

The Power Of Product Warranties In TM Suits Over Resales

By **Leigh Taggart and David Roulo** (April 25, 2023)

Trademark owners have been increasingly suing internet sellers, like those on Amazon.com or eBay.com, for selling trademarked products.

In many cases, the internet sellers are selling genuine products not covered by the trademark owner's original warranty — and they believe that the first sale doctrine protects them.

The trademark owners believe that the lack of warranty means that the internet sellers are selling materially different products, so the first sale doctrine does not apply.

Generally, courts side with the trademark owners. Recently, one federal district court held that the existence of quality control measures and warranties are enough to show that the first sale doctrine may not apply to the internet sellers. But that does not mean the internet sellers are completely out of luck.

Another district court recently held that an internet seller simply has to display a website disclaimer as to the lack of warranty to continue selling the trademark owner's products.



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The First Sale Doctrine and the Material Difference Exception

Copyright, trademark and patent law are all subject to a limitation known as the first sale doctrine. Though the doctrine operates differently in each regime, the general rule is that once an intellectual property owner sells the physical embodiment of their IP, they have no right to control resales.

In trademark law, the first sale doctrine allows the purchaser of a trademarked product to resell the product free from liability for trademark infringement.[1]

Because a primary concern in trademark law is mitigating consumer confusion, so long as the product is "bearing a true mark," there is no trademark law violation for simply purchasing, stocking, displaying and reselling a genuine marked product, according to a 2009 U.S. Court of Appeals for the Tenth Circuit ruling in *Beltronics USA Inc. v. Midwest Inventory Distribution LLC*.[2]

The first sale doctrine provides a complete defense to trademark infringement. Thus, internet resellers are generally protected by this doctrine.

As with most legal principles, there are exceptions. Trademark owners frequently utilize one such exception — the material difference exception — to limit resales by independent internet sellers.

Under this exception, after the first sale, a reseller is liable for trademark infringement if the resold product is materially different from the original marked product.[3]

Because the resold product bears the trademark but is not identical to the genuine product

that consumers associate with the mark, there is a higher likelihood of consumer confusion.[4] This makes sense when the difference is physical, like the ingredients used in making chocolates or cardigans that failed to conform to quality standards.[5][6]

What is often vexing to resellers is when the alleged material difference is intangible, like a product warranty. Mark owners have argued that the first sale doctrine does not protect resale of a product that is not subject to the warranty.

For example, in *Spectrum Brands Inc. v. Arrow Merchants LLC*, the U.S. District Court for the District of New Jersey denied a motion to dismiss in February that was based on the first sale defense.[7]

Spectrum pled in the complaint that "all of its products are sold with manufacturers' warranties," but that the internet reseller defendant's resold items were not.[8] The judge found that Spectrum adequately pled the material differences, which allowed it to maintain its case.[9]

Cases involving internet resellers often follow a similar plot. The story begins with a mark owner who only sells their products to so-called authorized resellers.

A consumer buying from an authorized reseller purchases a product including an intangible benefit, e.g., a warranty. Then, by some means, an internet seller acquires the original product and sells it via a site like Amazon.com.

Unfortunately for the consumer, the internet reseller is not an authorized reseller, which may cause dissatisfaction when the mark owner refuses to honor the warranty on what appears to be a genuine product.

Alternatively, the trademark owner may feel compelled to honor the warranty to preserve customer confidence in the brand, even though it lost the ability to exercise quality control via its authorized distributors.

Products Sold Without the Warranty Are Materially Different

Generally, courts side with the mark owner and find the lack of a product warranty to be a material difference.[10]

For instance, in *Davidoff & CIE SA v. PLD International Corp.* in 2001, the U.S. Court of Appeals for the Eleventh Circuit reasoned that a material difference is not solely a physical difference but any difference consumers would "consider relevant to a decision about whether to purchase a product." [11]

Since consumers balance multiple relevant considerations in purchasing decisions, the materiality threshold "must be kept low to include even subtle differences between products," according to the Davidoff decision.[12] Therefore, warranties are material. There are, however, recent challenges to the materiality of warranties.

Following the typical plot line, two recent cases saw Otter Products LLC and Patagonia Inc. use the material difference exception to defeat a first sale defense.

