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CHAPTER 22

TRADEMARK EXHAUSTION AND THE INTERNET OF RESOLD THINGS

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

I. Introduction

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, 30 million new ads are posted on Craigslist every month, and six million new listings are posted daily on eBay.¹ The explosive online market has affected the sales of new goods, troubling manufacturers² who seek to curtail the growth of this secondary market through several avenues—some legitimate, and others not so much. 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.³

Manufacturers have also tried to stifle the resale market by suing resellers and auction sites for trademark and copyright infringement,⁴ attempting wholesale removal of their goods on auction websites and other unauthorized distribution channels, and using auction site take-down notice procedures that are supposed to be reserved for removing counterfeit and infringing goods.⁵ These actions go beyond trademark bullying and are more than merely

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¹ reComparison Contributor, *eBay vs. Craigslist*, RECOMPARISON (2015), <http://recomparison.com/comparisons/100646/eBay-vs-craigslist/>; *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).

² 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).

³ 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”).

⁴ 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”).

⁵ See generally *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 632, 846 (N.D. Tex. 2009); *Tiffany*, 576 F. Supp. 2d at 481.; *Tiffany*, 576 F. Supp. 2d at 478.

stopping a merchant from using the owner’s mark—the goal is to remove the reseller’s goods from the market altogether. 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. 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”⁶ These courts’ reasoning is contradicted by strong evidence showing that many consumers visit sites like eBay and Craigslist to find 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.⁷

Policies that advance the mark owner’s ability to control all distribution channels 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. Consumers would lose out on the competition that resellers provide.⁸ We argue 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. Our suggestions would protect the lawful sale of goods in the secondary market while allowing manufacturers to prevent counterfeit products from being sold online.

II. 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 changes ownership, 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. “[T]rademark law protects the producer from pirates and counterfeiters” and others who would attempt to exploit the good will established by Waterford.⁹ However, merely because the Waterford mark remains inextricably linked to its vases as a source indicator does not permit Waterford to control downstream sales of its goods outside its own distribution chains.¹⁰ And while the Trademark Act of 1946 (Lanham

⁶ *Playboy Enters. v. Netscape Commc’ns Corp.*, 354 F.3d 1020, 1025 (9th Cir. 2004).

⁷ See Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 577 (2005). Prof. Goldman also 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.

⁸ See generally Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137, 187 (2010).

⁹ See S. REP. NO. 100-515, at 4 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5580 (stating trademark dual purpose of protecting “the public by making consumers confident that they can identify brands they prefer and can purchase those brands without being confused or misled” and protecting the brand equity of mark owners, who spend “considerable time and money bringing a product to the marketplace.”).

¹⁰ *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (per curiam).

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. Consumers do not need to know that Kimberly-Clark makes "Huggies" disposable diapers, so long as the consumer recognizes that the "Huggies" mark identifies a single source of the good. As long as the customer is not confused as to the source of these genuine goods, then it should be irrelevant whether it was sold through the mark owner's own distribution channel or a reseller.¹¹

A. *Genuine Goods*

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.¹² Trademarks serve to (1) foster competition in the marketplace;¹³ (2) encourage manufacturers to maintain the quality of goods;¹⁴ (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;"¹⁵ (4) help consumers locate products and services more efficiently;¹⁶ and (5) serve as a "species of advertising."¹⁷ 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."¹⁸

B. *Harsh Realities*

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 may be enough to shut down a secondary market business. The Internet Service Providers (ISPs) and auction sites also may face accusations of contributory infringement should they refuse to remove listings for the

¹¹ *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955); 1 J. THOMAS MCCARTHY, *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION* § 3:7 (4th ed. 2012).

¹² *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198 (1985); S. REP. NO. 79-1333, at 3 (1946).

¹³ 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.").

¹⁴ *Park 'N Fly*, 469 U.S. at 198.

¹⁵ ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS*, § 25.3, at 547 (2003) (quoting *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 164 (1995)).

¹⁶ See, e.g., *Qualitex Co.*, 514 U.S. at 163-64.

