).

<sup>181</sup> *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 227 (3d Cir. 2005).

nominative fair uses are actions outside of trademark law,<sup>182</sup> and a defendant has a right to use a plaintiff's mark to truthfully describe the plaintiff's goods using the plaintiff's mark.<sup>183</sup> In his opinion in *New Kids on the Block*, Judge Alex Kozinski declared that courts

may generalize a class of cases where the use of the trademark does not attempt to capitalize on consumer confusion or to appropriate the cachet of one product for a different one. Such nominative use of a mark—where the only word reasonably available to describe a particular thing is pressed into service—lies outside the strictures of trademark law: Because it does not implicate the source-identification function that is the purpose of trademark, it does not constitute unfair competition; such use is fair because it does not imply sponsorship or endorsement by the trademark holder.<sup>184</sup>

Yet in spite of its 20-year history, the nominative fair use defense has mostly been confined to the Third, Fifth, and Ninth Circuits, and is not well understood in any of them.<sup>185</sup> Indeed, in the Ninth Circuit, nominative fair use is not an affirmative defense; rather, it *replaces* likelihood of confusion in the plaintiff's prima facie case.<sup>186</sup> The Ninth Circuit declares that, in asserting nominative fair use, a defendant “need only show that it used the mark to refer to the trademarked good,”<sup>187</sup> having the burden of proving that (1) the product or service in question is one not readily identifiable without the use of the trademark; and (2) only so much of the mark is used as is reasonably necessary to identify the product or service.<sup>188</sup> “The burden then reverts to the plaintiff to show a likelihood of confusion,”<sup>189</sup> that the user has acted in a way “that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.”<sup>190</sup> As noted *supra*, this

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<sup>182</sup> Grynberg, *supra* note 18, at 957.

<sup>183</sup> *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 306 (9th Cir. 1992).

<sup>184</sup> *Id.* at 307-08.

<sup>185</sup> See *Century 21 Real Estate*, 425 F.3d at 218.

<sup>186</sup> *E.g.*, *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1175 (9th Cir. 2010) (“The district court applied the eight-factor test for likelihood of confusion articulated in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979). . . . But we’ve held that the *Sleekcraft* analysis doesn’t apply where a defendant uses the mark to refer to the trademarked good itself.”); see also Grynberg, *supra* note 18, at 958 (citing *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 545 (5th Cir. 1998)) (“It is not a true defense, but an alternative method of ascertaining whether liability exists in the first place.”).

<sup>187</sup> *Toyota Motor Sales*, 610 F.3d at 1183.

<sup>188</sup> *New Kids on the Block*, 971 F.2d at 308.

<sup>189</sup> *Toyota Motor Sales*, 610 F.3d at 1183; see also *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 118 (2004) (stating that “Section 1115(b) [of the Lanham Act always] places a burden of proving likelihood of confusion . . . on the party charging infringement even when relying on an incontestable registration. And Congress said nothing about likelihood of confusion in setting out the elements of the fair use defense in § 1115(b)(4). . . . [I]t takes a long stretch to claim that a defense of fair use entails any burden to negate confusion.”).

<sup>190</sup> *New Kids on the Block*, 971 F.2d at 308.

final prong is “a substitute for the usual likelihood-of-confusion analysis”<sup>191</sup> and “amounts to a requirement of good faith [on the part of the defendant], denying protection . . . to anyone who attempts to use a trademark to confuse the public.”<sup>192</sup>

The Fifth Circuit recommends—without requiring—that courts evaluate likelihood of confusion and nominative fair use simultaneously.<sup>193</sup> In contrast, in 2005, the Third Circuit designed its own two-step version of nominative fair use, whereby the plaintiff must prove likelihood of confusion under a modified likelihood-of-confusion test, which removes factors that are not appropriate in the context of nominative fair use.<sup>194</sup> This replaces the third part of the Ninth Circuit’s test, instead asking whether “the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services.”<sup>195</sup> The burden then shifts to the defendant to show that its use is fair, under the court’s own three-part nominative fair use test.<sup>196</sup>

The First, Second, and Sixth Circuits have either rejected or declined to adopt nominative fair use,<sup>197</sup> and other courts have yet to decide on its adoption or rejection.<sup>198</sup> Yet in spite of this limited acceptance, nominative

<sup>191</sup> Grynberg, *supra* note 18, at 957 n.265 (citing *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002)).

<sup>192</sup> SCHECHTER & THOMAS, *supra* note 44, § 31.2, at 746.

<sup>193</sup> See *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 545-46 (5th Cir. 1998); see also *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 489 (5th Cir. 2008) (“[A] court ordinarily should consider a nominative fair use claim *in conjunction with* its likelihood-of-confusion analysis in order to avoid lowering the standard for confusion.” (emphasis added)).

<sup>194</sup> *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 222 (3d Cir. 2005); see also *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1182 (9th Cir. 2010) (holding that a “finding of nominative fair use is a finding that the plaintiff has failed to show a likelihood of confusion as to sponsorship or endorsement”). Thus, the burden ultimately rests on the plaintiff to establish that the use of the plaintiff’s mark was not nominative fair use. *Id.*

<sup>195</sup> *Century 21 Real Estate*, 425 F.3d at 222.

<sup>196</sup> *Id.* The defendant must show

(1) that the use of plaintiff’s mark is necessary to describe both the plaintiff’s product or service and the defendant’s product or service; (2) that the defendant uses only so much of the plaintiff’s mark as is necessary to describe plaintiff’s product; and (3) that the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services.

*Id.*

<sup>197</sup> *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 102-03 (2d Cir.), *cert. denied*, 131 S. Ct. 647 (2010); *Universal Comm’n Sys., Inc. v. Lycos, Inc.*, 478 F.3d 413, 424 (1st Cir. 2007) (“This court has not previously decided whether to endorse the Ninth Circuit’s test for nominative fair uses, and we have no occasion to do so here. We have, however, recognized the underlying principle.”); *PACCAR Inc. v. Telescan Techs., L.L.C.*, 319 F.3d 243, 256 (6th Cir. 2003), *overruled on other grounds by* *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 121-23 (2004).

<sup>198</sup> The Fourth, Seventh, Eighth, Tenth, and Eleventh circuits have to varying degrees declined to affirmatively state their position on nominative fair use. See *Suntree Techs., Inc. v. EcoSense Int’l, Inc.*,

fair use is mentioned, albeit without a definition, in the Trademark Dilution Revision Act of 2006.<sup>199</sup>

The nominative fair use defense has been criticized for its analytical defects. As noted by Professor McGeeveran, “[n]ominative fair use as it now exists has become ungainly and often unhelpful.”<sup>200</sup> Professor McGeeveran argues that there are three major issues with how courts apply a nominative fair use analysis.<sup>201</sup> First, the analysis typically occurs late in the litigation process rather than early in the process, when many defenses are adjudicated.<sup>202</sup> The second issue arises when courts

become entangled in a foolish preliminary inquiry of asking whether the nominative fair use doctrine, rather than section 33(b)(4) [descriptive fair use], applies to particular facts. The third and most significant problem. . . is the collapse of the requirements for nominative fair use into a substitute likelihood of confusion analysis in a way that actually prejudices fair uses and further prolongs litigation.<sup>203</sup>

Professor McGeeveran also argues that “[t]his substitution also shifts burdens unfairly. Nominative use was not designed as a means to determine ultimate liability, but as a mechanism to set aside cases that fall outside the bounds of trademark law.”<sup>204</sup> He evinces the Ninth Circuit’s use of the doc-

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802 F. Supp. 2d 1273, 1282 (M.D. Fla. 2011) (mentioning nominative fair use in passing in the Eleventh Circuit); *Teter v. Glass Onion, Inc.*, 723 F. Supp. 2d 1138, 1156 (W.D. Mo. 2010) (declining to apply in the Eighth Circuit because defendant may have caused confusion as to source or affiliation); *Gennie Shifter, LLC v. Lokar, Inc.*, No. 07-cv-01121, 2010 WL 126181, at \*14 (D. Colo. Jan. 12, 2010) (applying this doctrine even though it is not the law of the Tenth Circuit); *Lorillard Tobacco Co. v. S & M Brands, Inc.*, 616 F. Supp. 2d 581, 589 (E.D. Va. 2009) (recognizing that the Fourth Circuit does not allow this defense); *DeVry Inc. v. Univ. of Med. & Health Sci.-St. Kitts*, No. 08 CV 3280, 2009 WL 260950, at \*5 (N.D. Ill. Feb. 3, 2009) (applying it even though it is not the law of the Seventh Circuit).

