



Fashion & Apparel Law BLOG

For the latest on Fashion, Apparel and Beauty Law

Fashion Apparel Law Blog

Posted at 9:43 AM on July 22, 2009 by Sheppard Mullin

Removal of UPC Codes Constitutes Trademark Infringement

On June 19, 2009, in Zino Davidoff SA v. CVS Corp., the Second Circuit enjoined CVS, a national retail chain, from removing unique production codes ("UPC") from Davidoff product packaging for its "Cool Water" fragrances on the grounds of trademark infringement.^{1[1]} Davidoff, a high end luxury brand, imprints a unique UPC on every product for quality control purposes and to protect against diversion and counterfeiting. The code contains basic information about each product unit, including "where and when it was produced, ingredients used, and distribution path."^{2[2]} The UPC code ordinarily is used to track goods that are sold to and by unlicensed distributors. The Davidoff UPC also allows Davidoff to spot defects easily and swiftly recall or remove products from the market when such defects are noted. The UPC is used to protect the reputation of the brand and its trademarks.

Davidoff licenses its Cool Water trademark to Coty Inc. for the manufacture and distribution of Cool Water fragrances. In an effort to maintain the prestige of its brand, Davidoff restricts distribution of Cool Water products to luxury retailer and has declined to sell CVS. When Davidoff found out that CVS was selling its Cool Water perfume and cologne without the UPC codes, it sent CVS a cease and desist letter in 2005. Without the UPC code, there was no way of knowing whether the goods were genuine or counterfeit. CVS assured Davidoff they would stop selling the counterfeits but, only a year later in 2006, Davidoff discovered that CVS had continued to sell the counterfeit products and brought an action against CVS for trademark infringement.

Davidoff was permitted by the District Court as part of discovery to inspect CVS's inventory. Davidoff found 16,600 items with the UPC removed. Either the part of the box containing the code was cut, chemicals were used to wear it down, or the bottom of the bottles were ground to wear the UPC code away.^{3[3]} Davidoff sought a preliminary injunction to enjoin CVS from selling these items. CVS voluntarily agreed to stop selling counterfeit goods, but argued that, since there was no question as to the genuineness of the goods with the UPC removed, CVS should be allowed to sell its inventory.

In Original Appalachian Artworks v. Granada Electronics, Inc., the Second Circuit held that, where a distributor was selling the Plaintiff's genuine products which had been diverted, such goods infringed the Plaintiff's trademark where the products were materially different and likely cause consumer confusion as to the source.^{4[4]} Trademark owners may restrict distribution and licenses territorially because different

1[1] Zino Davidoff SA v. CVS Corp., No. 07-2872 (2nd Cir. 2009).

2[2] *Id.* at *12.

3[3] *Id.* at *6.

4[4] Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68 (2nd Cir. 1987).

types of licensed products may be sold in different places with ingredients or at prices relative to the local economies. In addition, global distribution strategies may vary. There is a high risk that goods will be diverted and that opportunists will purchase goods in one market at the lowest price and sell them in a different market at a higher price, thereby making a large profit. In Original Appalachian Artworks, the trademark owner was able to demonstrate that the products manufactured and intended for distribution in Spain were materially different from the goods intended for distribution in the United States, where the language on the packaging and product was in Spanish.

The Second Circuit in Zino Davidoff SA, took a different approach, relying not so much on the differences between the products sold in CVS and genuine Davidoff goods, but rather on the removal of the UPCs to find that there was trademark infringement. The Second Circuit ruled that the removal of the UPC alone constitutes trademark infringement, even if the goods bear the trademark and are genuine. The Court relied on the test in *Warner-Lambert Co v. Northside Dev. Corp.*, 86 F.3d 3 (2nd Cir. 1996), which held that a trademark holder was entitled "to an injunction against one who would subvert its quality control measures upon a showing that (i) the asserted quality control procedures are established, legitimate, substantial, and nonpretextual, (ii) it abides by these procedures, and (iii) sales of products that fail to conform to these procedures will diminish the value of the mark."⁵[5] The Court concluded that the UPC was a legitimate quality control measure upon which Davidoff could rely to prevent counterfeit products from damaging its brand's good will and reputation. As a result, Davidoff was entitled to enjoin CVS from selling goods from which the UPC had been removed.

The Second Circuit found additional compelling reasons to rule for Davidoff, noting that the removal of the UPC exposes Davidoff to a greater risks of harm to its good will and reputation as the result of counterfeiting. As part of its broad protection, Davidoff routinely trains its retailers about the use of the UPC, ensuring that if there is a counterfeit product with no code, or a product with a fake code, the retailers will remove the product before it reaches the consumer. The Court also noted that the act of removing the code requires tampering with and alteration of the packaging. Not only is the removal of the code an impediment to monitoring and preventing counterfeit products but removal of the UPC diminishes the value of the genuine product and tarnishes the trademark.

The Court applied the *Warner Lambert* precedent by holding that the interference with the quality control measure by itself would suffice as grounds for the issuance of an injunction.⁶[6] In stating that a claim does not hinge on the fact that the Cool Water goods sold were defective, the Court held that the trademark holder need only prove a *risk* of injury to the mark in order to find irreparable harm. It is likely that, as a result of this decision, removal or interference with UPCs and other quality control measures will be increasingly held to be the basis for trademark infringement actions under similar factual circumstances. Not only does the UPC protect the product from tampering and help to track counterfeits, but the use of a UPC may give trademark holders greater ability to protect their trademark from diversion and counterfeiting. The concurring opinion in Original Appalachian Artworks may have been prescient, as Judge Cardamone asserted that, since the Lanham Act imposes an affirmative duty for the trademark owner to protect his mark, "[i]t would be anomalous . . . to burden the trademark owner with this 'affirmative' duty and then . . . deny him a federal forum in which to control his licensees."⁷[7] With the new precedent set by Zino Davidoff SA, trademark owners can use UPC codes as another way to protect and enforce their valuable trademarks.

⁵[5] *Id.* at *10.

⁶[6] *Id.* at *9.

⁷[7] Original Appalachian Artworks, 816 F.2d at 75 (citation omitted).