¹⁷ *Northam Warren Corp. v. Universal Cosmetic Co.*, 18 F.2d 774, 774 (7th Cir. 1927).

¹⁸ Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 431 (1999).

allegedly offending goods. Oftentimes, the small reseller cannot afford an attorney to defend itself.¹⁹ 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. “Veoh is legal, but Veoh is dead—killed by rightsowner lawfare that bled it dry.”²⁰ 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.

III. Waging Lawfare

In addition to using threatening cease-and-desist letters, mark owners have not been shy about pursuing their claims in court.²¹ The most common suits brought against online resellers are claims of either infringement, or false designation of origin or description regarding the reseller’s affiliation with the mark owner as an “authorized” distributor, often based on initial interest confusion.²² Other claims sometimes alleged include trademark dilution, tortious interference with business relations, copyright infringement, and false advertising.²³

A. *Claiming All Sorts of Confusion*

In her prima facie case, a plaintiff mark owner suing for trademark infringement 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; and (3) this use is likely to cause customer confusion.²⁴ Of these elements, the last is the key in any infringement suit.²⁵ Supposedly, “likelihood” is not the mere possibility of confusion; customer confusion must be “probable,” and the likelihood of confusion must affect an “appreciable or substantial number of consumers.”²⁶ The eight factors adopted by the Second

¹⁹ Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WISC. L. REV. 625, 647-48, 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>; Melvin Simensky & Eric C. Osterberg, *The Insurance and Management of Intellectual Property Risks*, 17 CARDOZO ARTS & ENT. L.J. 321, 337 (1999).

²⁰ 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.

²¹ See William McGeveran, *Rethinking Trademark Fair Use*, 94 IOWA L. REV. 49, 63-64 (2008).

²² 15 U.S.C. § 1114(1) (2006); § 1125(a)(1); See also generally *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350, 352 (9th Cir. 1969).

²³ 15 U.S.C. § 1125(c)(1); see, e.g., *Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co.*, 173 F.3d 725, 733 (9th Cir. 1999) (tortious interference); see *Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964, 970 (10th Cir. 2002) (false advertising).

²⁴ See, e.g., *Dep’t of Parks & Recreation v. Bazaar del Mundo, Inc.*, 448 F.3d 1118, 1124 (9th Cir. 2006).

²⁵ *Bird v. Parsons*, 289 F.3d 865, 877 (6th Cir. 2002).

²⁶ *Rodeo Collection, Ltd. v. West Seventh*, 812 F.2d 1215, 1217 (9th Cir. 1987); *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44, 47 (2d Cir. 1978) (per curiam); SCHECHTER & THOMAS, *supra* note 15, at § 29.1, 638-40.

Circuit in *Polaroid Corp. v. Polarad Electronics Corp.* are typical of those used by other circuits. Courts consider: (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.²⁷

Resellers are usually accused of confusion as to affiliation or sponsorship—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 reseller's website, the consumer immediately realizes this is not the case.²⁸ 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 attention.²⁹ 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.³⁰

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.’”³¹ 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.³² The First Circuit also rejects initial interest confusion.³³

The initial interest confusion doctrine “is at odds with the purpose, intent, and literal meaning of the Lanham Act”³⁴ and we should question the outright validity of the doctrine. As

²⁷ *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961); SCHECHTER & THOMAS, *supra* note 15, § 29.1, at 640.

²⁸ See 15 U.S.C. § 1125(a)(1); *Designer Skin, LLC v. S & L Vitamins, Inc.*, 560 F. Supp. 2d 811, 818 (D. Ariz. 2008).

²⁹ See *Vail Assocs., Inc. v. Vend-Tel-Co.*, 516 F.3d 853, 872 (10th Cir. 2008). For a synopsis of the case history of initial interest confusion, see Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105, 114-21 (2005).

³⁰ *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238-39 (10th Cir. 2006) (citations omitted).

³¹ *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.* 174 F.3d 1036, 1062 (9th Cir. 1999).

³² *Lamparello v. Falwell*, 420 F.3d 309, 315-16 (4th Cir. 2005).