<sup>199</sup> 15 U.S.C. § 1125(c)(3)(A) (2006). (“The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection: . . . [a]ny fair use, including nominative . . . fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services . . . .”); see also Siegrun D. Kane, *Trademark Hot Topics: Progress in Bridging the Great Divides?*, in 15TH ANNUAL INSTITUTE ON INTELLECTUAL PROPERTY LAW 905, 919-20 (2009).

<sup>200</sup> McGeeveran, *supra* note 17, at 89. “Although *New Kids* itself engaged in common-sense analysis of the situation before it, the test created there has not fared as well. Courts following in the footsteps of *New Kids* sowed confusion and seriously deformed the original proposal . . . . [I]t would be preposterous if famous musicians could prevent magazines from discussing them, and a reader poll is little different from an unauthorized biography or parody. Any other outcome could thwart both communication and competition.” *Id.* at 89-90.

<sup>201</sup> *Id.* at 90.

<sup>202</sup> *Id.*

<sup>203</sup> *Id.* at 90-91 (referring to *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1150 (9th Cir. 2002)). For further discussion regarding how courts’ nominative fair use analyses are muddled through these problems, see McGeeveran, *supra* note 17, at 91-97.

<sup>204</sup> McGeeveran, *supra* note 17, at 91-92.

trine in a way that eviscerates nominative fair use's usefulness.<sup>205</sup> "Instead of serving as an early 'gatekeeper' that can screen out fair uses and reduce the length and cost of litigation, nominative fair use becomes just another fact-intensive confusion inquiry that may be brought only after extensive discovery."<sup>206</sup>

Professor Graeme B. Dinwoodie likewise concludes that "the third part of the [Ninth Circuit's] test looks very much a proxy for an assessment of likely confusion as to association, sponsorship or endorsement."<sup>207</sup> Professor Dinwoodie suggests "that it is time to treat nominative fair use as an autonomous and real defense, rather than simply a reformulation of the test for likely confusion."<sup>208</sup>

Similarly, in his treatise, Professor Thomas McCarthy queries how the third part of the test

differs from the ultimate issue that the three part test is supposed to facilitate: is there a likelihood of confusion? If it is not to be simply a repetition of the ultimate issue, . . . the third factor should be viewed as asking whether, in addition to mere use of the mark, defendant has engaged in some additional conduct that affirmatively suggests sponsorship or endorsement by the plaintiff.<sup>209</sup>

These criticisms appear well-founded because some courts indeed evaluate the third part of the nominative fair use test using the same factors they use for likelihood of confusion.<sup>210</sup> Indeed, there should be some degree of confusion allowed without foreclosing that a defendant's use is objectively fair.<sup>211</sup> Professor McGeeveran succinctly summarizes the confused and inadequate state of the nominative fair use defense:

[C]ourts have gradually larded up the simple idea of nominative fair use presented in *New Kids* to the point where it is excessively complex and minimally useful. By moving the doctrine away from any role as an early screening mechanism and closer in timing and substance

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<sup>205</sup> See generally *id.* at 88-97 (discussing the normative fair use doctrine).

<sup>206</sup> *Id.* at 91. McGeeveran notes that "[t]he Ninth Circuit has explicitly transformed nominative fair use into a *substitute* for the traditional test to judge likelihood of confusion. This shift—from regarding nominative fair use as a threshold showing or a defense to approaching it as an alternate standard for the plaintiff's prima facie case—vitiated most of its usefulness." *Id.*

<sup>207</sup> Graeme B. Dinwoodie, *Lewis & Clark Law School Ninth Distinguished IP Lecture: Developing Defenses in Trademark Law*, 13 LEWIS & CLARK L. REV. 99, 111 (2009).

<sup>208</sup> *Id.* at 112.

<sup>209</sup> 4 MCCARTHY, *supra* note 23, § 23:11.

<sup>210</sup> See, e.g., *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 858 (N.D. Tex. 2009) ("To determine whether there is a likelihood that consumers are confused about touchofpinkcosmetics.com's affiliation with Mary Kay, the court looks to the factors laid out in *Scott Fetzer*, the so-called 'digits of confusion.'" (quoting *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 484-85 (5th Cir. 2004))).

<sup>211</sup> *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 121-23 (2004).



to the likelihood of confusion determination, subsequent cases have destroyed nominative fair use.<sup>212</sup>

Thus, this muddled application of nominative fair use has adversely affected the ability of online resellers' such as Karen Dudnikov and Amy Weber to truthfully describe their goods.<sup>213</sup> This unfairly strengthens mark owners' control over distribution channels for their goods beyond the initial sale to the public.<sup>214</sup>

### C. *That First Sale of a Genuine Good*

The nominative fair use defense usually concerns comparative advertising<sup>215</sup> or other instances where the defendant is selling their own goods and in some way refers to the mark owner's goods.<sup>216</sup> Under first sale/exhaustion—which could be considered a variation of nominative fair use—the defendant does not use the plaintiff's mark in an effort to sell her own goods, but rather uses the plaintiff's mark to refer to the plaintiff's goods, albeit with the intention of selling the plaintiff's goods.<sup>217</sup> The first sale doctrine is based on the principle that trademark owners should not be able to control downstream sales of their goods.<sup>218</sup>

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<sup>212</sup> McGeeveran, *supra* note 17, at 97.

<sup>213</sup> See *Mary Kay*, 601 F. Supp.2d at 857; Steiner, *supra* note 49.

<sup>214</sup> Cf. *Mary Kay*, 601 F. Supp. 2d at 857 (applying the Ninth Circuit test to Ms. Weber's sale of Mary Kay products); Steiner, *supra* note 49 (describing Ms. Dudnikov's losses due to legal challenges).

<sup>215</sup> See 15 U.S.C. § 1115(b)(4) (2006) (“[T]he right to use . . . [a] mark shall be subject to proof of infringement . . . and shall be subject to the following defenses or defects: . . . [t]hat the use of the name, term, or device charged to be an infringement is a use [which] . . . is descriptive of and used fairly and in good faith only to describe the goods or services of such party[.]”); *id.* § 1125(c)(3)(A)(i) (“The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection: . . . [a]ny fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with . . . advertising or promotion that permits consumers to compare goods or services[.]”); *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240, 1248 (9th Cir. 1984) (“[L]iability for infringement may not be imposed for using a registered trademark in connection with truthful comparative advertising.”).

<sup>216</sup> 15 U.S.C. § 1115(b)(4).

<sup>217</sup> See *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (*per curiam*).

<sup>218</sup> *Id.*; see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 24 cmt. b (1995).

The rules governing the protection of trademarks are intended to prevent the diversion of trade or harm to reputation that is likely to result if consumers are confused as to the source or sponsorship of goods and services. Confusion does not occur, however, when a trademark is used to identify genuine goods marketed under that mark by the trademark owner. Thus, the trademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce. It can be said that the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product

While first sale is legislatively created in the Copyright Act,<sup>219</sup> trademark and patent first sale (or exhaustion) affirmative defenses are long-recognized judicial constructs.<sup>220</sup> All three, however, serve a similar purpose: to “narrow[] the rights of the creator of intellectual property by creating competition between the creator and the reseller of the work.”<sup>221</sup> As noted *supra*,<sup>222</sup> the Supreme Court has recognized as early as 1924 that, even though it results in the secondary market merchant getting some advantage from the mark, a mark may be used by a refurbisher or reseller of a good in a way that does not deceive the public.<sup>223</sup> Under the exhaustion doctrine,

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under the trademark or that the owner implicitly licenses others to further market the goods under the mark. Thus, no infringement occurs when the use of a mark properly identifies the source, sponsorship, or certification of the goods or services, even if the owner of the mark objects to the use.