Otter Products manufactures cellphone cases and accessories under the "OtterBox" mark. Otter only sells to authorized resellers in a program implementing a variety of quality controls, including product warranties. Otter also restricted internet selling in various

ways.[13]

In *Otter Products v. Triplenet Pricing Inc.*, Triplenet sold Otter products on Amazon.com without being an authorized reseller.[14] Under Otter's policies, any product purchased from Triplenet was not covered by a manufacturer's warranty, though Triplenet advertised otherwise.[15]

When Otter sued Triplenet for trademark infringement in the U.S. District Court for the District of Colorado in 2020, Triplenet asserted the first sale doctrine in defense. Otter argued, and the court agreed in 2021, that the lack of a warranty on a Triplenet-sold product was a material difference negating the first sale defense.

Interestingly, Otter provided survey evidence that 85% of consumers were at least somewhat more likely to purchase an Otter product because of the warranty.[16]

Likewise, Patagonia has an authorized reseller program, but its program forbids Amazon sales. Additionally, only Patagonia products sold by authorized resellers receive warranty protection.

Regardless, in 2019, *Patagonia v. Kimberly McHugh* was brought in the U.S. District Court for the Central District of California because the defendant had sold Patagonia products on her Amazon store as an unauthorized seller.[17]

Because products purchased on Amazon did not qualify for Patagonia's official warranty, the otherwise genuine products were materially different. In 2020, the first sale doctrine failed in as an infringement defense.[18]

With cases against unauthorized internet sellers on the rise, challenges to the notion that a warranty is or should be a material difference will clearly continue. Courts have considered warranties material in part because the materiality threshold is low to account for consumer's varying reasons for purchasing products.

Otter, however, showed that a warranty term was a positive influence on 85% of their consumer survey respondents — a persuasively high percentage. Some marketing research concludes that warranties serve a signaling function, as reflected in the Otter survey.

In general, marketing studies regarding warranties focus on what businesses can signal to consumers through a warranty.[19] According to a 2022 study from Kansas State University, research shows "warranties signal high quality for risk-neutral consumers" and "if a warranty is not provided by sellers, consumers assume the product to be of lowest possible quality." [20]

Thus, for companies like Patagonia or Otter that discourage online sales in favor of in-person sales, the warranty may be a valuable tool not only to promote brand quality and consumer confidence, but also to enforce trademark rights against unauthorized resellers.

The Pro-Competitive Effect of the First Sale Doctrine

But the first sale doctrine is itself an important pro-competitive rule, and there are potentially significant anti-competitive ramifications in treating warranties as material differences. Resellers claim that a far-reaching material difference exception would allow the trademark owner to stamp out the competition.[21]

There is a growing concern that large companies use trademark law to bully smaller businesses.[22] By constraining reselling and aiding enforcement of manufacturer-preferred minimum advertised prices simply because two identical products have different warranty terms, a strong material difference exception may contribute to bullying concerns.[23]

Additionally, though many studies indicate that warranties signal meaningful information to consumers, for well-known or less expensive products, warranties may not have much of an impact on consumers' decisions or willingness to pay.[24] Thus, the materiality of a warranty to consumers may be questioned in any particular case.

In a 2022 decision, the U.S. District Court for the District of Utah appeared to curtail the influence of the warranty in *Allergy Research Group LLC v. Thrill Deals LLC* as a material difference used to discipline the market. Fitting the familiar model, this case involved an unauthorized dealer selling on Amazon.com, where the manufacturer's warranty did not apply.[25]

The defendant defaulted — a common occurrence in internet reseller cases. The court found that the differences in warranties created a material difference, and thus, there was trademark infringement.[26] But in crafting a remedy, the district court did not grant the broad permanent injunction the plaintiff requested.

Instead, the court made the unusual decision to allow the defendant to continue to sell the infringing products, so long as it posted a disclaimer on its Amazon storefront that the defendant is not an authorized seller, and the manufacturer's warranty does not apply to the trademarked products. The court reasoned that the existence of the disclaimer negates consumer confusion.[27]

Even though the defendant defaulted and lost, after making the required edits to the Amazon webpage, they are still able to sell the trademarked product under the protection of the first sale doctrine.

Here, the posture of the case is what made this relief possible. When comparing this case to *Spectrum Brands*, at the motion to dismiss stage, the judge was simply deciding whether *Spectrum* adequately pled a material difference.[28]

Here, the judge was able to use the equitable nature of an injunction to grant narrow relief to the plaintiff. The impact of the material difference exception may thus change depending on the procedural posture of the case.

