



By David E. Weslow, Wiley Rein LLP **In the last quarter of the 20th century, e-commerce sales totaled \$5.2 billion. Fast forward a little more than a decade, and by the fourth quarter of 2010, that number had skyrocketed to \$44.1 billion.**

The increasing importance of Internet advertising and e-commerce sales has made protecting distribution chains, brand names and related company reputations exponentially more difficult. Among the collateral damage that has resulted from a booming e-commerce market is unauthorized e-sales. While it may not be possible to stop every unauthorized Internet sale, companies can take steps to protect their brand and business when UnauthorizedRetailer.com starts selling their products.

For example, what happens when a company discovers that an unauthorized e-tailer is selling the company's products on the Internet? Let's assume that the products are not counterfeit, nor are they "parallel import" products intended for another country. Let's further assume that an authorized dealer of the company is not directly operating the website or listing the auctions in question, and that the company has a written policy against such Internet sales by unauthorized dealers. Suppose that all "friendly" efforts to stop the unauthorized e-tailer have been unsuccessful. A company then must weigh whether the harm to the company's brand and distribution network merits legal action.

If the answer is yes, the type of claim will depend upon the nature of the product being sold and the situation. Possible claims against an unauthorized e-tailer can include trademark infringement, copyright infringement, and various common law torts including tortious interference with contract and common-law fraud. In addition, under the appropriate set of facts and business justifications, a company may also consider a claim for breach of

contract against its relevant authorized dealer, if the authorized dealer is knowingly supplying the unauthorized e-tailer.

TRADEMARK INFRINGEMENT

A claim for trademark infringement may lie against an unauthorized e-tailer if facts demonstrate that consumer confusion between the authorized and unauthorized products is likely. Even if it is not possible to sustain an allegation of consumer confusion as to the source of the products, there may still be a viable trademark infringement claim if confusion is likely as to whether the e-tailer is an authorized dealer and/or whether the products being sold by the e-tailer are covered by the manufacturer's warranty.

In order to prove a trademark claim based on consumer confusion, the company should carefully document all instances of consumer confusion. A review of relevant warranty registration information may also provide evidence of consumer confusion as to whether such products are covered by the manufacturer's warranty.

TORTIOUS INTERFERENCE WITH CONTRACT

A company can also assert a claim against an unauthorized e-tailer for tortious interference by producing the existing contract between the company and the authorized dealer from which the e-tailer purchased the products. To succeed with such a claim, the company must demonstrate (1) the existence of a valid contract between the company and its authorized dealer; (2) the

unauthorized e-tailer's knowledge of the contract; (3) the unauthorized e-tailer's intentional interference with the contract; and (4) resulting actual damage to the company.

Tortious interference with contract claims against unauthorized e-tailers most frequently arise when the company's distribution agreement prohibits the sale of products from authorized dealers to unauthorized e-tailers, the unauthorized e-tailer in question has been made aware of the contractual prohibition on such sales, and the unauthorized e-tailer nonetheless continues to purchase company products from authorized dealers/distributors. Tortious interference with contract claims is heavily dependent upon the existence of a written distribution agreement between the company and its authorized dealers. However, in the event this does not exist, the claim may be supported by a compilation of "dealer bulletins," similarly written communications, or, in some cases, by presenting evidence of an oral contract containing terms and restrictions. Because an unauthorized e-tailer must have specific knowledge of the contract in question before the company may assert a claim of tortious interference, the company's pre-litigation efforts to resolve the matter should include advising the unauthorized e-tailer of the contract and its relevant terms and restrictions.

FRAUD

To succeed on a claim of fraud the plaintiff must prove: (1) that the defendant made a fraudulent misrepresentation or concealed a material fact; (2) the statement (or omission) was false and was known by the defendant to be false; (3) the statement (or omission) was made in order to induce the plaintiff to act in reliance on it; (4) the plaintiff did so act, with justifiable or reasonable reliance on the representation and (5) the plaintiff was injured as a result of the reliance. A number of states have enacted fraud statutes that provide interested parties with the ability to assert a claim of fraud where the defendant's misrepresentation was made to a third party—such as a consumer seeking to purchase the company's product. Therefore, a company can assert a claim of fraud against an unauthorized e-tailer, if the e-tailer made misrepresentations to consumers regarding its "unauthorized" status and/or whether the products in question are entitled to the manufacturer's warranty.

COPYRIGHT INFRINGEMENT

Determining if a claim for copyright infringement exists depends upon the extent of which the company's copyrighted catalog and/or promotional materials have been incorporated into the unauthorized e-tailer's website. In certain cases copyright infringement claims may be available based upon the products themselves. In any copyright action, the first ques-

tion is whether there is a protectable copyright and if so, who owns the copyright. For example, if goods are being sold by an unauthorized e-tailer, the first step is to determine whether the company's catalog, product pictures, promotional materials or other content that has been copied by the unauthorized e-tailer is protected by copyright. The company must determine whether it owns the copyright, which can be complicated due to legal rules pertaining to works created by independent contractors and consultants.

For most product-based companies it is essential to maintain control over the methods by which the company's products are promoted and sold. The Internet is not the Wild West and companies should employ strategic methods for maintaining control over the advertising, distribution and sale of their products.

BREACH OF CONTRACT

Sometimes a company may decide that it no longer makes sense to continue its relationship with an authorized dealer that repeatedly sells the company's products to unauthorized e-tailers for resale. In addition to terminating the relationship with the dealer, the company may consider asserting a claim of breach of contract. The company must show that there was a valid and enforceable contract between the parties and sales to unauthorized e-tailers constituted a breach of the contract.

POSSIBLE COUNTERCLAIMS

A company considering legal action against an unauthorized e-tailer and/or terminated dealer should be aware that counterclaims may be asserted against the company by the defendant. Depending upon the nature of the company's interactions with the relevant e-tailer and dealer, the defendant may assert antitrust counterclaims and trademark or copyright misuse counterclaims. However, copyright and trademark misuse claims can be very difficult to establish. A company's risk of receiving antitrust counterclaims may also be limited if the company is cautious and deliberate in its interactions with the unauthorized e-tailers and dealers by, for example, specifically avoiding any pricing discussions or any discussions suggesting that a decision was driven by pricing. Although the risk of counterclaims cannot be completely eliminated, steps may be taken to lessen the viability of such claims.

The Internet continues to impact consumers' perceptions of how to identify, evaluate and purchase products. Yet, for most product-based companies it is essential to maintain control over the methods by which the company's products are promoted and sold. The Internet is not the Wild West and companies should employ strategic methods to maintain control over the advertising, distribution and sale of their products. In certain cases, companies may wish to consider the viability of legal action against an unauthorized e-tailer as a means of furthering their branding and distribution goals. ●

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