*Id.* For an in-depth discussion on the first sale rule and its rationale, see Barnes, *supra* note 87, at 461-69.

<sup>219</sup> 17 U.S.C. § 109(a) (2006).

Notwithstanding the provisions of section 106(3) [the distribution right], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

*Id.* Patent law has a robust, but judicially created exhaustion principle. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”).

<sup>220</sup> See, e.g., *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947); *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 360 (1924); see also *Quanta Computer*, 553 U.S. at 625; *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (“[A]n unconditional sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter.”); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 24 (1995) (“One is not subject to [infringement] liability . . . for using another’s trademark, trade name, collective mark, or certification mark in marketing genuine goods or services the source, sponsorship, or certification of which is accurately identified by the mark[.]”).

<sup>221</sup> Barnes, *supra* note 87, at 461.

<sup>222</sup> See *supra* notes 175-180 and accompanying text.

<sup>223</sup> *Champion Spark Plug*, 331 U.S. at 129; see *Prestonettes*, 264 U.S. at 360; see also *Nitro Leisure Products, LLC v. Acushnet Co.*, 341 F.3d 1356, 1360-62 (Fed. Cir. 2003).

One significant limitation on the first sale doctrine is that it only applies to unaltered or “genuine goods,” unless the consumer has reason to know of the alterations. Therefore, using the mark in connection with the resale of a *materially different product* is trademark infringement. *Davidoff & Cie, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001). First Sale and nominative fair use defenses are inapplicable for altered goods, because “[a] materially different product is not genuine and may generate consumer confusion about the source and the quality of the trademarked product.” *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067, 1072 (10th Cir. 2009). In *Beltronics*, the Tenth Circuit stated that a difference is material if a consumer would consider the difference relevant in the decision to purchase the product. *Id.* at 1073. These differences are not limited to the physical product; they may include warranties and “service commitments.” *Id.* Yet “[t]he purpose of the material difference test is to assist courts in determining whether allegedly infringing products are likely

[t]he resale of genuine trademarked goods generally does not constitute infringement. This is for the simple reason that consumers are not confused as to the origin of the goods: the origin has not changed as a result of the resale. . . . [T]he trademark protections of the Lanham Act are exhausted after the trademark owner's first authorized sale of that product. Therefore, even though a subsequent sale is without a trademark owner's consent, the resale of a genuine good does not violate the Act.<sup>224</sup>

It reflects a general public policy against restraints on alienation.<sup>225</sup> The Southern District of New York quite recently reaffirmed this longstanding principle in *Bel Canto Design, Ltd. v. MSS HiFi, Inc.*<sup>226</sup>—“as a general matter, 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.”<sup>227</sup> The court reaffirmed that the “Lanham Act does not give mark owners the right to control subsequent, non-authorized resales, as long as the product sold is genuine.”<sup>228</sup> In her opinion, Judge Colleen McMahon cites the long history in the Second Circuit recognizing that “the unauthor-

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to cause confusion . . . and undermine the [good will] the trademark owner has developed . . .” *Id.* at 1074. Therefore, material differences by themselves may not trigger liability. In other words, because the critical issue remains likelihood of confusion, material differences will not cause liability for trademark infringement as long as the seller dispels potential confusion by sufficiently disclosing material differences to the buyer. *Id.* The premise of first sale is that the consumers are getting exactly what they bargained for. *S&L Vitamins, Inc. v. Austl. Gold, Inc.*, 521 F. Supp. 2d 188, 202 (E.D.N.Y. 2007); *see also* *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 591 (5th Cir. 1993).

<sup>224</sup> *Davidoff & Cie*, 263 F.3d at 1301-02 (citations omitted); *see also* *Beltronics USA*, 562 F.3d at 1071 (“Those who resell genuine trademarked products are generally not liable for trademark infringement.”); *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1240-41 (10th Cir. 2006) (“[T]he right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product[,] [r]esale by the first purchaser of the original article under the producer’s trademark is neither trademark infringement nor unfair competition. It is the essence of the ‘first sale’ doctrine that a purchaser who does no more than stock, display, and resell a producer’s product under the producer’s trademark violates no right conferred upon the producer by the Lanham Act.” (second and third alterations in original) (quoting *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074, 1076 (9th Cir. 1995) (per curiam))); *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987) (“The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold.”).

<sup>225</sup> *Barnes*, *supra* note 87, at 458, 462 (“The first sale rule reflects property law’s distaste for restraints on alienation and allows the holder of intellectual property rights to obtain the price for its creations only once.”).

<sup>226</sup> 837 F. Supp. 2d 208 (S.D.N.Y. 2011).

<sup>227</sup> *Id.* at 222 (quoting *Zip Int’l Grp., LLC v. Trilini Imps., Inc.*, No. 09-CV-2437(JG)(VVP), 2011 WL 2132980, at \*3 (E.D.N.Y. May 24, 2011)). *MSS HiFi*, however, had altered the goods’ serial number, and the court found that these constituted “altered goods” which, as noted *supra*, are not genuine articles and “may generate consumer confusion about the source and quality of the trademarked product.” *Id.* at 223 (citing *Beltronics USA*, 562 F.3d at 1072).

<sup>228</sup> *Bel Canto Design*, 837 F. Supp. 2d at 222.

ized sale of a trademarked article does not, without more, constitute a Lanham Act violation.<sup>229</sup>

Thus, a reseller has the right to dispose of genuine goods that were originally produced under the authority of the mark owner, provided that the goods are not materially altered and the reseller does not give the impression it is affiliated with the manufacturer.<sup>230</sup> “Resale by the first purchaser of the original article under the producer’s trademark is neither trademark infringement nor unfair competition.”<sup>231</sup> Because reselling the manufacturer’s product can lead to some confusion as to the connection between the mark owner and the reseller, the first sale defense should not be

rendered inapplicable merely because consumers erroneously believe the reseller is affiliated with or authorized by the producer. It is the essence of the “first sale” doctrine that a purchaser who does no more than stock, display, and resell a producer’s product under the producer’s trademark violates no right conferred upon the producer by the Lanham Act. When a purchaser resells a trademarked article under the producer’s trademark, and nothing more, there is no actionable misrepresentation under the statute.<sup>232</sup>

Courts should tolerate more confusion than they typically do where the defendant is using a mark similar to the plaintiff’s to sell the defendant’s own goods.<sup>233</sup> As noted by David Barnes, courts tend to treat first sale “as an affirmative defense to what would otherwise be an infringement of the creator’s rights . . . [and] the trademark defendant has the burden of proving that it was reselling genuine and lawfully acquired goods.”<sup>234</sup> However, it is the plaintiff’s burden under the Lanham Act to establish likelihood of con-

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<sup>229</sup> *Id.*; see also *Brain Pharma, LLC v. Scalini*, No. 12-60132-CIV-COHN/SELTZER, 2012 WL 1563917, at \*4 (S.D. Fla. Apr. 30, 2012) (holding that reselling the mark owner’s products for 50 percent below their retail price did not overcome the first sale doctrine, and dismissing the suit for failure to state a claim for allegations of trademark infringement, unfair competition, or false designation of origin).

<sup>230</sup> See *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947) (“[W]e would not suppose that one could be enjoined from selling a car whose valves had been reground and whose piston rings had been replaced unless he removed the name Ford or Chevrolet.”); *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 848 (N.D. Tex. 2009).

<sup>231</sup> *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (per curiam); see also *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987) (“Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability.”).

<sup>232</sup> *Sebastian Int’l*, 53 F.3d at 1076; see also *Standard Process, Inc. v. Total Health Disc., Inc.*, 559 F. Supp. 2d 932, 937 (E.D. Wis. 2008).

