

Repairing, refurbishing, embellishing and upcycling – where are the limits on modifying branded goods?

Precis

Bryan Wheelock of Harness IP analyses a slew of cases involving modification – including the high-profile Nike Satan Shoes litigation – to tease out the subtle nuances on which a finding of infringement can hinge in this grey area.

- **Where branded products have been substantially refurbished, reselling them with the trademark intact usually requires some explanation so that the public is not misled**
- **If one branded good is incorporated into a new product, manufacturers can avoid liability by clearly identifying the branded good as a component**
- **However, where a product's appearance is integral to its value, a disclaimer alone is insufficient to address potential post-sale confusion**

The sale of a branded product generally exhausts the IP owner's right to control its resale under the first-sale doctrine. However, when the branded product is altered, this doctrine does not necessarily apply, as the good being resold is no longer the same as that which was originally retailed by the brand owner.

A branded product may be considered altered if it is repaired, refurbished or upcycled in a way that may cause confusion as to its source if it is resold bearing the original trademark. In these circumstances, a conventional multifactor likelihood of confusion analysis is not conclusive because the confusion depends on issues relating to the nature of the changes to the branded product, as well as the public's understanding of those changes.

Product repair

Consumers typically expect that used products are degraded from their original condition, that they may have been serviced or repaired, and that they may even contain replacement parts. In most cases, the presence of the original trademark on a used product is considered normal, and also provides valuable information about the product's origin (*Williams v Curtiss-Wright Corp*, 691 F 2d 168, 174, 217 USPQ 108, 113 (3d Circuit 1982)). Thus the resale of a repaired branded product generally is not considered to be trademark infringement because consumers are not deceived – they know what they are getting and expect that the product may have been serviced and repaired. This result is determined by the expectations of consumers, which are affected by a number of factors, including:

- the nature of the product;
- the cost of the product;
- consumer experience with products of that type;
- the nature and extent of the repairs; and
- whether the repair or refurbishment is disclosed.

Product refurbishment

At a certain point, repair becomes so extensive and the alterations to the product so substantial that the public could be confused by the continued presence of the original branding, at least without explanation. The Supreme Court discussed this kind of refurbishment in *Champion Spark Plugs v Sanders* (331 US 125, 1947) where respondents were collecting used Champion spark plugs, repairing and reconditioning them, and reselling them with the Champion branding still in place (*Id* at 126).

The district court enjoined the sale of the reconditioned spark plugs unless:

- the trademark and type and style marks were removed;
- the plugs were repainted with a durable grey, brown, orange or green paint;
- the word ‘repaired’ was stamped into the plug; and
- the cartons carried a legend indicating that they contained used spark plugs originally made by the petitioner and repaired and made fit for use for up to 10,000 miles by the respondent company (*Id* at 127).

The Court of Appeals agreed that the respondents had infringed Champion’s trademarks and committed acts of unfair competition (*Id*). However, it did modify the injunction:

- eliminating the requirement that the trademark be removed;
- allowing either ‘repaired’ or ‘used’ to be applied to the product; and
- allowing a more generic statement about the refurbishing to be printed on the cartons (*Id*).

The issue before the Supreme Court was the adequacy of the injunction, as modified by the Court of Appeals, and in particular the failure to require the defendant to remove the Champion branding from the reconditioned product. Citing Justice Holmes in *Prestonettes Inc v Coty* (264 US 359, 1924) the Supreme Court said:

A trademark only gives the right to prohibit the use of it so far as to protect the owner's goodwill against the sale of another's product as his... When the mark is used in a way that does not deceive the public, we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo. (264 US at 368.)

