

**Lanham Act controls unauthorized resale of goods, says Tenth Circuit  
United States - McDermott Will & Emery**

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In *Beltronics USA Inc v Midwest Inventory Distribution LLC* (Case 07-3340, April 9 2009), the US Court of Appeals for the Tenth Circuit has upheld a preliminary injunction granted in favour of a manufacturer of electronic equipment against an internet reseller of its goods that sold products without the manufacturer's warranty.

*Beltronics USA Inc* sells after-market vehicle electronics, including radar detectors, to authorized distributors which, in turn, sell the products at retail at a specified minimum price. In violation of their distribution agreements, the distributors sold detectors to defendant Midwest Inventory Distribution LLC, which, in turn, resold them as 'new' on [eBay](#). To prevent Beltronics from discovering this unauthorized distribution, the serial numbers on the radar detectors were either replaced with phony serial number labels or removed altogether.

It is Beltronics' policy not to provide any warranty services for products without legitimate serial numbers. Beltronics ultimately filed the underlying action after consumers sought services for detectors purchased from Midwest. Among other things, the complaint asserted trademark infringement and false designation of origin. Beltronics also sought a preliminary injunction.

Midwest's predominant theory of defence was that there was no likelihood of confusion concerning the source of the Beltronics radar detectors because it was undisputed that the company was selling genuine Beltronics products that were manufactured by Beltronics. Midwest thus contended that it was protected from Beltronics' claims under the 'first sale' doctrine. Generally, a trademark owner's right to control distribution of its trademarked product does not extend beyond the first sale of the product. In other words, resale by the first purchaser of an original article under the trademark does not constitute infringement.

However, the first sale doctrine does not apply when an alleged infringer sells trademarked goods that are "materially different" from those sold by the trademark owner. A guiding principle in evaluating whether a difference between two products bearing the same trademark is material is whether the difference causes consumer confusion as to the source and the quality of the trademarked product.

In rejecting Midwest's argument based on the first sale doctrine, the Tenth Circuit found that "material differences" are not limited to differences in the physical quality of the goods. Instead, the mere removal or alteration in warranty protection can constitute a "material difference" in the goods so as to render the goods in question non-genuine. Thus, the Tenth Circuit held that the first sale defence was not available to Midwest because it sold materially different goods without the manufacturer's warranty and without adequate disclosures to buyers about the differences in the products.

The Tenth Circuit's decision demonstrates the viability of trademark infringement lawsuits as a means of controlling the unauthorized resale of trademarked goods. However, the court also noted that resellers of unauthorized goods could potentially avoid trademark liability by

taking steps to avoid confusing consumers and damaging the trademark owner's goodwill - for example, by "sufficiently disclosing" how the product warranty differs from the original product.

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