<sup>233</sup> See *Sebastian Int’l*, 53 F.3d at 1076 (applying the first sale doctrine despite consumer confusion); see also *NEC Elecs.*, 810 F.2d at 1509 (“[T]rademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product.”).

<sup>234</sup> Barnes, *supra* note 87, at 465.

fusion as part of the prima facie case.<sup>235</sup> Therefore, if the reason for the alleged likelihood of confusion claim is that the goods are not genuine, the plaintiff must prove that.<sup>236</sup>

#### D. *Exhausted in Cyberspace*

The trademark first sale/exhaustion principle supposedly extends to a reseller's use of a mark in cyberspace.<sup>237</sup> This means that "[a] retailer can use a brand name on Web site ads selling that branded product without a license from the trademark owner,"<sup>238</sup> so long as the reseller does not mislead the consumer into believing that the reseller is an authorized dealer of the brand.<sup>239</sup> Deceptiveness as to affiliation between the reseller and the

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<sup>235</sup> KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 121 (2004) (holding that it is the plaintiff's burden to show a likelihood of confusion and that the defendant raising the affirmative defense of descriptive fair use has no independent burden to show no likelihood of confusion); see also Barnes, *supra* note 87, at 465-67.

Proof of genuineness of the goods being resold is intimately linked to the question of whether there is likely to be confusion about the source of the goods. If the goods are genuine, there can be no confusion because the trademark appearing on the goods correctly identifies the manufacturer. The plaintiff in a trademark suit clearly has the burden of showing that a likelihood of confusing arises from the defendant's conduct.

*Id.* at 466-67.

<sup>236</sup> Barnes, *supra* note 87, at 466-67.

<sup>237</sup> 4 MCCARTHY, *supra* note 23, § 25:41.

<sup>238</sup> *Id.* (referencing Patmont Motor Werks, Inc. v. Gateway Marine, Inc., No. C 96-2703 TEH, 1997 WL 811770, at \*4 (N.D. Cal. Dec. 18, 1997), where the district court held that the "defendant could sell GO-PED trademarked motorized scooters, using that mark at defendant's Web site" because the "Web site in question . . . refers to the Go-Ped mark only to the extent necessary to identify the particular brand of scooter that he had for sale"); cf. Volkswagenwerk Aktiengesellschaft v. Church, 411 F.2d 350, 352 (9th Cir. 1969) (holding that "[a]lthough he may advertise to the public that he repairs appellant's cars, [the appellee-defendant] must not do so in a manner which is likely to suggest to his prospective customers that he is part of Volkswagen's organization of franchised dealers and repairmen").

<sup>239</sup> See *Bernina of Am., Inc. v. Fashion Fabrics Int'l, Inc.*, No. 01 C 585, 2001 WL 128164, at \*2 (N.D. Ill. Feb. 9, 2001) ("It is well-settled that under the 'first sale doctrine,' an independent dealer may use a manufacturer's trademark to re-sell that brand of goods, and that such conduct does not constitute trademark infringement or unfair competition. However, 'one who resells trademark goods is obligated to do so in a manner that is not likely to cause confusion or imply that the seller is associated with the manufacturer.'" (citations omitted) (quoting *Quill Corp. v. NADA Scientific Ltd.*, No. 97 C 7461, 1998 WL 295502, at \*3 (N.D. Ill. May 21, 1998)); see also *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1241 (10th Cir. 2006) ("[T]he first sale doctrine does not protect resellers who use other entities' trademarks to give the impression that they are favored or authorized dealers for a product when in fact they are not."); 4 MCCARTHY, *supra* note 23, § 25:41.

mark owner could also be better handled through a claim of false advertising.<sup>240</sup> After all, courts have consistently held that

[a]fter the first sale, the brandholder's control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the markholder (so long as they do not misrepresent themselves as authorized agents).<sup>241</sup>

Exhaustion should apply equally to online sales as it does to brick-and-mortar stores.<sup>242</sup> Courts, however do not always do so, and—as discussed below—by supporting plaintiffs' claims of trademark infringement, they extend control over the distribution channels of goods beyond the initial sale.<sup>243</sup>

#### IV. CHALLENGING THE MARK OWNER'S DESIRE FOR TOTAL CONTROL

As illustrated *supra*, there is a need for comprehensive and definitive trademark nominative fair use and first sale doctrines with regard to online resale of genuine goods, along with more leeway regarding initial interest confusion related to distribution affiliation.<sup>244</sup> Our solutions are supported by recent trademark scholarship advocating the need for a showing of actual injury, rather than “merely a benefit to someone else.”<sup>245</sup>

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<sup>240</sup> See generally Lemley & McKenna, *supra* note 16, at 444-45. Professors Mark Lemley and Mark McKenna propose importing into trademark law the materiality requirement courts have created in the false advertising context and applying it in any case based on confusion that does not relate to source or control over quality.

Plaintiffs bringing cases then would face a choice: (1) bring a trademark infringement claim and be required to prove confusion regarding actual source or responsibility for the quality of the defendant's goods or services; or (2) bring a false advertising-type claim alleging that the use causes some other form of confusion and be required to prove confusion about that relationship and that such confusion materially affects consumers' decisions whether to purchase the defendant's goods or services.

*Id.* at 446.

<sup>241</sup> 4 MCCARTHY, *supra* note 23, § 25:41 (quoting *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1173-74 (S.D.N.Y. 1984)).

<sup>242</sup> See, e.g., *Austl. Gold, Inc.*, 436 F.3d at 1240-41 (regarding a website); *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam) (regarding a pharmacy).

<sup>243</sup> Lemley & McKenna, *supra* note 14, at 152-53.

<sup>244</sup> See Goldman, *supra* note 14, at 587; Lemley & McKenna, *supra* note 16, at 448-49; *supra* Part I.C;

<sup>245</sup> See Lemley & McKenna, *supra* note 14, at 188. Professors Lemley and McKenna provide a two part test:

[T]rademark plaintiffs should have to demonstrate (1) that their injury flows from confusion about the actual source of the defendant's goods or about who is responsible for the quality of those goods, or (2) that the defendant's use causes confusion about some other relationship that is material to consumer purchasing decisions.

### A. *Strengthening Available Defenses*

In line with this current advocacy seeking to eliminate claims where there is no confusion as to source or responsibility or material confusion,<sup>246</sup> this Article proposes more specific solutions with regard to Internet resellers. There is a need for either the courts or Congress to rebalance the scales regarding trademark rights to prevent continued control by mark owners of the distribution of their products beyond the first sale.<sup>247</sup> However, “[a]bsent congressional action, courts have only a limited ability to correct the imbalance between trademark liability and defenses.”<sup>248</sup> For a legislative solution that would protect resellers of genuine goods without affecting a mark owner’s ability to remove counterfeit goods from the marketplace, Congress could add language to the Lanham Act which (1) codifies trademark first sale and nominative fair use as defenses under Section 33(b); (2) eliminates the controversial claim of initial interest confusion regarding the sale of genuine goods; and (3) specifies a requirement of deceptive intent regarding distribution affiliation confusion for it to be an actionable claim.<sup>249</sup> This would generate uniformity among the circuits regarding nominative fair use, initial interest confusion, and the robustness of the first sale doctrine with regard to trademarks. Professor Michael Grynberg notes that when Congress passed the Trademark Anti-Dilution Act, it “enact[ed] specific safe harbors for activities that are unlikely to cause confusion or those that may cause confusion, but whose social utility is high enough that the benefits of immunizing the acts outweigh any costs.”<sup>250</sup>

Since the trademark exhaustion doctrine has its roots in copyright law,<sup>251</sup> an amendment to the Lanham Act could mimic Section 109 of the

*Id.*

<sup>246</sup> *See id.*

<sup>247</sup> *Thompson v. N. Am. Stainless, LP*, 520 F.3d 644, 650 (6th Cir.) (Griffin, J., dissenting) (stating that courts tend to “legislate from the bench” only to implement what they believe is the intent of Congress), *vacated*, No. 07-5040, 2008 WL 6191996 (6th Cir. July 28, 2008).

