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LAW: Advertising Brand Names Used in Your Building Project: How to Avoid Trademark Infringement

Every building project has several components: the land, the labor, and perhaps most importantly, the products used. Purchasers may be drawn to your project because of the quality of the products used to build and furnish it. Every product used in a building project likely has an associated brand name, slogan, or logo that is trademarked by its manufacturer. It is common to want to use these trademarked products to advertise the quality of your project as a whole. Could advertising for your building project raise trademark infringement issues?

In most instances, using a manufacturer's trademark or service mark to identify or "name" the product will be fair use, even if the ultimate goal is to describe the whole building project. Fair use is limited to the extent that it cannot create a likelihood of confusion. The use cannot suggest sponsorship or endorsement by the trademark holder if there is none. Some courts place other limitations on fair use, for example, that the product is not readily identifiable without use of the trademark, and that the trademark may only be used to the extent that is reasonably necessary to identify the product.

The basic analogy here is to a distributor's use of a manufacturer's trademark or service mark. More often than not, there is no trademark license relationship between a manufacturer and an independent distributor or builder; so that distributor or builder will not be subject to the kinds of strict quality control obligations found in a trademark license. When reselling each component of a project as part of the whole, a builder acts as a non-licensed distributor of each product. The general rule is: a builder who resells trademarked goods as part of a building project, without changing those goods, is not infringing on the manufacturer's trademark, and thus does not need a license to resell.

This rule is known as the "first sale" doctrine or the "exhaustion" doctrine: a manufacturer's right to control distribution of its trademarked product does not extend beyond the first sale of that product. This resale is not trademark infringement, and it is not unfair competition. Another way to state the same rule is that the manufacturer's trademark rights are "exhausted" after the first sale of the product. Some courts have stated this rule in terms of the buyer receiving an implied license to use the trademark in resale. After a builder purchases a product to include in a building project, that builder can resell it as part of the finished project. The implied license to use a manufacturer's trademark even applies for use to compete with that very manufacturer.

Under this general rule, the builder also has the right to advertise to its customers that it sells the trademarked products as part of its building project. However, advertisements cannot mislead customers into the mistaken belief that the builder is somehow associated with or is an authorized distributor of the manufacturer's products (unless, of course, the

builder is an authorized distributor of that manufacturer's products). Misleading customer in this way invites claims of false advertising or trademark infringement based on misrepresentation of source or sponsorship. This is merely an issue of drafting clear, truthful copy for advertisements. For example, a builder may want to advertise that its project or building has components that fit or are compatible with a specific manufacturer's trademarked product. The exact language of the advertisement will be scrutinized.

The general rule extends to online sales as well. A builder can use another's trademark brand name on its Web site advertisements without a license from the owner of the trademark. But again, this advertisement should not confuse customers into the mistaken belief that the builder is authorized by or affiliated with the manufacturer.

Perhaps most importantly, keep in mind that the "first sale" or "exhaustion" doctrine only applies when goods are resold without change. When reselling products as part of a building project, there are several specific practices to avoid that will help prevent any trademark infringement or related claims by product manufacturers. These situations create exceptions to the first sale doctrine, and the trademark owner will have the right to seek remedies.

First, avoid selling products that have been repackaged, reconstructed or modified in any way. Selling such products can create mistake or deception as to who is responsible for the changes made to the goods. In this situation, the trademark owner may have the right to remedies ranging from adequate disclosure to an absolute prohibition on the use of the trademark in the sales.

Second, avoid selling defective, lower grade, or out-of-style merchandise under the original trademark without so indicating. If the builder does not indicate that the product is defective, is a lower grade, or is not a current style, it will not be able to avoid a claim of trademark infringement.

Third, avoid selling deteriorated or stale products. If a product is deteriorated or stale, it is no longer considered "genuine" and its sale can be stopped as trademark infringement or trademark dilution. Infringement and dilution occurs in this situation because distribution of a product that does not meet the trademark owner's quality control standards may devalue the trademark by tarnishing the owner's image.

Fourth, avoid purchasing trademarked products for resale directly from a factory or supplier before they have been inspected by the trademark owner. This is trademark infringement and fraud because the trademark owner is deprived of its ability to inspect the products and maintain quality control. For example, in one case a car manufacturer proved trademark infringement where its trademarked car grilles were sold at an auction and subsequently resold as spare parts. Some of the grilles turned out to be defective, but since they had never been inspected by the trademark owner they were not considered "genuine" products. The resale of these products constituted trademark infringement and fraud on the public.

Fifth, avoid selling "gray goods" or goods imported into the United States by an unauthorized importer. While the trademarks on these products may be legitimate in a foreign country and the buyer may have innocently purchased them, they are not "genuine" goods in the U.S. In this situation, it is the unauthorized importer that is potentially infringing on the trademark. The builder, as merely a downstream buyer, is not subject to any agreement between the trademark owner and the overseas importer. However, the potential for a claim of wrongdoing is high and could result in the expense of defending a lawsuit.

Finally, avoid removing trademarks from products to sell them "unbranded." This may seem, at first, like a good way to avoid these issues entirely; but, this may constitute trademark infringement by "implied reverse passing off" (the name of this theory doesn't describe much). This practice causes subtle injury; it deprives the trademark owner of the advertising value of the appearance of the trademark on the product. While this cause of action has been unsuccessful in several courts, it is still argued by trademark owners. Again, the potential for a claim of wrongdoing is high and could result in the expense of defending a lawsuit.

Of course, there are also steps a manufacturer can take to protect its name in the marketplace. As a builder, if you come across these types of restrictions when working with

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a manufacturer, keep in mind that these protections may be helpful to avoid disputes. Manufacturers can place restrictions on the types of customers to whom its authorized dealers are permitted to resell. These restrictions will be upheld under antitrust laws if they are reasonable. Furthermore, a dealer or distributor's failure to observe these restrictions can constitute trademark infringement. On the other hand, it is important to know that these restrictions do not "run with the goods" so they cannot work to bind downstream buyers who have no notice of the condition. These restrictions can only provide a cause of action against the dealer with whom you signed an agreement including the restriction.

In general, a builder can resell trademarked goods as part of a building project and advertise the use of the trademarked goods without infringing on the product manufacturer's trademarks. If there is any modification, the builder must alert the purchaser to the modification. If there is any reason the goods could be described as not "genuine," the builder should avoid resale of the product.

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