Brand Protection Alert

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Ninth Circuit: First Sale Doctrine Safe Haven for Resellers of End Products Incorporating Trademarked Products

Resellers can breathe a sigh of relief knowing that the first sale doctrine defense is here to stay. The Ninth Circuit recently ruled in favor of Fiat Chrysler Automobiles, holding that its use of the Bluetooth name in its vehicle and product mailings falls within the confines of the first sale doctrine. The ruling in *Bluetooth SIG Inc. v. FCA US LLC* establishes a clearer precedent for new end products incorporating marks resulting from an authorized sale.

The Bluetooth Special Interest Group (SIG), a network of member organizations that administers qualification standards for short-range wireless technology and owns various Bluetooth marks, brought trademark infringement claims against automobile manufacturer FCA US LLC, which produces vehicles containing head units equipped with Bluetooth technology manufactured by SIG-qualified third-party suppliers and uses the SIG's marks both on its head units and in its product publications. The SIG asserted that FCA failed to take steps required by the SIG to qualify the Bluetooth capabilities of its vehicles. Under the SIG's standards, manufacturers of technological components must meet certain testing requirements but manufacturers of end products may incorporate a previously qualified product without additional testing. FCA asserted various defenses, including the first sale doctrine defense.

The district court rejected FCA's first sale doctrine defense, holding that the first sale doctrine defense was inapplicable because FCA's conduct of equipping its head units with Bluetooth technology and including the marks in its product publications extended beyond merely "stocking, displaying, and reselling a producer's product" and found that FCA violated the SIG's trademark rights under the Lanham Act. The Ninth Circuit disagreed, using the case to provide clarification on the first sale doctrine—specifically, whether it applies when a trademarked product has been incorporated into a new third-party product.

Key Takeaways

- Under the first sale doctrine, the rights of the producer of a product to control distribution of its product are exhausted after the first authorized sale.
- The applicability of the first sale doctrine extends beyond the mere resale of genuine goods.
- The first sale doctrine defense applies in instances in which a trademarked product or a component is incorporated into a new end product so long as the seller adequately discloses to the public how the trademark product was used or modified in the new product.
- The ultimate resolution of a case invoking the first sale doctrine defense will depend on an analysis of whether

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a likelihood of confusion exists such that purchasing consumers would be confused as to the source(s) of the product.

The district court's narrow interpretation of the first sale doctrine defense would, in theory, only protect purchasers that stocked, displayed and later resold a producer's trademark-bearing product from Lanham Act violations—in essence, only downstream sellers. Any other conduct, such as FCA's inclusion of a trademarked product as a component, would leave the end product manufacturer vulnerable to trademark infringement claims.

Relying on the U.S. Supreme Court's ruling in *Prestonettes v. Coty,* the Ninth Circuit clarified that the applicability of the first sale doctrine reaches beyond the mere resale of a genuine good. In Prestonettes, the Supreme Court held that a cosmetics manufacturer that purchased a trademarked powder and incorporated it into a new compact metal case did not violate the powder producer's trademark rights because the manufacturer adequately informed the public that the trademarked product was a component in the new and changed end product; no likelihood of confusion was present. The doctrine also applies where a mark is used to refer to a component incorporated into a new end product. This usage of the mark is limited to instances in which the seller adequately discloses to the public how the trademarked product was incorporated into the new end product being sold to consumers.

Impact of the Courts' Rulings

For the parties in *Bluetooth SIG Inc. v. FCA US LLC*, the litigation is far from over. The Ninth Circuit vacated the district court's ruling granting the SIG summary judgment on the first sale doctrine defense and remanded the case to the district court for further proceedings to analyze the various triable issues of fact, including whether FCA's conduct presents a likelihood of confusion.

The Ninth Circuit's reasoning in the FCA case expands the previously narrow applicability of the first sale doctrine beyond the situation in which an authorized purchaser of a trademarked product stocks, displays and later resells that product under the producer's trademark. The doctrine now may apply where a trademarked product, legally purchased through authorized means, is incorporated into a new end product, so long as the end product seller adequately discloses how the trademark product was incorporated. As one recent example, StockX asserted the first sale doctrine as an affirmative defense in its answer to Nike's trademark infringement lawsuit, currently pending in the Southern District of New York, in a case involving a dispute over StockX's sale of non-fungible tokens (NFTs) consisting of images of Nike products that display Nike's swoosh logo and other branding elements. (See our prior articles on this case here and here.) The application of the first sale doctrine to StockX's sale of NFTs (which Nike argues are infringing, virtual products and StockX argues are receipts for authentic, physical Nike products) could further test and potentially expand the traditional reach of the first sale doctrine.

Related Professionals

Melanie J. Howard . . . . . dmhoward@loeb.com
Brianna Cloud . . . . . bcloud@loeb.com

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