³³ See *N. Light Tech., Inc. v. N. Lights Club*, 97 F. Supp. 2d 96, 113 (D. Mass. 2000).

³⁴ Lisa M. Sharrock, *Realigning the Initial Interest Confusion Doctrine with the Lanham Act*, 25 WHITTIER L. REV. 53, 54 (2003).

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 . . . [It] undermines the free market system under a misguided notion that competition in and of itself is unfair.”³⁵

B. *Acts of Aggression*

Encouraged by the expansion of trademark protection in the courts, mark owners have become increasingly aggressive in policing their marks. 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.”³⁶ Courts are finding liability even when consumers “couldn’t possibly have been confused about the actual source of the defendants’ products.”³⁷

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.³⁸

Resellers are often at the mercy of spurious trademark and copyright infringement claims, and some courts have ignored affirmative defenses in finding infringement.³⁹ 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. 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.⁴⁰ 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.”⁴¹

³⁵ Rothman, *supra* note 29, at 108, 111 (arguing that “the doctrine is wrong as a matter of policy and . . . it represents an assault on the fundamental principles of trademark law”).

³⁶ Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 414 (2010).

³⁷ *Id.* at 416-21.

³⁸ *Id.* at 421-22.

³⁹ Grinvald, *supra* note 19, at 660-61.

⁴⁰ *Mary Kay, Inc. v. Weber*, No. 3:08-CV-0776-G, 2009 WL 2569070, at *3 (N.D. Tex. Aug. 14, 2009).

⁴¹ *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238 (10th Cir. 2006).

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. Indeed, 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."⁴² 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."⁴³ 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.⁴⁴ Such decisions seem contradictory to both congressional intent and Supreme Court precedent.

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.⁴⁵ ISPs and online auction sites would find it very useful if the Lanham Act had an Internet safe harbor provision similar to Section 512 of the Copyright Act. Under this section, 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. The limitations of copyright rights, however, should, in theory, thwart attempts to remove listings of genuine items for resale. However, this copyright misuse leaves the mark owners vulnerable to lawsuits under Section 512(f) of the Digital Millennium Copyright Act (DMCA), which states that "[a]ny person who knowingly materially misrepresents under [Section 512] . . . shall be liable for any damages, including costs and attorneys' fees, incurred by the alleged infringer . . . who is injured by such misrepresentation."

The Copyright Act of 1976 provides copyright owners the exclusive right to reproduce, make adaptations, distribute, publicly display, and publicly perform their works. 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 using the photograph in an advertisement selling the vase—would theoretically infringe on the copyright owner's reproduction and adaptation right, and avail the copyright owner of the Section 512 take-down provisions.⁴⁶ There are, however several limitations on these exclusive rights, including

⁴² Lunney, *supra* note 18, at 371, 385.

⁴³ Rothman, *supra* note 29, at 140-45.

⁴⁴ See Deborah F. Buckman, *Initial Interest Confusion Doctrine Under Lanham Trademark Act*, 183 A.L.R. Fed. 553, 607-08 (2003).

⁴⁵ 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).

⁴⁶ 17 U.S.C. §§ 106(1)-(2).

Section 113(c), which declares that it is copyright infringement for others to make and distribute pictures or photos of a useful article, such as our hypothetical Waterford vase, in connection with ads or commentaries related to the distribution or display of such articles, so long as the vase has been offered for sale or distributed to the public.

Even so, 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 113.⁴⁷ For example, Standard Process separately sued two resellers of dietary supplements for trademark infringement, based in part on their use of photographs of Standard Process's products that were being resold online by the defendants. Standard Process sent cease-and-desist letters, stating that use of those photographs violated trademark law.⁴⁸ Yet there was no reason the defendants should have removed the photographs—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.⁴⁹ Their removal, according to Professor Rebecca Tushnet, is “caving to bullying” and unwarranted.⁵⁰

Product photographs can actually help mark owners identify counterfeit products. 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.⁵¹ Of course, a major motive for removing photographs from the reseller's auction listings is that this will hurt sales. eBay even lists as one of its most effective strategies the use of “photos from a variety of angles.”⁵² 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. Misusing copyright and trademark law points to a single objective: to decrease the competition of secondary markets. Small dealers are faced with either defending themselves or ceasing operations.⁵³

⁴⁷ 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>.

