

COLUMNS

Mobile device case manufacturer makes a case for controlling branded products online

December 13, 2021



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Luxury goods and other fashion brands often try to control where their products are sold, limiting sales to approved authorized dealers whose high-end image complements that of the brand.

But to brand owners' consternation, genuine products often leak outside the authorized distribution chain, and then are resold at discount, including Internet, outlets.

A recent trademark infringement suit brought in federal court in Colorado, *Otter Products LLC v. Triplenet Pricing Inc.*, raises a number of interesting issues about how trademark law can be used to control to whom and where luxury and fashion branded products are sold.

First sale doctrine and material differences

As we have previously written on many occasions, trademarks protect the right of owners to identify their products as emanating from them. A trademark identifies the source of a product and who stands behind it.

Generally, once a brand owner sells an item with its trademark, then the brand owner loses all right to control any future sales. This is known as the "first sale" doctrine a brand owner's rights are limited to the first sale of the item. Subsequent sales of the same genuine item are beyond the owner's trademark rights.

But there are some important exceptions to this rule.

Where there are "material differences" between the items sold by the brand owner and that sold by a reseller, then the reseller's items are not genuine and may infringe the trademark.

Typically this occurs where brand owners sell different versions of the same item in different geographic areas, and then someone imports these "grey goods" into the United States.

For example, sometimes a brand will sell products with different formulations in different countries.

In one well-known case, chocolate manufacturer Perugina employed a different formula in Venezuela than in the United States, to match different tastes in the respective markets.

A federal court of appeals held that the Venezuelan chocolates, though genuine in that country, were materially different from the U.S. product, and hence their sale in the United States violated Perugina's U.S. trademarks.

The reason for this exception is that trademarks not only exist to protect the reputation and goodwill of the trademark owner, but also to protect consumers from confusion and deception.

U.S. consumers would expect their favorite brand of chocolate to taste like the U.S. version, and the use of the brand to identify a different tasting foreign version would confuse them, and hence infringe the trademark.

Later cases have extended the material differences rule to U.S. products.

Even if the genuine goods never leave the United States, if the reseller's version has been altered such that the product does not match the brand owner's item and is materially different, then the sale is infringing of the trademark.

Effect of warranty differences: The *Otter Products* Case

The material difference exception is not limited to just physical differences, but it may also include differences in warranties or service commitments.

Some brand owners who seek to control distribution have adopted policies that only sales through an authorized dealer will be covered by the warranty otherwise the warranty is void. The lack of warranty then renders any sale outside the authorized distribution network as materially different, and, hence infringing.

This was the case in *Otter Products*.

Otter Products is a mobile device case and accessories manufacturer and seller. Triplenet is a third-party, non-authorized, seller of Otter products on the Internet, including on Amazon.

The Otter products sold by Triplenet were not covered by the Otter Products warranty because the warranty is limited to products purchased from Otter Products or from an authorized seller.

Triplenet claimed, on the Amazon site, that the products it sold included an Otter Products warranty and identified the products as "New." Yet, under Amazon's policies, a "New" product listing is required to come with the "original manufacturer's warranty."

The net result is that Otter Products' warranty policy combined with Amazon's merchant policy renders all sales by unauthorized dealers on Amazon as infringing.

The court held that the first sale doctrine did not apply because the Otter products offered by Triplenet were "materially different" as not being covered by the Otter Products warranty and were thus infringing.

While the court did not discuss them, there are, however, two important limitations on this strategy.

First, as one federal appeals court explained, "material differences" are not an end in itself, but merely a way for courts to gauge whether consumers will likely be confused. It follows that if a reseller makes an adequate disclosure, then there is no confusion, and hence no trademark infringement.

This is why many reseller Web sites will state "Manufacturer's Warranty Void. We Provide Our Own Warranty." If the disclosure is adequate to inform customers, then there will be no infringement.

Another limitation is that some states limit how manufacturers may disclaim warranties.

In particular, New York law provides that a warranty may not be limited by a manufacturer "*solely* for the reason that such merchandise is sold by a particular dealer or dealers."

In one case decided by a New York federal court, the court ruled that this statute limits the ability to disclaim a warranty solely because the seller is not authorized, and hence the disclaimer does not result in a material difference.

On the other hand, that same court ruled that the New York law applies only when the disclaimer is "solely" for that reason, if there are other reasons, such as poor customer service, then the disclaimer of warranty might be valid.

Quality control: Another exception

Courts have developed another exception to the first sale doctrine: the quality control exception.

The "quality control" exception applies when the alleged infringer "fail[s] to abide by the trademark holder's quality controls when distributing the trademarked goods or interfere[s] with the trademark holder's ability to control quality."

Where this exception applies, an alleged infringer is also not protected by the first sale doctrine and the alleged infringer's sales are likely to create confusion.

"Distribution of a product that does not meet the trademark holder's quality control standards may result in the devaluation of the mark by tarnishing its image. If so, the non-conforming product is deemed for Lanham Act purposes not to be the genuine product of the holder, and its distribution constitutes trademark infringement."

Otter Products' quality control program

Otter Products proffered evidence identifying legitimate quality control measures.

As noted above, Otter Products allows its products to be sold to consumers only by itself or by authorized sellers. Authorized sellers must agree to follow Otter Products instructions regarding shipping and handling of Otter products, product inspection, removal of damaged goods, reporting to Otter Products any product damages or defects, and product display requirements.

Otter Products provided evidence that it abided by these quality control procedures and that a number of Triplenet's sales of Otter products were cancelled due to Triplenet's failure to send products or communicate with customers.

On this basis the court concluded that Otter Products was separately entitled to judgment on its trademark infringement claims.

Learning for luxury goods companies

As online sales continue to explode, the ability of luxury goods and fashion companies to control where and how their branded items are sold becomes more challenging.

The *Otter Products* case highlights how brand owners can control distribution through the use of warranty policies and trademark.

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