Were judges empowered to revise and amend statutes to further what we believe to be the “purpose” of the law, there would be no limit on judicial legislation and little need for Congress. Recognizing the consequences of such unbridled judicial forays into the legislative sphere, the Supreme Court has admonished “time and again that a legislature says in a statute what it means and means in a statute what it says there.”

*Id.* (quoting *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy*, 548 U.S. 291, 296 (2006)).

<sup>248</sup> Grynberg, *supra* note 18, at 970.

<sup>249</sup> *Cf. Lemley & McKenna, supra* note 16, at 450 (“[T]he law should require that trademark owners claiming infringement based on confusion regarding anything other than source or responsibility for quality must demonstrate the materiality of that confusion to consumer purchasing decisions.”).

<sup>250</sup> Grynberg, *supra* note 18, at 962.

<sup>251</sup> *See S&L Vitamins, Inc. v. Austl. Gold, Inc.*, 521 F. Supp. 2d 188, 202 (E.D.N.Y. 2007) (“Although the first sale doctrine traditionally applies as a defense to copyright infringement claims, courts have recognized it as a restraint on trademark infringement claims as well.”).

Copyright Act.<sup>252</sup> Similar language would provide uniformity across these two often-times related intellectual property claims. As discussed earlier, copyright and trademark infringement are often asserted in the same lawsuit.<sup>253</sup> If Lanham Act language clearly stated that the same first sale exception which applied for copyright also applied for the use of the mark attached to the goods, this would give resellers more certainty in their use of the mark owner's brand when identifying the mark owner's goods during resale.

This solution should lead to less litigation; however unless damages for frivolous suits are allowed, it may not stop the reality of cease-and-desist letters and threatened litigation.<sup>254</sup> Penalties for threats of frivolous litigation are common, and are part of anti-trust law,<sup>255</sup> first amendment protection<sup>256</sup> and copyright law.<sup>257</sup> Similarly worded language in the Lan-

<sup>252</sup> 17 U.S.C. § 109(a) (2006). The Copyright Act is succinct in its first sale exception:

Notwithstanding the provisions of section 106(3) [the owner's exclusive right of distribution], the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

*Id.*

<sup>253</sup> See *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936, 939-40 (9th Cir. 2011); *Zobmondo Entm't, LLC v. Falls Media, LLC*, 602 F.3d 1108, 1112 (9th Cir. 2010); *Halicki Films, LLC v. Sanderson Sales & Mktg.*, 547 F.3d 1213, 1216-17 (9th Cir. 2008); *JCW Invs., Inc. v. Novelty, Inc.*, 509 F.3d 339, 341 (7th Cir. 2007); *Luv N' Care, Ltd. v. Insta-Mix, Inc.*, 438 F.3d 465, 468 (5th Cir. 2006); see also Kevin L. Murch, Comment, *Cybercourt: Copyright and Trademark Law on the Information Superhighway*, 24 CAP. U. L. REV. 809, 818-19 (1995).

<sup>254</sup> See *supra* notes 51-65 and accompanying text.

<sup>255</sup> See 15 U.S.C. §§ 15(a)(1), 15a(1), 15c(a)(2)(A) (2006); see also Lemley & McKenna, *supra* note 16, at 446 ("Courts in antitrust cases have identified certain conduct, including conspiring to fix prices, rig bids, or divide markets, as the type of conduct experience has shown harms competition in most cases.").

<sup>256</sup> See, e.g., CAL. CIV. PROC. CODE §§ 425.16(a), (b)(1), (c)(1) (West 2012).

Anti-SLAPP actions; motion to strike; discovery; remedies

(a) The Legislature finds and declares that there has been a disturbing increase in lawsuits brought primarily to chill the valid exercise of the constitutional rights of freedom of speech and petition for the redress of grievances . . . [and] that it is in the public interest to encourage continued participation in matters of public significance, and that this participation should not be chilled through abuse of the judicial process. . . . [Therefore:]

(b)(1) A cause of action against a person arising from any act of that person in furtherance of the person's right of petition or free speech under the United States Constitution or the California Constitution in connection with a public issue shall be subject to a special motion to strike . . . [and]

\* \* \*

(c)(1) . . . a prevailing defendant on a special motion to strike shall be entitled to recover his or her attorney's fees and costs.

*Id.*

<sup>257</sup> See, e.g., 17 U.S.C. § 512(f) (2006) ("Any person who knowingly materially misrepresents under this section . . . that material or activity is infringing . . . shall be liable for any damages, including



ham Act may prevent some of this bullying with regard to frivolous litigation.<sup>258</sup>

### B. *Expect Some Confusion*

As noted *supra*, courts should move back towards their “traditional willingness to permit a considerable degree of confusion in order to leave room” for competition.<sup>259</sup> Professor Jennifer E. Rothman contends that, with regard to metatags, domain names, and search engines,

[t]he initial interest confusion doctrine. . . conflicts with specific well-established principles in trademark law. Trademark law, like copyright and patent law, provides that a consumer who purchases a good can freely resell that good without committing trademark infringement. Being able to resell goods necessitates the ability to advertise the sale of such goods. The initial interest confusion doctrine severely limits the freedom of consumers to resell products.<sup>260</sup>

More broadly, Professor Glynn Lunney argues that, “we must limit actionable confusion to cases where, if the use is allowed to continue, a substantial number of purchasers or prospective purchasers will actually become confused concerning information that will materially influence their buying decisions.”<sup>261</sup> As such, this Article argues that, unless the mark owner can show actual deception on the part of the reseller, as a general rule plaintiffs should not be allowed to claim initial interest confusion with regard to alternative distribution channels of genuine goods.<sup>262</sup> First, as long

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costs and attorneys’ fees, incurred by the alleged infringer . . . who is injured by such misrepresentation.”).

<sup>258</sup> Though it would do little to prevent the sending of threatening cease-and-desist letters, this matter is a problem faced by copyright and patent defendants as well and not an issue that will be discussed in this Article. See Marketa Trimble, *Setting Foot on Enemy Ground: Cease-and-Desist Letters, DMCA Notifications and Personal Jurisdiction in Declaratory Judgment Actions*, 50 IDEA 777, 786-87 (2010).

<sup>259</sup> Lunney, *supra* note 19, at 385. Cf. Grynberg, *supra* note 18, at 963 (“Congress could . . . give judges explicit authority to devise and apply flexible defenses to trademark liability when circumstances warrant. In much the same way Congress amended the Copyright Act to incorporate the fair use doctrine, previously a common law creation, it could legislate a similarly open-ended standard for judges to apply in the trademark realm. Alternatively, Congress could follow the model of the FTC Act and create a standard that contains some guidance for courts to follow in determining whether to excuse purportedly infringing conduct.” (footnote omitted)).

<sup>260</sup> Rothman, *supra* note 14, at 140 (footnote omitted).

<sup>261</sup> Lunney, *supra* note 19, at 478; see also *id.* at 483 (“Similarly, confusion as to endorsement can be actionable, but only if the factual situation is one where endorsement is typically found and likely to influence consumer buying.”).