⁴⁸ *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. Wisc. 2008).

⁴⁹ See *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam) (emphasis added).

⁵⁰ Tushnet, *supra* note 47.

⁵¹ 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); *How to Identify Counterfeit MAC Products: eBay Guides*, EBAY (Oct. 26, 2011), <http://www.ebay.com/gds/How-to-identify-fake-MAC-Cosmetics-Lipsticks-Viva-Glam-/10000000104967214/g.html>.

⁵² *Take Product Photos that Sell*, EBAY (2015), <http://pages.ebay.com/sellerinformation/tips-for-selling-online/effective-ebay-listings/product-photos.html>.

⁵³ See Grinvald, *supra* note 19, at 647, 650-51.

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. 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.⁵⁴ 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 bulk sales outside Tiffany's normal distribution chain had to be counterfeit. 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.”⁵⁵

eBay was successful in defending both direct and indirect infringement claims based on the defenses of nominative fair use and lack of control over the merchants who use the site. 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, cancel fees it earned from that listing, and direct buyers not to consummate the sale of the disputed item.”⁵⁶ 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.*,⁵⁷ generalized knowledge was not sufficient “to impose upon eBay an affirmative duty to remedy the problem.”⁵⁸ Other websites have also successfully defended themselves against similar suits.⁵⁹

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. The hosts want to ensure that they are viewed merely as “conduits” between the buyer and seller

⁵⁴ See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 98, 101 (2d Cir.), cert. denied, 131 S. Ct. 647 (2010)..

⁵⁵ *Id.* at 101. Tiffany claimed “direct and contributory trademark infringement, trademark dilution, and false advertising.” *Id.* The allegation that bulk sales were counterfeit was rejected by both the district court and on appeal. *Id.* at 109 n.13.

⁵⁶ *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.”); *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. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982))).

⁵⁷ 456 U.S. 844, 853-54 (1982).

⁵⁸ *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)).

⁵⁹ See, e.g., *GMA Accessories, Inc. v. BOP, LLC*, 765 F. Supp. 2d 457, 465 (S.D.N.Y. 2011)

with no direct control over the listed goods,⁶⁰ and will usually remove listings based on any accusation by the mark owner. 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. This cycle of removing/disputing/relisting, however, costs the resellers of genuine goods time, money, and frustration and creates added burdens to both the reseller and the auction site, stifling the sale of goods for both parties.⁶¹ 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. Yet when a “take down” occurs, the listing fee is returned to the seller, depriving the host of the fee for a legitimate good.⁶² 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.⁶³

A clearly defined and strong trademark first sale doctrine 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.⁶⁴

IV. 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. 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.”⁶⁵

⁶⁰ See, e.g., *Tiffany*, 600 F.3d at 98-99; *Sellify, Inc. v. Amazon.com, Inc.*, 2010 WL 4455830, *4 (Nov. 4, 2010).

⁶¹ 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, 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; *Tiffany*, 576 F. Supp. 2d. at 517 n.39.

⁶² *Standard Selling Fees*, EBAY (2015), <http://pages.ebay.com/help/sell/fees.html>; *Why Did eBay Remove My Listing?*, EBAY (2015), <http://pages.ebay.com/help/sell/questions/listing-ended.html> (“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 If we agree that your item was removed in error, you can relist it. Unfortunately, you’ll have to recreate the listing from scratch.”).

⁶³ 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.”).

⁶⁴ “[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 8, at 137.

⁶⁵ See, e.g., *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302, 307-08 (9th Cir. 1992); Michael Grynberg, *Things Are Worse Than We Think: Trademark Defenses in a “Formalist” Age*, 24 BERKELEY TECH. L.J. 897, 956 (2009).