The court added that there may be cases where the reconditioning or repair would be either so extensive or so fundamental that “it would be a misnomer to call the article by its original name, even though the words ‘used’ or ‘repaired’ were added” (331 US at 129) but this was not the case here (*Id*). It also observed that the repair or reconditioning of the spark plugs “does not give them a new design” (*Id*). While the reconditioned spark plugs were inferior, “inferiority is expected in most second-hand articles” (*Id*). Moreover, “[i]nferiority is immaterial, so long as the article is clearly and distinctively sold as repaired or reconditioned, rather than as new” (*Id* at 130). The court stated that “[f]ull disclosure gives the manufacturer all the protection to which he is entitled” (*Id* at 131), concluding that the decree as shaped by the Circuit Court of Appeals adequately served the requirements of full disclosure (*Id*).

While the Supreme Court in *Champion* held that the trademark on a reconditioned product did not have to be removed, provided that there was full disclosure, more recently in *Nitro Leisure Products LLC v Acushnet Co* (341 F 3d 1356, Federal Circuit 2003) the Court of Appeals for the Federal Circuit went much further, holding that it was permissible for the reconditioner to reapply an original trademark that has been removed during the reconditioning process – subject to full disclosure to the consumer. In *Nitro Leisure Products* Nitro acquired used golf balls with stains, scuffs or blemishes, refurbished and repainted them, and then reattached the original manufacturer’s trademark (*Id* at 1356). Nitro also applied one of two disclaimers to each

refurbished golf ball: “USED & REFURBISHED BY SECOND CHANCE” or “USED AND REFURBISHED BY GOLFBALLSDIRECT.COM”, and put a disclaimer on the packaging.

The Federal Circuit agreed that there was no trademark infringement, noting that:

so long as the customer is getting a product with the expected characteristics, and so long as the goodwill built up by the trademark owner is not eroded by being identified with inferior quality, the Lanham Act does not prevent the truthful use of trademarks, even if such use results in the enrichment of others. (Id at 1362.)

It added that:

There is an understanding on the part of consumers of used or refurbished products that such products will be degraded or will show signs of wear and tear and will not measure up to or perform at the same level as if new. . . For used or refurbished products, consumers are not likely to be confused by—and indeed expect—differences in the goods compared to new, unused goods. (Id at 1362.)

In *Brandtjen & Kluge Inc v Prudhomme* (765 Federal Supplement 1551, 20 USPQ2d 1561, Northern District of Texas 1991), the court considered whether Prudhomme’s rebuilding of Brandtjen & Kluge’s printing presses without removing the trademarks was infringement and an unfair trade practice. After reviewing the Fifth Circuit’s factors for likelihood of confusion, the court crafted the following three to make the test for likelihood of confusion more analytically useful to trademark infringement and unfair competition claims relating to rebuilt products:

- the extent and nature of changes made to the product;
- the clarity and distinctiveness of the labeling on the rebuilt product; and
- the degree to which any inferior qualities associated with the reconditioned product would likely be identified by the typical purchaser with the manufacturer (765 Federal Supplement at 1551, 20 USPQ2d 1561. See also, *Neles-Jamesbury Inc v Valve Dynamics Inc*, 974 Federal Supplement 964, Southern District of Texas, 1997).

After considering all the pertinent factors, the district court found that a typical purchaser was not likely to be confused as to the source, affiliation or sponsorship of Prudhomme’s rebuilt KLUGE automatic presses (765 Federal Supplement at 1573, 20 USPQ2d 1576).

A different case is presented when the owner is refurbishing the product for its own use; in such instances the owner is not confused, and the act of refurbishing a product for – and returning the product to – the owner, is not a use of the trademark in commerce (*Karl Storz Endoscopy-America Inc v Fiber Tech Medical Inc*, 4 Federal Appendix 128 4th Circuit 2001). However, in *Karl Storz Endoscopy-America Inc v Surgical Techs Inc* (285 F 3d 848, 62 USPQ2d 1273, 9th Circuit 2002), the Ninth Circuit reversed the district court’s grant of summary judgment to defendants who repaired (or managed the repairs) of endoscopes for their owners. The court was concerned with post-sale confusion (285 F 3d 854, 62 USPQ2d at 1276), and the extensiveness of some of the repairs allegedly performed. The Ninth Circuit recognized that there was no bright-line test for determining whether a company that repairs or reconstructs goods and retains the original manufacturer’s trademark on those goods is considered to be using the trademark in commerce (285 F 3d 856, 62 USPQ2d at 1277). It did, however, identify a number of factors to consider when determining whether the company has made a different product, including:

- the nature and extent of the alterations;

- the nature of the device and how it is designed (eg, whether some components have a shorter useful life than the whole);
- whether a market has developed for services and spare parts; and, most importantly
- whether end users are likely to be misled as to the party responsible for the composition of the product (285 F 3d 856-7, 62 USPQ2d at 1277-8).

Thus, while the owner who has products refurbished is generally not confused – either about the source of the original product or the source of refurbishments – where it exposes the refurbished product to others, there is a risk that they could be confused unless there is proper disclosure.

Product embellishment

If appearance is altered on a product that relies on how it looks to create value, it is possible for the consumer to be confused as to its source. Thus, for designer products, alterations and embellishments may be enjoined, at least where there is no way to effectively label them to avoid post-sale confusion. In *Rolex Watch USA Inc v Michel Co* (179 F 3d 704, 50 USPQ2d 1939, 9th Circuit 1999), the defendant reconditioned Rolex watches, refurbishing the dial and sometimes adding diamonds to it, changing the bracelet and/or replacing the bezel. Arguably, these embellishments affected the watch's performance and durability.

Relying on two similar watch cases from the Fifth Circuit (*Rolex Watch USA Inc v Meece*, 158 F 3d 816, 1998, 526 US 1133, 119 SCt 1808, 143 L Ed 2d 1011, 1999) and Seventh Circuit (*Bulova Watch Co v Allerton Co* 328 F 2d 20, 1964), the Ninth Circuit concluded that the alterations made to the used Rolex resulted in a new product. It found that merely requiring an independent mark to be placed on the non-Rolex parts was inadequate because it failed to convey that fundamental changes had been made to the watches and that the faces could not support a more adequate legend. Under *Champion*, the Ninth Circuit held that the retention of Rolex's marks on the altered watches was a misnomer and trademark infringement. Thus, the district court abused its discretion in not completely enjoining the use of Rolex's trademarks on the altered watches (179 F 3d at 710, 50 USPQ2d at 1944).

A similar result was reached in *Cartier v Symbolix Inc* (386 Federal Supplement 2d 354, SDNY 2005), where the district court preliminarily enjoined defendants from altering genuine stainless-steel Cartier watches by mounting diamonds at various points on the bezels and cases to resemble Cartier's more expensive white-gold watches and thereafter selling the altered products, citing *Michel*, *Meece* and *Allerton*.

These watch cases involve modifications that might readily be observed, but whose source cannot be conveyed to the observer. Even if the purchasers knew what they were getting, there is the concern that others encountering the refurbished product would be confused.

Product upcycling

Upcycling occurs when a branded product is turned into an entirely new product. One type of upcycling occurs when a manufacturer uses a branded product as a component in a new product and conveys that to purchasers by using the trademark in advertising, labels or the components list but does not incorporate the original branding into the product itself.

The second and potentially more problematic type is when a manufacturer uses a branded product as a component in a new product and the original trademark is still visible. In both instances, the use of the trademark has the potential to cause confusion if not properly explained.

Trademark identifiers in branded components as part of new products

Since *Prestonettes Inc v Coty*, it has been clear that using a trademark to identify a branded product as a component in a new product is permitted as long as this is explained to consumers. Prestonettes made compacts from the genuine loose powder obtained from Coty and sold them with a label explaining that it was made with Coty's powder and Prestonettes' binder. In reversing the injunction against Prestonettes, Justice Holmes famously wrote: "[w]hen the mark is used in a way that does not deceive the public, we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo" (264 US at 368). This has been followed in many cases since.