<sup>262</sup> *Strange Music, Inc. v. Strange Music, Inc.*, 326 F. Supp. 2d 481, 492 (S.D.N.Y. 2004) (stating that “due to the ease with which the consumer could return to the search results posted by the search

as there is no deception on the part of the reseller, any confusion as to “distribution channel” affiliation ends prior to the sale of the good.<sup>263</sup> Second, as noted earlier, many consumers visit sites like eBay and Craigslist for the purpose of finding genuine goods at lower costs than they would expect to find when buying directly from the mark owner or an authorized retailer.<sup>264</sup>

Indeed, when a product is subject to first sale doctrine and the nominative fair use that accompanies it, some confusion should be expected. The Supreme Court declared in *KP Permanent Make-Up, Inc. v. Lasting Impressions I, Inc.*<sup>265</sup> that, “[s]ince the burden of proving likelihood of confusion rests with the plaintiff, and the fair use defendant has no free-standing need to show confusion unlikely, it follows . . . that some possibility of consumer confusion must be compatible with fair use, and so it is.”<sup>266</sup>

Any initial confusion to the resale of a genuine good is related to the distribution source, not to the good itself; a claim of initial interest confusion should be a spurious allegation.<sup>267</sup> An assertion of confusion as to the distributor’s affiliation should be discounted—after all, there is no confusion as to the source of the good; the mark owner is truthfully the source of the good. And to hold a defendant liable for infringement where there may only be initial confusion as to whether the distribution channel is associated with the mark owner results in the mark owner controlling subsequent sales of his or her product.<sup>268</sup>

Although courts have declared that “[a]ffiliation confusion exists where use of a ‘unique and recognizable identifier’ could lead consumers to ‘infer a relationship’ between the trademark owner and the new product[,]”<sup>269</sup> this should not apply to the distribution of the goods after the initial sale, but rather only to the good itself. Otherwise, a finding of initial interest affiliation confusion because the seller is not affiliated with the mark owner would eviscerate any protection afforded through trademark law’s first sale/exhaustion principle.<sup>270</sup>

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engine . . . so called internet initial confusion requires a showing of intentional deception on the part of the defendant before imposing liability”).

<sup>263</sup> See, e.g., Lemley & McKenna, *supra* note 16, at 448 (proposing that sponsorship or affiliation confusion should only be actionable if “they (1) are false or misleading and (2) materially affect consumer decisions”).

<sup>264</sup> See Goldman, *supra* note 14, at 522-24 (discussing how search users can have a variety of reasons for the use of trademark search terms, including finding distribution sources other than those authorized by the mark owner).

<sup>265</sup> 543 U.S. 111 (2004).

<sup>266</sup> *Id.* at 121-22.

<sup>267</sup> Yet, for Amy Weber, it is not!

<sup>268</sup> See Grynberg, *supra* note 18, at 907-08.

<sup>269</sup> *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.* 440 F. Supp. 2d 249, 274 (S.D.N.Y. 2006) (quoting *Star Indus., Inc. v. Bacardi & Co. Ltd.*, 412 F.3d 373, 384 (2d Cir. 2005)).

<sup>270</sup> Rothman, *supra* note 14, at 140.

Because of the controversial nature of the claim, we should question whether initial interest affiliation confusion matters at all with regard to the secondary sale of goods. Courts have found such a claim spurious. In her concurrence in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*,<sup>271</sup> Judge Marsha Berzon contended that it was not “reasonable to find initial interest confusion when a consumer is never confused as to source or affiliation, but instead knows, or should know, from the outset that a product or web link is not related to that of the trademark holder because the list produced by the search engine so informs him.”<sup>272</sup> Yet this form of confusion has been successfully asserted in Internet resale cases.<sup>273</sup> Juries and judges have supported a finding of infringement based on initial interest affiliation confusion as to the distribution channel of the good,<sup>274</sup> and have often discounted any first sale or nominative fair use defense.<sup>275</sup> Judges and juries seem to hold Internet sales to a different standard than consignment and resale shops in the brick-and-mortar world, where a plaintiff would face a much higher hurdle to show customer confusion with regard to distribution affiliation.<sup>276</sup>

There should be a presumption of non-infringement when a product’s brand is used in the advertising for the reselling of an item—including in the description of it or use of a photograph of the item in an online sale. This presumption would shift the burden of proof—rather than the reseller-defendant asserting nominative fair use as an affirmative defense, the plaintiff would have to overcome this presumption as part of his or her prima facie case.<sup>277</sup>

Without a proven deception by the reseller, confusion as to affiliation with regard to distribution channels should be negated by the fact that the goods in question are genuine goods, and there is no confusion as to the actual source of the goods. As Justice Antonin Scalia stated in *Dastar Corp. v. Twentieth Century Fox Film Corp.*,<sup>278</sup> “[t]he words of the Lanham Act should not be stretched to cover matters that are typically of no consequence to purchasers.”<sup>279</sup> As long as the goods are genuine, we must even question whether the purchaser is initially confused regarding the reseller’s lack of affiliation with the mark owner.<sup>280</sup> Indeed, when looking even more

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<sup>271</sup> 354 F.3d 1020 (9th Cir. 2004).

<sup>272</sup> *Id.* at 1034-35 (Berzon, J., concurring).

<sup>273</sup> See *supra* notes 5-12, 124-127, and accompanying text.

<sup>274</sup> See *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1062, 1065 (9th Cir. 1999).

<sup>275</sup> See *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 858-59 (N.D. Tex. 2009).

<sup>276</sup> See Rothman, *supra* note 14, at 169-70.

<sup>277</sup> *McCann v. Newman Irrevocable Trust*, 458 F.3d 281, 287 (3d Cir. 2006) (“[A] presumption in a civil case imposes the burden of production on the party against whom it is directed[.]”).

<sup>278</sup> 539 U.S. 23 (2003).

<sup>279</sup> *Id.* at 32-33.

<sup>280</sup> See Sharrock, *supra* note 94, at 65-66.

generally at sponsorship or affiliation confusion, Professors Lemley and McKenna provide a strong argument that the “point is not that consumers can never be harmed by confusion regarding non-quality-related relationships. Rather, the point is that the sort of attenuated confusion at issue in sponsorship and affiliation cases does not necessarily or even often harm consumers or the market for quality products[,]”<sup>281</sup> and the costs of protecting consumers from this form of confusion is unreasonably high.<sup>282</sup> “In delineating the boundary between fair and unfair competition, we must keep firmly in mind that if competition is to remain an effective force for promoting social welfare, we must leave room for would-be competitors to operate.”<sup>283</sup>

### C. *Resellers as a Class of Plaintiffs*

Suppose Karen Dudnikov contacted other eBay resellers who had faced similar problems, and they banded together as a class of plaintiffs to enjoin MLB and other repeat accusers from shutting them down. As discussed *supra*, resellers individually may not suffer enough damage to bring a viable lawsuit themselves.<sup>284</sup> Forming a class of plaintiffs, however, would be more economical and encourage settlement as well.<sup>285</sup> “Class relief is ‘peculiarly appropriate’ when the ‘issues involved are common to the class as a whole’ and when they ‘turn on questions of law applicable in the same manner to each member of the class.’”<sup>286</sup> Yet class actions are a rarity in the world of trademark law due to significant procedural difficulties.<sup>287</sup>

For the resellers to sue a mark owner as a class of plaintiffs, they would need to show, under Federal Rule of Civil Procedure 23(a), that (1) the class of resellers who are harmed by the mark owner’s actions is so numerous that joinder of all members is impracticable; (2) there are questions of law or fact common to the class of resellers; (3) the claims of the representative parties are typical of the claims of the class, and (4) the repre-

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<sup>281</sup> Lemley & McKenna, *supra* note 16, at 437-38 (emphasis omitted).

<sup>282</sup> *Id.* at 438-42.

<sup>283</sup> Lunney, *supra* note 19, at 486.

<sup>284</sup> See Grinvald, *supra* note 14, at 657-58.

<sup>285</sup> See, e.g., In re “Agent Orange” Prod. Liab. Litig., 100 F.R.D. 718, 721 (E.D.N.Y. 1983) (noting that class “certification may encourage settlement of the litigation. In a situation where there are potentially tens of thousands of plaintiffs, the defendants may naturally be reluctant to settle with individual claimants on a piecemeal basis”).

<sup>286</sup> Gen. Tel. Co. of the Sw. v. Falcon, 457 U.S. 147, 155 (1982) (quoting Califano v. Yamasaki, 442 U.S. 682, 701 (1979)).

