

Who Owns That Trademark – The Manufacturer or the Exclusive Distributor?

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by Sandra Edelman

The Court of Appeals for the Third Circuit, with a ringing endorsement of Prof. McCarthy's trademark law treatise, issued a precedential opinion last week on the issue of whether a trademark is owned by the manufacturer or its exclusive distributor when there is no written agreement governing the issue. **Coverttech Fabricating, Inc. v. TVM Building Products, Inc. (3d Cir. Apr. 18, 2017)**. The court held that where ownership is not otherwise established by contract, as between a manufacturer and its exclusive distributor, there is a rebuttable presumption in favor of the manufacturer. The court also specifically adopted McCarthy's six factor test for determining whether the distributor can successfully rebut the presumption.

The case involved a long but troubled relationship between Coverttech Fabricating, a Canadian manufacturer of protective packaging and reflective insulation, and TVM Building Products, which was designated by verbal agreement as the exclusive marketer and distributor of Coverttech's insulation products in the U.S. There were disagreements over the years between the two companies as a result of payment problems as well as Coverttech's discovery that TVM had been purchasing comparable products from other manufacturers and passing off some of the merchandise as Coverttech's. In 2011, Coverttech terminated its relationship with TVM, but TVM continued to sell reflective insulation products using Coverttech's brand names.

In 2010, Coverttech obtained a registration for its ULTRA trademark in Canada. The following year, although Coverttech had informed TVM of its Canadian registration, TVM applied to register two ULTRA composite marks in the United States Patent and Trademark Office. Coverttech filed suit in federal court to establish its ownership of the ULTRA mark, asserted claims against TVM for infringement and fraud on the USPTO and requested cancellation of the two U.S. registrations for the ULTRA composite marks. The District Court awarded ownership to Coverttech, found TVM liable for infringement and fraud and awarded Coverttech \$4 million in damages.

The 3d Circuit began its opinion in a philosophical vein, noting that "Too often the silence

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of contracting parties must be filled by the voice of the courts.” Turning to the ownership issue, the appellate court held that the “first use test” applied by the District Court may be appropriate in a priority dispute between competing common law trademark users, but the first use test is “an imperfect fit, however, when it comes to the often exclusive and noncompetitive manufacturer-distributor relationship where ownership rights would inure to the benefit of the distributor in a multitude of cases based simply on the fact that the distributor, albeit at the manufacturer’s direction, made the initial sale of goods bearing the mark to the public.” Because manufacturers and distributors typically engage in concerted action, it would not be appropriate in situations where there is no written agreement to assume that the distributor is the owner of the mark just because it makes the first sale. Instead, a “different test accounting for the realities of the manufacturer-distributor relationship must control”

The different standard enunciated by the Third Circuit in *Covertech* is the one propounded by Professor McCarthy’s treatise: Where initial ownership between a manufacturer and its exclusive distributor is at issue and no contract exists, the manufacturer is the presumptive trademark owner unless the distributor rebuts that presumption using a multi-factor balancing test that examines the following aspects of the distribution agreement in effect between the parties:

- Which party invented or created the mark
- Which party first affixed the mark to the goods sold
- Which party’s name appeared on the packaging and promotional materials for the products
- Which party exercised control of the nature and quality of the goods
- Which party did customers look to as standing behind the goods
- Which party paid for advertising and promotion of the products

As the court explained, the presumption and rebuttal factors of the McCarthy test “place a thumb on the ownership scale in favor of the manufacturer, but invite courts to consider various indicia of ownership designed to elicit the rights and responsibilities of the parties” and determine the rightful trademark owner.

In this case, because there had been supplemental and full briefing on the issue, rather than remanding the case to the District Court to determine ownership under the McCarthy standard, the 3d Circuit proceeded to apply the McCarthy test itself, and held that the weight of the factors fell “indisputably in *Covertech*’s favor.” In addition, the appellate court affirmed the findings of infringement and fraud, but vacated and remanded the case on the issue of the monetary award, holding that the lower court had erred in assessing actual damages.

The lesson here is that it is always better to clarify the ownership of a trademark as between a manufacturer and a distributor in a written agreement, particularly an exclusive distributor. Absent a written agreement, an exclusive distributor will have to overcome a presumption in the manufacturer’s favor and demonstrate that it is primarily responsible for the quality of the goods and is the company that consumers look to as the source of the products.