A. *Repackaged, Repaired, Resold*

There are several ways to use another’s mark in commerce that do not constitute infringement. These include, among others, when the vendor is (1) selling repackaged goods; (2) selling used or repaired goods; (3) reselling a genuine good. 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.”⁶⁶ 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].”⁶⁷ Thus, in order to avoid Lanham Act liability, when sellers purchase genuine goods and then repackage the goods for resale, these resellers generally 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. 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.⁶⁸

A reseller who is selling a repaired good “has the right to resell the original product with the original trademark attached, as long as the reseller tells the truth about the origin of the repaired goods and about his responsibility for any repairs.”⁶⁹ Just as a reseller must state that repackaged goods have been repackaged, a reseller of repaired goods must state that they have been repaired. At some point, however, repairs may be so extensive that the product “cannot properly be considered the same any longer” and the mark no longer truthfully describes the goods attached to it.⁷⁰

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

⁶⁶ Justin D. Swindells, *Repackaging Original Trademarked Goods: Trademark Exhaustion or Consumer Confusion?*, 7 FED. CIR. B.J. 391, 391-93 (1997).

⁶⁷ *Id.* at 402.

⁶⁸ SCHECHTER & THOMAS, *supra* note 15, at § 31.1.2, 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).

⁶⁹ David W. Barnes, *Free-Riders and Trademark Law’s First Sale Rule*, 27 SANTA CLARA COMPUTER & HIGH TECH. L.J. 457, 486 (2011).

⁷⁰ SCHECHTER & THOMAS, *supra* note 15, at § 31.1.2, 732; *see also* *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947).

products or services,⁷¹ and a defendant has a right to use a plaintiff's mark to truthfully describe the plaintiff's goods using the plaintiff's mark.⁷² Yet in spite of its twenty-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.⁷³ Indeed, in the Ninth Circuit, it is not an affirmative defense; rather, it *replaces* likelihood of confusion in the plaintiff's prima facie case.⁷⁴ The First, Second, and Sixth Circuits have either rejected or declined to adopt nominative fair use,⁷⁵ and other courts have yet to decide on its adoption or rejection.⁷⁶ In spite of this limited acceptance, nominative fair use is mentioned, albeit without a definition, in the Trademark Dilution Revision Act of 2006.⁷⁷

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;”⁷⁸ he 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 to the likelihood of confusion determination, subsequent cases have destroyed nominative fair use.⁷⁹

⁷¹ *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 227 (3d Cir. 2005).

⁷² *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 306 (9th Cir. 1992).

⁷³ *See Century 21 Real Estate*, 425 F.3d at 218.

⁷⁴ *E.g.*, *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1175 (9th Cir. 2010).

⁷⁵ *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); *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).

⁷⁶ 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.*, 802 F. Supp. 2d 1273, 1282 (M.D. Fla. 2011); *Teter v. Glass Onion, Inc.*, 723 F. Supp. 2d 1138, 1156 (W.D. Mo. 2010); *Gennie Shifter, LLC v. Lokar, Inc.*, No. 07-cv-01121, 2010 WL 126181, at *14 (D. Colo. Jan. 12, 2010); *Lorillard Tobacco Co. v. S & M Brands, Inc.*, 616 F. Supp. 2d 581, 589 (E.D. Va. 2009); *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).

⁷⁷ 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”)

⁷⁸ McGeeveran, *supra* note 21, at 89.

⁷⁹ *Id.* at 97.

This muddled application of nominative fair use has adversely affected online resellers and unfairly strengthens mark owners' control over distribution channels for their goods beyond the initial sale to the public.⁸⁰

C. *That First Sale of a Genuine Good*

The nominative fair use defense usually concerns comparative advertising or other instances where the defendant is selling their own goods and in some way refers to the mark owner's goods.⁸¹ 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. The first sale doctrine is based on the principle that trademark owners should not be able to control downstream sales of their goods.⁸²

While first sale was legislatively created in the Copyright Act,⁸³ trademark and patent first sale (or exhaustion) affirmative defenses are long-recognized judicial constructs.⁸⁴ 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.”⁸⁵ As noted *supra*, 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. Under the exhaustion doctrine,

[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.⁸⁶

⁸⁰ Cf. *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 632, 857 (N.D. Tex. 2009) (applying the Ninth Circuit test to Ms. Weber's sale of Mary Kay products).