<sup>287</sup> See FPX, LLC v. Google, Inc., 276 F.R.D. 543, 548, 553 (E.D. Tex. 2011); Eric Goldman, *Vulcan Golf v. Google Class Certification Denied*, TECH. & MKTG. LAW BLOG (Dec. 19, 2008), [http://blog.ericgoldman.org/archives/2008/12/vulcan\\_golf\\_v\\_g.htm](http://blog.ericgoldman.org/archives/2008/12/vulcan_golf_v_g.htm).

sentative parties will fairly and adequately protect the interests of the class.<sup>288</sup>

The first two requirements of Rule 23(a), numerosity and commonality, “form the core of the class-action concept.”<sup>289</sup> There would seem to be little difficulty in meeting the numerosity requirement. The site eBay alone boasts over 94 million users.<sup>290</sup> If only 1 in 10,000 users had an auction closed or account unjustly terminated, that calculates to over 9,000 potential class members. And that considers only eBay users; it does not include resellers who have their own websites or use other online auction sites. Having as few as 40 class members should raise a presumption that joinder is impracticable and the numerosity requirement has been met.<sup>291</sup> In addition, Internet resellers are spread across the globe, which tends to make joinder impracticable.<sup>292</sup>

Regarding commonality, whether the trademark owner made a good-faith inquiry into infringement before sending a takedown notification to eBay is one question of law and fact common to the class.<sup>293</sup> Commonality requires that the class members “have suffered the same injury.”<sup>294</sup> Recently, an eBay user brought such a claim against Coach, Inc.<sup>295</sup> Gina Kim was a former employee of Coach who tried selling a genuine Coach handbag on

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<sup>288</sup> FED. R. CIV. P. 23(a). In addition, they must also satisfy one of the three requirements of Rule 23(b):

- (1) prosecuting separate actions by or against individual class members would create a risk of:
  - (A) inconsistent or varying adjudications . . . or
  - (B) adjudications . . . that, as a practical matter, would be dispositive of the interests of the other members not parties to the individual adjudications or would substantially impair or impeded their ability to protect their interests;
- (2) the party opposing the class has acted or refused to act on grounds that apply generally to the class, so that final injunctive relief or corresponding declaratory relief is appropriate respecting the class as a whole; or
- (3) the court finds that the questions of law or fact common to class members predominate over any questions affecting only individual members, and that a class action is superior to other available methods for fairly and efficiently adjudicating the controversy.

FED. R. CIV. P. 23(b).

<sup>289</sup> 1 ALBA CONTE & HERBERT W. NEWBERG, *NEWBERG ON CLASS ACTIONS* § 3:13 (4th ed. 2002).

<sup>290</sup> *Who We Are*, EBAY, <http://www.ebayinc.com/who> (last visited Sept. 9, 2012).

<sup>291</sup> 1 CONTE & NEWBERG, *supra* note 289, § 3:5; *see also* Mullen v. Treasure Chest Casino, LLC, 186 F.3d 620, 624 (5th Cir. 1999).

<sup>292</sup> *See Mullen*, 186 F.3d at 624-25.

<sup>293</sup> This is known as a “notice of claimed infringement” or “NOCP” on eBay. *Reporting Intellectual Property Infringements (VeRO)*, EBAY, <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Sept. 9, 2012).

<sup>294</sup> *Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541, 2551 (2011) (quoting *Gen. Tel. Co. of the Sw. v. Falcon*, 457 U.S. 147, 157 (1982)).

<sup>295</sup> First Amended Complaint at 1, 4, *Kim v. Coach, Inc.*, No. 2:11-CV-00214 RSM (W.D. Wash. Mar. 2, 2011).

eBay.<sup>296</sup> Coach notified eBay, claiming the handbag was counterfeit, and eBay closed Ms. Kim's auction and terminated her seller account.<sup>297</sup> Ms. Kim sued for a declaratory judgment, among other claims, and attempted to certify a class of all consumers in Washington State who had received similar treatment from Coach.<sup>298</sup> Ms. Kim alleged that Coach had no basis in fact for its allegation she was selling a counterfeit handbag.<sup>299</sup> This appears to be a sufficiently common question.<sup>300</sup> Even though generally trademark law may be rife with factual disputes, if the legal issue can be framed properly in terms of the trademark owner's lack of inquiry and the reseller's defense under first sale, then the matter is ripe for adjudication as a class action—because the “determination of its truth or falsity will resolve an issue that is central to the validity of each one of the claims in one stroke.”<sup>301</sup>

In 2008, the U.S. District Court for the Northern District of Illinois, in *Vulcan Golf, LLC v. Google Inc.*,<sup>302</sup> found the commonality requirement was met based on the allegation that the defendants had allegedly engaged in a deceptive scheme to benefit from the plaintiffs' trademarks.<sup>303</sup> Thus, the common question can center on the defendants' actions.<sup>304</sup>

A class action similar to Ms. Kim's has been proposed in the U.S. District Court for the District of Colorado. In *Righthaven LLC v. BuzzFeed, Inc.*,<sup>305</sup> the defendant, BuzzFeed, was sued for copyright infringement for posting a copyrighted photograph to its website.<sup>306</sup> BuzzFeed filed a counterclaim alleging that Righthaven's lawsuits were an abuse of process because Righthaven did not own the copyrights at issue.<sup>307</sup> BuzzFeed further alleged in their counterclaim that Righthaven was suing in bad faith by not

<sup>296</sup> *Id.* at 2.

<sup>297</sup> Complaint for Damages Class Action Alleged at 3-5, *Kim v. Coach, Inc.*, No. 2:11-CV-00214 RSM (W.D. Wash. Feb. 8, 2011).

<sup>298</sup> *Id.* at 5-6.

<sup>299</sup> *Id.* at 5. Although her lawsuit continues, Gina Kim has since dropped her class allegation. See Order Granting Defendants' Motion to Strike Class Allegations, *Kim v. Coach, Inc.*, No. C11-214-RSM (W.D. Wash. June 6, 2011) (granting motion with Ms. Kim's consent).

<sup>300</sup> The same factual scenario throughout the class may satisfy the commonality requirement. See *Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541, 2549-51 (2011).

<sup>301</sup> *Id.* at 2551.

<sup>302</sup> 254 F.R.D. 521 (N.D. Ill. 2008).

<sup>303</sup> *Id.* at 525 (noting that “[a] common nucleus of operative fact” meets the commonality requirement (quoting *Rosario v. Livaditis*, 963 F.2d 1013, 1018 (7th Cir. 1992)).

<sup>304</sup> *Id.* Ultimately, the class of plaintiffs was not certified, however. Among other reasons, the court found that, under Rule 23(b)(3), individual issues predominated over the questions of law or fact common to class members. *Id.* at 525, 527, 534.

<sup>305</sup> Complaint & Demand for Jury Trial, *Righthaven LLC v. BuzzFeed, Inc.*, No. 11-cv-00811-JLK (D. Colo. Mar. 30, 2011).

<sup>306</sup> *Id.* ¶¶ 27-31, 47-48.

<sup>307</sup> Defendants' Answer & Counterclaims & Class Action Counterclaim ¶ 4, *Righthaven LLC v. BuzzFeed, Inc.*, No. 11-cv-00811-JLK (D. Colo. May 16, 2011).

investigating whether BuzzFeed's use of the photograph at issue was protected by fair use.<sup>308</sup> Similarly, our hypothetical class could allege the trademark owners are not investigating whether the resellers' sales are protected by first sale and not infringing.<sup>309</sup>

The likelihood of successful class actions will also depend on the legal claims pursued and the remedies available to the resellers.<sup>310</sup> Defamation and tortious interference are among the claims that resellers have alleged.<sup>311</sup> The *Righthaven* lawsuit and proposed class is premised on the purported copyright owner's failure to investigate fair use.<sup>312</sup> Because the Copyright Act provides for attorney's fees to the prevailing party,<sup>313</sup> this bad-faith, or failure-to-investigate claim has much greater prospects under copyright law than it would under trademark law. The Lanham Act, on the other hand, is more grudging and convoluted in its fee-shifting; the prevailing party may only recover attorney's fees "in exceptional cases."<sup>314</sup> As one judge observed, "[a] rainbow of standards has been promulgated to define the word exceptional in the Lanham Act, some seemingly requiring bad faith or other culpability, others following a less stringent approach."<sup>315</sup>

At the close of 2010, Judge Richard Posner surveyed the standards used across the circuit courts and decided to use a bifurcated approach to awarding attorneys' fees: if the losing party is the plaintiff, then "exceptional" means abuse of process; if the losing party is the defendant, it means the defendant "had no defense yet persisted in the trademark infringement or false advertising for which he was being sued, in order to impose costs on his opponent."<sup>316</sup> Therefore, at least in the Seventh Circuit, reseller-defendants accused of trademark infringement would need to both prevail and prove that the plaintiffs engaged in abuse of process, i.e., "the use of

<sup>308</sup> *Id.* ¶¶ 4-5. The district court ultimately dismissed this lawsuit in a minute order on March 20, 2012. See Minute Order, *Righthaven LLC v. BuzzFeed, Inc.*, No. 1:11-cv-00811-JLK (D. Colo. Mar. 20, 2012). The court had found in a related case that *Righthaven* lacked standing to sue for copyright infringement. *Righthaven LLC v. Wolf*, 813 F. Supp. 2d 1265, 1273 (D. Colo. 2011).

