

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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MINERVA TEXTILES, LTD., et al., :
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Plaintiffs, :
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-v- :
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ABC SUPERSTORES, INC., et al., :
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Defendants. :
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13-CV-8954 (VSB)

MEMORANDUM & ORDER

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VERNON S. BRODERICK, United States District Judge:

Plaintiffs Minerva Textiles, Ltd. (“Minerva”) and Vault Sportswear, Inc. (“Vault”) (collectively, “Plaintiffs”) are affiliated companies that design, import, and sell women’s and girls’ clothing. This case concerns the alleged infringement of Minerva’s registered “LIKE AN ANGEL” trademark (the “Mark”) through the unauthorized sale of jeggings—i.e., leggings styled to look like jeans—bearing the Mark. Defendants are seven commonly owned entities

that operate retail stores doing business under variants of the name “ABC” (collectively, the “ABC Defendants”); Gilbar Trading, Inc. d/b/a Sketch 36 (“Gilbar”), a clothing distributor; Seymour Dayan (“Dayan”), an officer of Gilbar; and Oakbeach Enterprises, Inc. (“Oakbeach”), another clothing distributor that has not appeared and defaulted.¹ Plaintiffs allege that the ABC Defendants sold jeggings bearing the Mark that are not genuine LIKE AN ANGEL jeggings and are of inferior quality (the “Allegedly Infringing Apparel”). The ABC Defendants purchased the Allegedly Infringing Apparel from Gilbar, which purchased it from Oakbeach.

Presently before me are the parties’ cross-motions for summary judgment. (Docs. 84, 105.) The existing record is insufficient to establish where the Allegedly Infringing Apparel was produced, how the Allegedly Infringing Apparel came into Oakbeach’s possession, and whether the Allegedly Infringing Apparel was genuine. The only meaningful evidence regarding the genuineness of the Allegedly Infringing Apparel is the deposition testimony of Nouri Chaya (“Chaya”), vice-president and co-owner of Minerva and Vault, which is inconclusive at best and must be evaluated by the trier of fact. Because there are genuine disputes as to various material facts, including, among other things: (1) whether Plaintiffs authorized the initial sale of the Allegedly Infringing Apparel; (2) the scope of the authority, if any, conferred by Plaintiffs upon their manufacturers to sell irregulars and overruns bearing the Mark; and (3) whether the Allegedly Infringing Apparel is genuine, the parties’ motions for summary judgment are both DENIED with respect to Plaintiffs’ trademark-related claims under the Lanham Act and parallel

¹ The Clerk of Court entered a certificate of default as to Oakbeach on March 10, 2014, (Doc. 25), but Plaintiffs have not yet sought a default judgment against Oakbeach. Additional Defendants Fordham Retail LLC d/b/a 3 Floors Department Store and Eli Benatar were voluntarily dismissed on April 17, 2015. (*See* Doc. 144.) Throughout this Memorandum and Order, I use “Defendants” to refer collectively to the Defendants actively participating in the litigation, which are the ABC Defendants, Gilbar, and Dayan. The ABC Defendants are: ABC Superstores, Inc.; A.B.C. Variety Stores of Greenpoint, Inc.; ABC Superstores of 82nd Street, Inc.; ABC Superstores of Fresh Pond Road, Inc.; ABC Superstores of Westchester Sq., Inc.; and ABC Superstores of Wyckoff Avenue, Inc.

state statutory and common law claims. Because Plaintiffs do not allege injury to the public interest over and above ordinary trademark infringement or dilution, Plaintiffs fail to state a cognizable claim for deceptive business practices under New York General Business Law § 349, and Defendants' motion for summary judgment with respect to that cause of action is GRANTED.