Conclusion

Trademark owners can and do use product warranty coverage as an effective basis for defeating a first sale doctrine defense by unauthorized resellers.

The courts agree that a difference in warranty to the consumer can be, and often times is, a material difference in the product, relying at times on an abstract understanding of the importance of warranties.

Whether a warranty constitutes a material difference to consumers in a particular case is a question that may involve fact-specific issues that make the application of the exception less clear than courts assume.

There are opportunities both for those who offer branded products to demonstrate that their

warranties are material to customers, and for small internet resellers to challenge those assumptions in ways likely to move and shape the law in this area.

Further, if more courts follow the example of the District of Utah and shape more limited remedies, such as disclaimer requirements, rather than stop-sale orders, then legal victories for trademark owners may not result in victories in the marketplace.

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[1] *Beltronics USA, Inc. v. Midwest Inventory Distribution, LLC*, 562 F.3d 1067, 1071 (10th Cir. 2009).

[2] See *id.* at 1071-72.

[3] *Davidoff & CIE, S.A. v. PLD Inten. Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001).

[4] See *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992).

[5] See generally *id.*

[6] *Hem and Thread, Inc. v. Wholesalefashionsquare.com, Inc.*, 2021 WL 3868779 at *1 (C.D. Ca. July 28, 2021).

[7] *Spectrum Brands, Inc. v. Arrow Merchants LLC*, Civil Action No. 22-992, (D. N.J. Feb. 8, 2023).

[8] *Id.* at 9.

[9] *Id.* at 9-10.

[10] *Beltronics USA, Inc.*, 562 F.3d at 1073 (stating "We are aware of no federal circuit court that has held or observed" that warranties are not material differences).

[11] *Davidoff & CIE, S.A.*, 263 F.3d at 1302.

[12] *Id.*

[13] *Otter Prods., LLC v. Triplenet Pricing Inc.*, 572 F.Supp.3d 1066, 1071-72 (D. Co. 2021).

[14] *Id.* at 1072.

[15] Id.

[16] Id. at 1074. Some courts have required proof that the difference in question was material to the consumers of that product. See e.g. *Brilliance Audio, Inc. v. Haight Cross Communications, Inc.*, 474 F.3d 365, 370 (6th Cir. 2007) (reversing summary dismissal because materiality of repackaging of goods presented fact issue); *Mary Kay, Inc. v. Weber*, 601 F.Supp 2d 839, 849 (N.D. Tex. 2009) (restricting use of survey that measured both relevant and irrelevant types of confusion).

[17] *Patagonia, Inc. v. McHugh*, 2020 WL 428818 at *1 (C.D. Ca April 21, 2020).

[18] Id. at *4.

[19] See Steven Allan Schultz et al., *Individual Differences in Online Consumer Behaviors in Relation to Brand Prominence*, *Journal of Interactive Advertising* 67, 68 (Feb. 2015).

[20] Arusha Ijaz et al., *The Role of Signaling and Anchoring in Willingness to Pay Assessment*, 2022 Agricultural & Applied Economics Association Annual Meeting at 3, (July 2022).

[21] See *Beltronics USA, Inc.*, 562 F.3d at 1074.

[22] Roxana Sullivan and Luke Curran, *Trademark Bullying: Defending Your Brand or Vexatious Business Tactics*, *IPWatchdog* (July 16, 2015) <https://www.ipwatchdog.com/2015/07/16/trademark-bullying-defending-your-brand-or-vexatious-business-tactics/id=59155/>.

[23] See *Beltronics USA, Inc.*, 562 F.3d at 1074.

[24] See Arusha Ijaz et al., *supra* note 16 at 12.

[25] *Allergy Research Group, LLC v. Thrill Deals LLC*, 2022 WL 4182257 at *1 (D. UT Sep. 13, 2022).

[26] Id. at *4.

[27] Id. at *5; The use of disclaimers to negate possible confusion from the unauthorized use of trademarks gained currency at least as far back as *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 68 L. Ed. 731, 44 S. Ct. 350 (1924). Some commentators have questioned whether disclaimers are effective in preventing consumer confusion. See e.g., *Jacob Jacoby & Robert Lloyd Raskopf, Disclaimers in Trademark Infringement Litigation: More Trouble Than They Are Worth*, 76 *Trademark Rep.* 35, 58 (1986).

[28] *Spectrum Brands, Inc. v. Arrow Merchants LLC*, Civil Action No. 22-992, (D. N.J. Feb. 8, 2023).