

IGNORANCE IS NOT BLISS

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Here's the hypothetical: You just got a call from a customer, Good Flight Airlines. Good Flight places an order with you for 1,000 Movado watches to give to its frequent-flyer customers. The airline tells you it wants Boeing's name and logo on the watches as well as its own logo, and you subsequently place the order with a source in China. Typically, these watches sell for at least \$500 each, but your source tells you that you can have them for \$150 each if you place the order now. You will sell the watches to Good Flight for \$600.

Before placing the order, you asked Good Flight if it had Boeing's permission to use its name and logo. They say, "Of course." You make no further inquiries. What you don't know, however, is Boeing did not give permission to use its name or logo, and your source in China is actually selling you one of its best-quality Movado knockoffs.

You just walked into an intellectual property minefield that could cost you dearly. Unfortunately, the penalties for trademark infringement are not limited to those who actually place the trademark on the product. The burden of liability can extend to distributors as well, and damages can be hefty. Being forewarned about these concepts is being forearmed.

8 WAYS TO AVOID LIABILITY

YOUR BEST DEFENSE IS A GOOD OFFENSE

IN PLAIN LANGUAGE ...

Intellectual property consists of mental creations such as inventions, literary works, artistic works, names, symbols, designs and images that are intended for commercial use. Though the term "intellectual property" encompasses patents, copyrights and individuals' publicity/privacy rights, it's really the fourth segment, trademarks, that most frequently affects the promotional products industry.

A trademark is a name, word, symbol or design used with goods or services to identify the source of a product or service and allows consumers to answer the questions "Who makes this product?" and "Who provides this service?" Trade dress, another form of trademark, is the overall image or impression of a product as well as the way it is packaged/presented to customers (i.e. Crayola's green-and-yellow cardboard crayon boxes).

As marks are used over time (through advertising and marketing) and consumers become familiar with particular incarnations, they may acquire "secondary meaning" as indicators of quality. For this reason, well-known marks are valuable business assets.

In the simplest of terms, trademark infringement is using another's trademark in commerce without permission. Counterfeiting, another form of trademark infringement, refers to selling an imitation of a genuine product. In our example, both Movado and Boeing can claim trademark infringement, and the Movado watches are considered counterfeit goods.

HOW TO LAND IN HOT WATER

You may wonder how is it that a distributor can be liable for trademark infringement when it did not mislabel any product or deceive anyone. The answer lies in a legal doctrine called contributory infringement.

Under this doctrine, a distributor may be liable if it supplies the "ammunition" that facilitates the infringement. Thus, in our hypothetical, the distributor who provides the counterfeit Movado watches to Good Flight may be named as a defendant in Boeing's and Movado's lawsuits against the airline.

In determining liability of the distributor, the focus is on the distributor's knowledge. If a distributor induces another to infringe a trademark or if the distributor continues to supply a product he has reason to know is engaging in trademark infringement, the distributor may be responsible for the harm done. The key words here are "has reason to know," which basically means the distributor should have known better and chose to turn a blind eye.

WHY IT MATTERS

Why should a distributor be concerned about contributory infringement? Because the monetary damages can be significant. A trademark owner can collect the infringer's profits, any actual damages the owner sustains (such as lost business where potential customers have been diverted to the infringer's items in lieu of the trademark owner's product) and costs of the action.

This means you may be required to disgorge your profit from the sale of the fake Movados to Good Flight. Your profits from that sale were \$450,000 (\$450 x 1,000 watches). In addition, Movado proves that it lost sales of its watches from Good Flight's frequent fliers in the amount of \$300,000. Thus, you may be required to pay Movado a minimum of \$750,000.

To make matters worse, if the infringement involves a counterfeit, a trademark owner may recover up to three times the infringer's profits or the trademark holder's damages, whichever is greater, plus attorneys' fees incurred in the action. Thus, in this example, Movado may be entitled to damages in the amount of \$1,350,000 (\$450,000 x 3) plus the attorneys' fees that Movado incurred in prosecuting the action. Alternatively, a trademark holder may elect to recover statutory damages, which can range from \$500 to \$1,000,000 per mark. The trademark owner has the right to make such an election prior to trial. Often, if actual damages or profits are difficult to prove or the counterfeiter's financial records are suspect, trademark owners will elect to recover statutory damages. Note that this is just Movado's claim in the above example, and doesn't include the damages Boeing could seek.

EIGHT WAYS TO PLAY IT SAFE

As you can see, the potential liability to a distributor for contributory trademark infringement can be significant. There are steps you can take to avoid or minimize liability. Some of these steps are as follows:

1) Do not use trademarks or the names or likenesses of others without written permission from those sources.

2) Anything that sounds too good to be true probably is. In the opening hypothetical, a price of \$150 for \$500 Movado watches is too good to be true. That's because the watches are counterfeit. As a general rule, if any price seems exceptionally low for no good reason, the products are likely to be counterfeit (or knockoffs). You may be deemed to have knowledge that the product you are acquiring is a counterfeit (i.e., you should have known that the product was a counterfeit even if you did not have actual knowledge).

3) Do your due diligence. Make sure your sources are credible and reputable and make sure all third-party trademark use in the promotional products has been authorized in writing from the trademark owner.

4) Do not use trademarks that too closely resemble the mark of another.

5) Maintain good records. Make sure you maintain files containing written authorizations for use of others' trademarks. Keep these files until long after the statutes of limitations for potential claims have expired. Statutes of limitations for certain actions vary per state. You should consult with your lawyer to determine how long you should maintain records.

6) Develop and implement policies for your company against intellectual property infringement. The policies should include, among other things, provisions prohibiting use of others' trademarks without written authorization.

7) Obtain indemnification agreements from your sources. If you have a contract with your suppliers, include a provision in the contract that provides for your indemnification if claims are asserted by third parties for intellectual property infringement. Remember, the indemnification is only as good as the source providing indemnification.

8) Have a good commercial liability insurance policy in place that provides coverage for advertising injuries. Not all insurance policies provide coverage for trademark infringement claims. However, it is worth speaking with your insurance company to obtain a proper policy.

These steps certainly are not exhaustive and there never can be a 100 percent guarantee against liability. Your safest course of action is to consult an experienced lawyer. But being aware of the issues can help avoid potential pitfalls.



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