

### New York Court to Weigh *Tiffany v. eBay's* Effect on Web Service's Contributory Liability

A trademark infringement lawsuit over allegedly infringing art in the Second Life virtual world has the potential to show *Tiffany v. eBay* affected the standard for a Web service provider's potential contributory trademark liability for users' content (*Minsky v. Linden Research Inc.*, N.D.N.Y., No. 08-819, *answer and counterclaims filed 10/10/08*).

The *Tiffany* decision, currently on appeal to the Second Circuit, seemed to create a safe harbor shielding service providers from contributory liability for infringing content posted by third parties, provided they respond when presented with specific notice of particular infringing content on their services, attorneys told BNA.

In the *Linden* case, the court is being asked to decide whether a service provider, faced with notice of infringement it believed was inaccurate, could, nevertheless, be held liable for contributory infringement because it did not remove alleged infringing content from its service. The case will ultimately turn on the validity of the mark at issue, attorneys predicted. Because Linden had notice of the claim, and did not act, its conduct probably falls outside the *Tiffany* safe harbor, they said, regardless of Linden's beliefs about the validity of the claims.

#### Evolution of Contributory Trademark Liability Theory.

The contributory trademark infringement liability theory is grounded in common law, rather than in the Lanham Act.

In *Inwood Laboratories Inc. v. Ives Laboratories Inc.*, 456 U.S. 844, 854 (1982), the U.S. Supreme Court set forth the following test for contributory trademark infringement: [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.

The Seventh Circuit, in *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992), held that the doctrine applied to the provision of services, as well.

*Hard Rock* held owners of a flea market where infringing products were sold liable for the infringement, despite no evidence they had actual knowledge of infringement. The *Hard Rock* court held that contributory liability could be imposed because owners were "willfully blind" to ongoing violations.

The Ninth Circuit in *Fonovisa Inc. v. Cherry Auction Inc.*, 76 F.3d 259 (9th Cir. 1996), applied *Hard Rock's* reasoning in a similar swap meet context. Companies may be held "responsible for the torts of those it permits on their premises if they know or have reason to know that the other is acting or will act tortiously," the court said.

#### *Tiffany* Court: General Knowledge Not Enough.

The U.S. District Court for the Southern District of New York held July 14 that Internet auction site eBay Inc.'s general knowledge that counterfeit goods are sold through its service did not subject it to contributory liability for trademark infringement. *Tiffany (NJ) Inc. v. eBay Inc.*, No. 04-4607 (S.D.N.Y. July 14, 2008)(13 ECLR 942, 7/16/08)

The standard for contributory trademark infringement was not whether eBay had general knowledge of infringement or could reasonably anticipate infringement, the court said, but whether it continued to supply services to sellers it knew or had reason to know were actually selling infringing products. Absent evidence of that specific knowledge, eBay could not be held liable for users' sales of infringing products on the site, the court said. Addressing duties to police the sale of counterfeit goods on eBay's Web site, the court said eBay was not required to preemptively remove infringing products, absent notice of infringement.

*Tiffany* appealed the ruling to the U.S. Court of Appeals for the Second Circuit Aug. 11 (13 ECLR 1199, 9/10/08).

Charles R. Macedo, an attorney with Amster, Rothstein & Ebenstein LLP, in New York, told BNA that the *Tiffany* decision, provided it withstands Second Circuit review, carved out a safe harbor protecting online service providers from contributory infringement liability.

"Without specific notice of a particular infringement, service providers have no general duty to take down infringing content," he said. "If they remove infringing content after receiving notice of infringement, they arguably fall within the safe harbor and cannot be held liable."

#### Liability Issues Looming in *Linden Research*.

Richard Minsky, a user of the online virtual world Second Life, found the term "SLART" humorous, and decided to promote his developing business ventures, including a magazine detailing art and other economic developments in virtual worlds, using the mark.

The USPTO initially denied Minsky's trademark registration request, finding "SLART" was descriptive and merely described his services, and was commonly used within Second Life in connection with art. Minsky appealed, citing reasons why he found "SLART" funny, and enclosed an online user-generated dictionary definition for the term, which did not describe the term in connection with art. USPTO ultimately approved the registration in March.

Minsky contacted Linden, requesting that it identify a Second Life user using the term "SLart Garden" and remove the content because it infringed on his "SLART" mark. Linden did not identify the user, told Minsky the user's content was not infringing, refused to take down the material at issue, and urged Minsky to abandon the mark before the USPTO and comply with the terms of the Second Life license governing the use of Linden's "SL" mark.

Minsky sued Linden Lab, asserting its failure to act amounted to contributory trademark infringement, among other things. In its answer, Linden Lab argued Minsky doesn't have a valid claim to the "SLART" mark, and that he obtained it through fraud and misrepresentation of his alleged uses of the mark to the USPTO. Further, according to Linden Lab, Minsky infringes on its marks, and should be held liable for that infringement. Linden also initiated a cancellation proceeding for the mark with the USPTO. The office has postponed the proceeding, pending the outcome of the lawsuit.

The court Sept. 4 ruled that Minsky's registered mark was sufficient to establish at least the existence of serious questions going to the merits of his case, and that it would be a comparatively minor hardship for Linden to remove infringing uses from its site. The court also issued a temporary restraining order. Linden moved to dissolve the order. As it stands today, the parties are instructed to preserve evidence and maintain the status quo pending adjudication of Minsky's request for a preliminary injunction.

#### Contacts Discussing Mark May Provide Knowledge.

Sean F. Kane, attorney with Drakeford & Kane in New York, told BNA that the conversations between Minsky and Linden Lab could, arguably, have put Linden Lab on notice, such that contributory liability would attach under *Tiffany*.

He noted that, under *Tiffany*, there would need to be some indication that Linden had actual knowledge that infringement was occurring in Second Life in order for the contributory liability theory to apply. Back and forth discussions between Minsky and Linden regarding Minsky's complaints could have satisfied that requirement, he said. "Those conversations gave Linden notice of Minsky's infringement claim."

Further, Kane said Linden would fight an uphill battle if the court holds the mark was valid, and that the content Minsky asked Linden to remove was infringing. "It would be a difficult argument to make that they didn't act because they didn't think the mark was valid," he said.

Kane said, across the board, service providers should remove infringing content after receiving notice of infringement to shield themselves from any potential liability. Macedo noted the law is unclear as to whether traditional trademark law principles even apply to disputes in virtual worlds. However, assuming they do, and the *Tiffany* decision stands, he said allegations in Minsky's complaint, if proven, would likely take Linden outside *Tiffany's* safe harbor.

"If Second Life is like a flea market and is governed by traditional trademark law principles, its failure to act in response to Minsky's notice could generate contributory liability if the court concludes Minsky's trademark is valid and infringed," he said.

By Amy E. Bivins

Full text of complaint at <http://pub.bna.com/eclr/08cv819complaint.pdf>

Full text of Linden Labs' answer at <http://pub.bna.com/eclr/08cv819answer.pdf>