Even though Holmes wrote of repackaging a branded product in the same broad terms as compounding a branded product into a new product (264 US 369), repackaging cases are distinguishable from compounding cases because it is clearer to the consumer that a third party has altered the product when it has been compounded. Repackaging a branded product is generally permitted, so long as the party responsible discloses its role (*Farouk Sys Inc v Target Corp*, 86 USPQ2d 1221, 5th Circuit 2008).

Branded products as components in new products

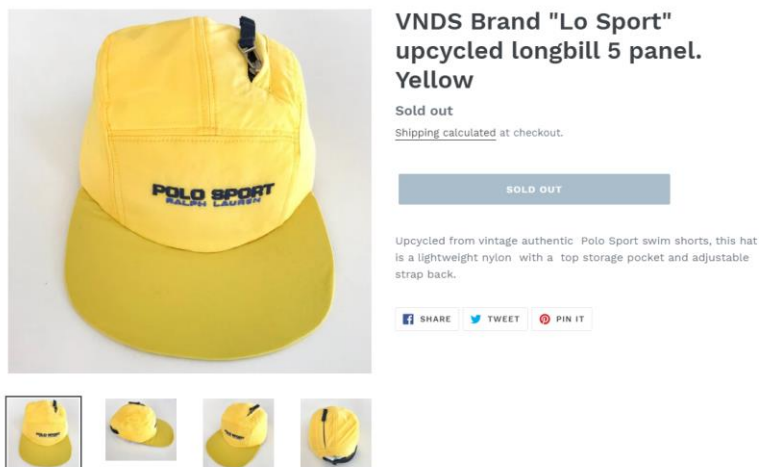
Using branded products (or product parts) as components generally follows the *Prestonettes* rule: the continued presence of the trademark is permitted so long as the original manufacturer is not identified with the inferior qualities of the product resulting from wear and tear or the reconditioning by the dealer. In *Baseball Players v Dad's Kid Corp* (6 Federal Supplement 458, 25 USPQ2d 1559 SDNY 1992), Dad's Kid made Tri-Cards by taking three authentic licensed baseball cards (originally made by the Major League Baseball Players Association's licensees), leaving one intact, cutting out the player's image from each of the two remaining cards, and then slightly staggering those images above the player's image on the intact card to give a 3D effect. The court noted that baseball trading cards are regularly repackaged, displayed or mounted, and Dad's Kid printed a disclaimer on the packaging of its product. Under these circumstances, the district court saw "no likelihood that anyone will be confused as to origin by reason of Dad's Kid's treatment of genuine cards" (806 Federal Supplement at 460, 25 USPQ2d at 1560).

However, in *Eastman Kodak Co v Photaz Imports Ltd* (28 F 3d 102, 39 USPQ2d 1477, 2nd Circuit 1994), the Second Circuit affirmed the district-court decision that Photaz could no longer use Kodak lenses imprinted with the KODAK mark in its Snap Shot camera without a disclaimer that the Snap Shot employed a used Kodak lens and that it had no connection to Kodak. The court said that it must be made clear that "the recycled part in issue is a used part which has been reconditioned by the defendants, and that the manufacturer is not identified with the inferior qualities resulting from any wear and tear of the used product". However, a disclaimer is only sufficient if it reaches anyone who might associate deficiencies with the manufacturer of the original branded product.

In *Au-Tomotive Gold Inc v Volkswagen of America Inc* (603 F 3d 1133, 94 USPQ2d 1873, 9th Circuit 2010), the Ninth Circuit affirmed the summary judgment for Volkswagen that marquee license plates bearing Volkswagen badges (purchased from Volkswagen) infringed its trademarks. While the packaging

for Au-Tomotive Gold's products bore disclaimers, the Ninth Circuit noted that these “do nothing to dispel post-purchase confusion” (603 F 3d at 1138, 94 USPQ2d at 1877). The court said that it is likely that a person seeing Au-Tomotive Gold's products with Volkswagen's badge will associate it with Volkswagen (*Id*) and noted that post-purchase confusion creates a free-rider problem, explaining that if a producer purchases a relatively cheap trademarked product and uses it to create post-purchase confusion as to the source of a new product, the producer is free-riding even though it has paid for the trademarked product (*Id*). The Ninth Circuit concluded that the district court correctly granted summary judgment to Volkswagen on its trademark infringement claim.