<sup>309</sup> Gina Kim ultimately withdrew her motion to certify the class, but these Authors consider the question "to be continued." See Plaintiff's Statement of Non-Opposition to Defendant's Motion to Strike Class Allegations, *Kim v. Coach, Inc.*, No. 2:11-CV-00214 RSM (W.D. Wash. May 2, 2011); Order Granting Defendants' Motion to Strike Class Allegations, *supra* note 299. It is only a matter of time before another class action is proposed.

<sup>310</sup> See *Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541, 2551 (2011).

<sup>311</sup> See, e.g., First Amended Complaint, *supra* note 295, at 5.

<sup>312</sup> See Defendants' Answer & Counterclaims & Class Action Counterclaim, *supra* note 307, ¶ 4.

<sup>313</sup> 17 U.S.C. § 505 (2006).

<sup>314</sup> 15 U.S.C. § 1117(a) (2006).

<sup>315</sup> *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 120 (D. Mass. 2001); see also 5 MCCARTHY, *supra* note 23, § 30:101.

<sup>316</sup> *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 960, 963-64 (7th Cir. 2010). But he later called the issue of defining terms a "kind of pseudo-conflict among circuits" and noted that "different legal definitions of the same statutory language . . . probably don't generate different outcomes." *Jendusa-Nicolai v. Larsen*, 677 F.3d 320, 322-23 (7th Cir. 2012).

the litigation process for an improper purpose, whether or not the claim is colorable.”<sup>317</sup> Other circuits will award attorneys’ fees for bad faith or a “[w]illfulness short of bad faith.”<sup>318</sup> These standards may be difficult to meet, yet trademark owners are acting in bad faith by accusing Internet resellers of infringement, not because they are infringing, but because they are competing for sales.<sup>319</sup>

#### FINAL THOUGHTS

Protecting the resale market increases consumer choice and spurs mark owners to innovate and bring new and improved products to the market.<sup>320</sup> If we allow mark owners to prevent the resale of their goods, consumers lose out on the competition that resellers provide.<sup>321</sup> Legislatively created first sale and nominative fair use doctrines, along with the elimination of initial interest confusion as a cause of action under the Lanham Act, would provide resellers and auction websites guidance in navigating the minefield of rights and duties with regard to Internet secondary-market sales, so that they more closely resemble the brick-and-mortar setting.<sup>322</sup> This would support the economic policy goals underlying intellectual property<sup>323</sup> and spur

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<sup>317</sup> *Nightingale Home Healthcare*, 626 F.3d at 963.

<sup>318</sup> *Compare* *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997) (noting that “Section 35(a) of the Lanham Act . . . requires exceptional circumstances” such as bad faith) *with* *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 32 (1st Cir. 2002) (explaining that “[w]illfulness short of bad faith or fraud will suffice” in exceptional cases). Ordinarily district courts have discretionary authority to award attorneys’ fees when a party has “acted in bad faith, vexatiously, wantonly, or for oppressive reasons.” *Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991). That authority has been held not to apply to Lanham Act claims, however. *Nightingale Home Healthcare*, 626 F.3d at 964-65 (citing *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714 (1967)). In addition to the fee-shifting provided in the Lanham Act, sanctions are available. “Any attorney . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys’ fees reasonably incurred because of such conduct.” 28 U.S.C. § 1927 (2006); *accord* *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1365 (Fed. Cir. 2003).

<sup>319</sup> “To bring a frivolous claim in order to obtain an advantage unrelated to obtaining a favorable judgment is to commit an abuse of process.” *Nightingale Home Healthcare*, 626 F.3d at 966.

<sup>320</sup> *See supra* note 15 and accompanying text.

<sup>321</sup> *See* *Lemley & McKenna*, *supra* note 14, at 187.

<sup>322</sup> *See supra* Part IV.A.

<sup>323</sup> *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127-28 (1932) (“The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors. A copyright, like a patent, is ‘at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects.’” (quoting *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 328 (1858))). *See generally* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031, 1072 (2005); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1042-44 (1997) (“The property rights theory of intellectual property is rooted in many



competition and innovation in the marketplace.<sup>324</sup> These solutions would also benefit consumers looking for bargains and align trademark exhaustion in cyberspace with its application with brick-and-mortar settings.<sup>325</sup>

Copyright<sup>326</sup> and patent<sup>327</sup> laws have robust first sale defenses, which severely limit ongoing rights of the copyright and patent owner beyond the first authorized sale of the material object which embodies the intellectual property right(s) at issue.<sup>328</sup> However, the weakening of trademark first sale doctrine with regards to online sales and advertising has, to some extent, led to an “end run” around copyright first sale.<sup>329</sup>

This dilution has increasingly allowed trademark, patent, and copyright owners to extend control over the resale of their goods, even though this restraint has consistently been rejected.<sup>330</sup> In its construction and interpretation of the Lanham Act, the Supreme Court has “been ‘careful to caution against misuse or over-extension’ of trademark and related protections into areas traditionally occupied by patent or copyright.”<sup>331</sup>

After all, “[t]he rights of a patentee or copyright holder are part of a ‘carefully crafted bargain,’ under which, once the patent or copyright monopoly has expired, the public may use the invention or work at will and without attribution.”<sup>332</sup> And both courts and Congress are loath to extend through trademark that which has been lost through the expiration of a patent or copyright.<sup>333</sup>

For the first sale/exhaustion doctrine to be meaningful in copyright and patent law contexts, it must be equally robust as a trademark infringe-

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of the same economic traditions as incentive theory, but its focus is on the ability of intellectual property ownership to force the efficient use of inventions and creations through licensing.”).

<sup>324</sup> See Lemley & McKenna, *supra* note 14, at 185.

<sup>325</sup> See generally *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam) (explaining first sale doctrine as it relates to brick and mortar stores).

<sup>326</sup> 17 U.S.C. § 109(a) (2006); see also *id.* § 106(3).

<sup>327</sup> See, e.g., *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997) (“[A]n ‘unconditional sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device’ thereafter.” (quoting *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992))).

<sup>328</sup> See *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33-34 (2003).

<sup>329</sup> See Lemley & McKenna, *supra* note 14, at 189 (“[I]t is not trademark law’s role to backstop copyright protection to ensure that the author captures all of the value of a work. Copyright leaves certain uses open for a reason.”).

<sup>330</sup> See *supra* notes 144-160 and accompanying text.

<sup>331</sup> *Dastar*, 539 U.S. at 34 (citing *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001)).

<sup>332</sup> *Id.* at 33-34 (citation omitted).

<sup>333</sup> *Id.* at 34; see *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1075 (9th Cir. 1995) (per curiam).

ment defense.<sup>334</sup> Nominative fair use must actually be accepted by the courts. In “brick-and-mortar” settings, there is no confusion as to affiliation with the mark owner with regard to distribution channels—it would be difficult to believe that a consumer would think that a consignment shop or antique store was affiliated with the mark owners of all the goods sold at such venues. The same should hold equally true in cyberspace.

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<sup>334</sup> See *supra* notes 131-135 and accompanying text.