⁸¹ 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 . . . is descriptive of and used fairly and in good faith only to describe the goods or services of such party; *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.”).

⁸² See *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (per curiam). For an in-depth discussion on the first sale rule and its rationale, see Barnes, *supra* note 70, at 461-69.

⁸³ 17 U.S.C. § 109(a) (2006). Patent law has a robust, but judicially created exhaustion principle. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008).

⁸⁴ 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).

⁸⁵ Barnes, *supra* note 69, at 461.

⁸⁶ *Davidoff & Cie, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1301-02 (citations omitted); *Champion Spark Plug*, 331 U.S. at 129; see *Prestonettes*, 264 U.S. at 360

It reflects a general public policy against restraints on alienation.⁸⁷ “[A]s 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.”⁸⁸ 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.⁸⁹ 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.⁹⁰

Courts should tolerate more confusion than they typically do when the defendant is using a mark similar to the plaintiff’s to sell the defendant’s own goods.⁹¹ 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.”⁹² However, it is the plaintiff’s burden under the Lanham Act to establish likelihood of confusion as part of the prima facie case. Therefore, if the reason for the alleged likelihood of confusion claim is that the goods are not genuine, the plaintiff must prove that.⁹³ Exhaustion should apply equally to online sales as it does to brick-and-mortar stores. Courts, however, do not always do so,

⁸⁷ Barnes, *supra* note 69, 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.”).

⁸⁸ *Bel Canto Design, Ltd. v. MSS HiFi, Inc.*, 837 F. Supp. 2d 208, 222 (S.D.N.Y. 2011) (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 1067, 1072 (Apr. 9, 2009)).

⁸⁹ *See* *Champion Spark Plug Co.*, 331 U.S. at 129 (“[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.”).

⁹⁰ *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam).

⁹¹ *Id.* (applying the first sale doctrine despite consumer confusion).

⁹² Barnes, *supra* note 69, at 465.

⁹³ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 121 (2004); Barnes, *supra* note 69, at 466-67.

and—as discussed below—by supporting plaintiffs’ claims of trademark infringement, they extend control over the distribution channels of goods beyond the initial sale.⁹⁴

V. Challenging the Mark Owner’s Desire for Total Control

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. 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.”⁹⁵

A. Strengthening Available Defenses

There is a need for a rebalancing of the scales to prevent continued control by mark owners of the distribution of their products beyond the first sale. However, “[a]bsent congressional action, courts have only a limited ability to correct the imbalance between trademark liability and defenses.”⁹⁶ 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 amend the Lanham Act by (1) codifying trademark first sale and nominative fair use as defenses under Section 33(b); (2) eliminating the controversial claim of initial interest confusion regarding the sale of genuine goods; and (3) specifying a requirement of deceptive intent regarding distribution affiliation confusion for it to be an actionable claim.⁹⁷ 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

⁹⁴ See, e.g., *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1240-41 (10th Cir. 2006) (regarding a website); *Sebastian Int’l, Inc.*, 53 F.3d at 1076 (regarding a pharmacy); Lemley & McKenna, *supra* note 8, at 152-53.

⁹⁵ See Goldman, *supra* note 7, at 587; Lemley & McKenna, *supra* note 37, at 448-49; *supra* Part I.C; Lemley & McKenna, *supra* note 8, 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.

Id.

⁹⁶ *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); Grynberg, *supra* note 65, at 970.

⁹⁷ *Cf.* Lemley & McKenna, *supra* note 37, 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.”); see also *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.”).

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.”⁹⁸

Since the trademark exhaustion doctrine has its roots in copyright law; an amendment to the Lanham Act could mimic Section 109(a) of the Copyright Act: “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.” Similar language would provide uniformity across these two often-times related intellectual property claims. If Lanham Act language clearly stated that the same first sale exception that applies for copyrights also applies 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, it may not stop the reality of cease-and-desist letters and threatened litigation. Penalties for threats of frivolous litigation are common, and are part of anti-trust law, first amendment protection, and copyright law.⁹⁹ Similarly worded language in the Lanham Act may prevent some of this bullying with regard to frivolous litigation.¹⁰⁰

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. 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.”¹⁰¹ 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. First, as long 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.¹⁰² Second, as noted earlier, many consumers visit sites like eBay and

⁹⁸ Grynberg, *supra* note 65, at 962.