PRL USA Holdings Inc v VNDS Los Angeles (Civil Action 2:20-cv-00374-CBM-PJW filed 14 January 2020), involves a type of upcycling that is popular today. The owner of the Ralph Lauren/Polo brands sued VNDS, a Los Angeles clothing company, for counterfeiting and trademark infringement. Among other things VNDS (an acronym for 'very nearly dead stock' ie, new stock that never sold) was altering Ralph Lauren/Polo merchandise to sell. This involved taking parts of genuine Ralph Lauren/Polo branded merchandise (eg, bathing suits), and turning them into a different article of clothing (eg, hats). VNDS described one of its hats as “[u]pcycled from vintage authentic Polo Sport swim shorts”.



By taking Ralph Lauren's POLO marks from one product and attaching them to an entirely different one of its own making, VNDS was essentially doing the same thing as Au-Tomotive Gold – making and selling not just a modified product, but an entirely new one. The district court granted a default judgment before having to rule on the nature of the defendant's activities. While the nature of the product was disclosed on the VNDS website, this disclaimer would not reach everyone who might be exposed to the product after the sale. Just as in the watch cases, where the appearance of a product is important to its value (as is the case with all fashion items), the disclaimer, to be affective, must reach anyone who sees the product, or at least sees the product sufficiently to make a judgment about it.

It was this type of post-sale confusion that caused Nike to sue MSCHF Product Studio, which purchased genuine Nike Air Max 97 shoes and added red ink and human blood to the mid-sole, red embroidered satanic-themed detailing, a bronze pentagram to the laces and a new sock liner, referring to the refurbished product as the Satan Shoe. Nike alleged that “[u]nless stopped, MSCHF's Satan Shoes and MSCHF's use of Nike's Asserted Marks will continue to cause confusion in the marketplace, including but not limited to initial interest confusion, **post-sale** confusion, confusion in the secondary sneakers markets, and dilution by blurring and tarnishment” (emphasis added).



Key takeaways

It is generally not considered trademark infringement to resell used branded products, even if they have been repaired or have replacement parts. This is well within the expectations of the public and needs no explanation. Where branded products have been substantially refurbished, reselling them with the trademark intact usually requires some explanation so that the public is not misled. Generally, a disclaimer will adequately inform purchasers and other users about the nature of the refurbishment. However, in some cases, for example where the appearance of the product is integral to its value, a disclaimer is insufficient to address the post-sale confusion of those who see the product but might not see the disclaimer.

In deciding whether the use of the original branding on a reconstructed product is an infringement, the expectations and understandings of the consuming public are important, including those who might encounter the product post-sale. These can be evaluated by considering:

- the extent and nature of changes made to the product;
- the nature of the device and how it is designed (eg, whether some of the components have a shorter useful life than others);
- the clarity and distinctiveness of the labeling on the rebuilt product;
- whether a market has developed for services and/or spare parts; and
- the degree to which any inferior qualities associated with the reconditioned product would likely be identified by the typical purchaser with the manufacturer.

Where a branded product is incorporated into a new product as a component, the manufacturer can identify the branded product as one of the components on the packaging and advertising. Where the original trademark from the branded product is still visible in the new product, some explanation to the public is usually necessary to explain the origin. As in the case of refurbished products, where the appearance of the product is particularly important, and presumably in other circumstances, no disclaimer is sufficient to address post-sale confusion experienced by consumers who see the product but might not see the disclaimer.