

US: TRADE MARKS

Trade mark ownership: distributors versus manufacturers

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In *Covertch Fabricating, Inc v TVM Building Products, Inc et al*, the Third Circuit Court of Appeals resolved a dispute between a manufacturer and its exclusive distributor regarding which party owned an unregistered trade mark when there was no written contract in place between the parties. In doing so, the Court established a test that manufacturers and distributors might apply to determine ownership of a trade mark.

Covertch, a Canadian manufacturer of protective packaging and reflective insulation, had entered into a verbal agreement with TVM, designating TVM as its exclusive marketer and distributor of Covertch's products in the United States. After the agreement was terminated, TVM continued to use the mark at issue and filed a trade mark application in an attempt to register such mark. Covertch subsequently sued TVM for trade mark infringement. The District Court ruled that Covertch was the proper owner of the mark and TVM appealed.

In determining the rightful owner of the mark, the District Court applied the "first use" test, asking which party first used the unregistered mark in commerce. The Third Circuit, however, ruled that this was the incorrect test to apply. Specifically, the Court held that "this paradigm is an imperfect fit" because, when applying such test to the often exclusive and non-competitive manufacturer-distributor relationship, ownership rights could incorrectly inure to the benefit of the distributor. This view was based on the fact that, in such cases, the distributor made the initial sale of goods bearing the mark to the public at the manufacturer's direction.

The Court held that in situations where ownership of a mark is in dispute and

there is no written agreement governing such ownership, there is a presumption that the manufacturer is the owner of the mark but that the distributor can rebut such presumption based on a consideration of multi-factor test. This test considers the following factors: "(1) which party invented or created the mark; (2) which party affixed the mark to the goods sold; (3) which party's name appeared on packaging and promotional materials in conjunction with the mark; (4) which party exercised control over the nature and quality of goods on which the mark appeared; (5) to which party did customers look as standing behind the goods, eg, which party received complaints for defects and made appropriate replacement or refund; and (6) which party paid for advertising and promotion of the trademarked product." Although this test leans in favour of a manufacturer, it allows a court to "undertake a thorough, individualized analysis of each case that accounts for the unique attributes of the manufacturer-distributor relationship". The Court specifically noted that the test was a balancing test rather than just a counting of the factors by each side. In applying this test, the Third Circuit arrived at the same outcome as the District Court did, namely, that in the case at hand, the manufacturer was the rightful owner of the mark.

This case serves as an important reminder for companies to formalise distribution arrangements and to memorialise ownership of a trade mark. The decision also gives parties a specific test to apply going forward when there is a debate between a manufacturer and a distributor about which party owns a mark.