⁹⁹ See, 15 U.S.C. §§ 15(a)(1), 15a(1), 15c(a)(2)(A) (2006); CAL. CIV. PROC. CODE §§ 425.16(a), (b)(1), (c)(1) (West 2012); 17 U.S.C. § 512(f) (2006).

¹⁰⁰ 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).

¹⁰¹ Lunney, *supra* note 18, at 478.

¹⁰² *Strange Music, Inc. v. Strange Music, Inc.*, 326 F. Supp. 2d 481, 492 (S.D.N.Y. 2004); Lemley & McKenna, *supra* note 37, 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”).

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.¹⁰³ 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.* 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.”¹⁰⁴

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. 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.¹⁰⁵

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[,]”¹⁰⁶ 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.¹⁰⁷

We also 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.*, 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.”¹⁰⁸ Yet this form of confusion has been successfully asserted in Internet resale cases. Juries and judges have supported a finding of infringement based on initial interest affiliation confusion as to the distribution channel of the good, and have often discounted any first sale or nominative fair use

¹⁰³ See Goldman, *supra* note 7, 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).

¹⁰⁴ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 121-22 (2004).

¹⁰⁵ See Grynberg, *supra* note 65, at 907-08.

¹⁰⁶ *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)).

¹⁰⁷ Rothman, *supra* note 29, at 140.

¹⁰⁸ *Playboy Enters., Inc. v. Netscape Commc’ns Corp.*, 354 F.3d 1020, 1034-35 (9th Cir. 2004) (Berzon, J., concurring).

defense.¹⁰⁹ 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.¹¹⁰

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. The plaintiff would have to overcome this presumption as part of his or her *prima facie* case.¹¹¹ 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. “The words of the Lanham Act should not be stretched to cover matters that are typically of no consequence to purchasers.”¹¹² 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.¹¹³ 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[,]” and the costs of protecting consumers from this form of confusion is unreasonably high.¹¹⁴ “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.”¹¹⁵

IV. Conclusion

Protecting the resale market increases consumer choice and spurs mark owners to innovate and bring new and improved products to the market. 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. This would support the economic policy goals underlying intellectual property¹¹⁶ and spur competition and

¹⁰⁹ See *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1062, 1065 (9th Cir. 1999) (ignoring the distribution channel); *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 858-59 (N.D. Tex. 2009) (ignoring first sale and fair use).

¹¹⁰ See Rothman, *supra* note 29, at 169-70.

¹¹¹ *McCann v. Newman Irrevocable Trust*, 458 F.3d 281, 287 (3d Cir. 2006).

¹¹² *Daystar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 32-33 (2003).

¹¹³ See Sharrock, *supra* note 34, at 65-66.

¹¹⁴ Lemley & McKenna, *supra* note 37, at 437-38 (emphasis omitted); *id.* at 438-42.

¹¹⁵ Lunney, *supra* note 18, at 486.

¹¹⁶ *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127-28 (1932)

innovation in the marketplace.¹¹⁷ These solutions would also benefit consumers looking for bargains and align trademark exhaustion in cyberspace with its application with brick-and-mortar settings.¹¹⁸

“The 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.” And both courts and Congress are loath to extend through trademark that which has been lost through the expiration of a patent or copyright.¹¹⁹ For the first sale/exhaustion doctrine to be meaningful in copyright and patent law contexts, it must be equally robust as a trademark infringement defense. 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.

(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. 322, 328 (1858))).

¹¹⁷ See Lemley & McKenna, *supra* note 8, at 185.

¹¹⁸ See generally *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) (per curiam).

¹¹⁹ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33-34 (2003) (citation omitted); see *Sebastian Int’l, Inc.*, 53 F.3d at 1075.