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Coty v Cosmopolitan Cosmetics: decoded products may be counterfeits

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- **The plaintiffs sued the defendants - who resell the plaintiffs' fragrances after removing their production codes - for trademark infringement, counterfeiting and unfair competition**
- **The court declined to infer that the lack of production code alone would be relevant to a consumer's purchasing decision**
- **However, the court held that the plaintiffs had stated a plausible claim that the decoded products were counterfeit goods**

Plaintiffs Coty Inc and various trademark owners brought suit against defendants Cosmopolitan Cosmetics Inc and its two principals for trademark infringement, counterfeiting and unfair competition under the Lanham Act and under New York state law. The defendants moved to dismiss for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). On 9 January 2020 the Southern District of New York denied the motion in part and granted the motion in part based on the following facts and arguments (Coty Inc v Cosmopolitan Cosmetics Inc (18-cv-11145)).

Coty is the manufacturer and distributor of certain fragrance products under its own brands and the exclusive licensee of several marks, including CALVIN KLEIN, HUGO BOSS and MARC JACOBS. According to the plaintiffs, each unit of product that Coty manufactures has a "production code" affixed to it that is used for quality control and can be used for corrective purposes in case of recall or the like. The defendants resell these fragrance products after removal or obscuring the production codes. They are not authorised distributors.

While, generally, the sale of goods not authorised by the trademark owner is prohibited, there is an exception under the law called the 'first sale doctrine', which allows the sale of genuine goods not authorised by the trademark owner. This right, however, is not unlimited. The plaintiffs claimed that the defendants' actions fall under the quality control exception to this right to sell under the first sale doctrine, which states that, if the resale of the product does not permit the trademark owner to maintain its quality control over the product, then the product is not "genuine". As the Second circuit has held, to establish that a product is not genuine because it does not meet the trademark owner's quality control standards, one must demonstrate that the trademark owner "(i) has established legitimate, substantial and non-pretextual quality control procedures, (ii) it abides by these procedures, and (iii) the nonconforming sales will diminish the value of the mark" (citation omitted).

The defendants argued that this exception should not apply because the quality control measures were implemented by licensee Coty, not the trademark owners themselves. The court rejected this argument because Second Circuit courts have already recognised licensees' quality control measures as sufficient for such a claim. The defendants also argued that the plaintiffs do not apply production codes to every unit of fragrance products. However, at the preliminary stage of this motion, the plaintiffs' allegations that such codes are affixed to every unit was presumed true and the court refused to weight this evidence. Thus, the court refused to dismiss this claim.

There is also a second exception to the first sale doctrine, the 'material difference' exception. Goods are considered not "genuine" if they differ materially from the authorised product. A material difference is one that consumers would likely deem relevant when considering the purchase of a product. The plaintiffs claimed that, in many instances, the removal of the production code mutilates the product packaging.

The Second Circuit has held that damages to the physical appearance of the packaging of luxury fragrances damages the allure of the product. Thus, the court held that the plaintiffs had sufficiently alleged material differences in the product packaging. However, the court refused to hold that the mere lack of a production code without more, including without any mutilation, would necessarily be material to a consumer's purchasing decision. Since there was a lack of evidence that consumers knew what a production code was used for, the court declined to infer that the lack of production code alone would be relevant to a consumer's purchasing decision.

The court also held that the plaintiffs had stated a claim that the decoded products were counterfeit goods under Section 45 of the Lanham Act. Since the plaintiffs had alleged that the products bore their trademarks, that the sales were not authorised and that the product were sold in an intentionally fraudulent manner designed to trick consumers into believing that they were receiving genuine product despite material differences, the plaintiffs had alleged a plausible claim for counterfeiting.

While the court refused to dismiss any claims brought against the corporate defendant, it dismissed the claims against the individual defendants, the CEO and the president of the corporation. A corporate officer may be held personally liable for infringement and unfair competition only if the "officer is a moving, active, conscious force behind" the corporation's infringement. Since the plaintiffs' complaint was silent as to any specific actions authorised by the individual defendants but, instead, only alleged that they each had control of the acts of the corporation and were each directly responsible for or otherwise orchestrated the acts of infringement, the court dismissed the complaint against the corporate officers. However, the plaintiffs were given leave to file an amended complaint, including permission to replead claims against the individual defendants.

Lara A. Holzman is a partner at Culhane Meadows PLLC in the firm's New York office. For more than 25 years, Lara Holzman has assisted clients with registering and enforcing trademark portfolios, intellectual property licensing and trademark infringement disputes. Her practical, business-oriented approach to practicing law makes her a go-to for many clients with intellectual property issues.

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