

Publications

Unauthorized Sales: The ‘Material Difference’ Exception

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Under what is known as the First Sale Doctrine, one who buys a trademarked good may ordinarily resell that product without infringing the trademark owner’s mark.

This principle, however, only applies to the resale of “genuine” goods; that is, the First Sale Doctrine does not apply when a reseller sells a trademarked good that is *materially different* from the authentic goods sold by the trademark owner.

Thus, an unauthorized sale of a good can give rise to liability for trademark infringement.

What constitutes a “material difference”

There is no exact definition for “material difference” in the unauthorized sales context, and whether a re-sale of another’s good is unauthorized is decided on a case-by-case basis.

For purposes of establishing potential trademark liability under the Lanham Act, however, courts have held that “any” difference between an authorized and unauthorized good that a consumer would consider to be relevant when purchasing the product can be material. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.* 982 F.2d 633, 641 (1st Cir.1992).

The Fourth Circuit noted in the above case that these differences can be “subtle” and “not blatant enough to make it obvious to the average consumer that the origin of the product differs from his or her expectations.” *Id.* In other words, the threshold of materiality is low.

Further, the material differences do not even have to be physical; non-physical differences can constitute trademark infringement. For example, courts have found that differences in warranty protection or differences in warnings or safety labels can distinguish unauthorized sales from authorized sales.

Of course, physical material differences are more commonly seen and enforced, and this includes – but is certainly not limited to – differences in packaging or package shape, as well as alterations to packaging such as the **scraping of UPC codes** and batch codes. Another more specific example is the difference in battery life between genuine and unauthorized batteries.

Utilizing material differences to combat product diversion, unauthorized sales

As stated, a person that sells materially different, or non-genuine, versions of another's product has generally committed trademark infringement. Therefore, it is in a business's interest to set up certain procedures to help differentiate the materially different products from their own in order to stop unauthorized sales and prevent product diversion.

For instance, some courts have held that products sold online are materially different if their warranties or service agreements do not extend to online sales. Thus, if businesses include warranties with their products that do not apply to products sold within authorized distribution channels (or if they use quality controls that cannot be replicated by unauthorized sellers, such as certain packaging or temperature controls, as described in a subsequent blog post), it will be difficult for someone to resell the products without committing trademark infringement.

Product diversion occurs in a number of forums, most commonly on third-party websites. Businesses can take various steps to get their products removed from these forums and take action against unauthorized sellers after the fact.

However, it helps if businesses take preventative measures upfront to help combat unauthorized sales and product diversion, which also helps on the back end in enforcing their policies and pursuing the resellers.