I. Factual and Procedural Background

In or around May 2013, Plaintiffs discovered that the ABC Defendants were selling the Allegedly Infringing Apparel for profit. (Ds' 56.1 Resp. ¶ 15.)² Among the units of Allegedly Infringing Apparel were several pairs of jeggings that Plaintiffs purchased from ABC stores. (*Id.*) On May 22, 2013, Plaintiffs sent the ABC Defendants a cease and desist letter, (*id.* ¶ 16), in response to which the ABC Defendants informed Plaintiffs that they had purchased the Allegedly Infringing Apparel from Gilbar, (*id.* ¶ 17). Plaintiffs on June 3, 2013 sent Gilbar a cease and desist letter, (*id.* ¶ 18), in response to which Gilbar informed Plaintiffs that it had purchased the Allegedly Infringing Apparel from Oakbeach, (*see id.* ¶¶ 21-22). Gilbar is a so-called 'jobber,' meaning that it is in the business of purchasing 'closeout' goods that manufacturers or retailers are seeking to 'unload' at very low prices. (*See* Dayan Dep. 62:6-11, 105:23-106:7, 175:12-23.)³ Invoices produced by Gilbar reflect that Gilbar purchased 14,733 units of ladies' lycra pants from Oakbeach in January 2013 and 7,340 units of ladies' assorted irregular pants from Oakbeach in March 2013. (*See* Doc. 108-5.) Dayan testified that Gilbar purchased similar-looking jeggings of different brands from Oakbeach. (*See* Dayan Dep. 99:14-25.) Dayan believed the goods were "a mixed lot of genuines that the factory probably had

² "Ds' 56.1 Resp." refers to Defendants' Joint Rule 56.1(b) Counterstatement. (Doc. 138.)

³ "Dayan Dep." refers to the Transcript of the Deposition of Seymour Dayan, July 30, 2014. (Doc. 108-6.)

extras of what it was making I mean, people make goods and there [are] always extras and overruns and, you know, [quality control] issues or whatever the case may be and they sell the excess merchandise.” (*Id.* at 106:12-19.)

Plaintiffs initiated this action by filing a complaint on December 18, 2013. (Doc. 1.) On November 10, 2014, Plaintiffs filed their first amended complaint. (“FAC,” Doc. 88.) The original complaint and the FAC both assert seven causes of action: (1) trademark infringement under the Lanham Act, 15 U.S.C. § 1114; (2) false designation of origin under the Lanham Act, *id.* § 1125(a); (3) trademark dilution under the Lanham Act, *id.* § 1125(c); (4) deceptive business practices under New York State Law, N.Y. Gen. Bus. Law § 349; (5) trademark dilution under New York statutory law, *id.* § 360-1; (6) common law trademark infringement and unfair competition; and (7) vicarious trademark infringement. (FAC ¶¶ 68-130.)

On November 6, 2014, Defendants filed their joint motion for summary judgment, (Doc. 84); a supporting declaration and exhibits, (Doc. 85); a supporting memorandum of law, (Doc. 86); and a statement of undisputed facts pursuant to Local Civil Rule 56.1, (Doc. 87).⁴ On December 11, 2014, Plaintiffs filed a cross-motion for partial summary judgment as to liability on their Lanham Act claims, New York trademark dilution claim, and common law trademark infringement claim. (Doc. 105; *see* Doc. 107 at 1.) Plaintiffs also filed a Local Rule 56.1 statement, (Doc. 106), a memorandum of law, (Doc. 107), and a supporting declaration and exhibits, (Doc. 108). Because Plaintiffs’ cross-motion relied on recently produced documents that Plaintiffs had objected to producing without reasonable justification during discovery, I authorized Defendants to conduct a supplemental deposition concerning those documents and

⁴ Although Defendants’ motion predates the filing of the FAC, Defendants’ motion is equally applicable to either the original complaint or the FAC because the FAC adds no substantive causes of action, and Defendants seek summary judgment as to both. (*See* Doc. 86 at 1 n.1.)

ordered Plaintiffs and their counsel to bear the cost of the deposition and related proceedings. (See Docs. 104, 111, 116, 125, 145.) On March 27, 2015, after the supplemental deposition had occurred, Defendants filed a joint reply memorandum, (Doc. 137); supporting declaration and exhibit, (Doc. 136); and Local Rule 56.1 counterstatement, (Doc. 138). On April 10, 2015, Plaintiffs filed a reply memorandum. (Doc. 142.)

Plaintiffs argue that the Allegedly Infringing Apparel is not genuine and is of inferior quality to genuine LIKE AN ANGEL jeggings, and that Defendants' unauthorized sale of the Allegedly Infringing Apparel will therefore cause consumer confusion and harm the brand's reputation. Defendants acknowledge that they sold the Allegedly Infringing Apparel for profit, (see Ds' 56.1 Resp. ¶ 14), but argue that there can be no trademark infringement as a matter of law because the Allegedly Infringing Apparel is, in fact, genuine LIKE AN ANGEL jeggings produced by Plaintiffs' manufacturers and sold with Plaintiffs' authorization.⁵

II. Legal Standard

A. *Summary Judgment*

Summary judgment is appropriate when “the parties’ submissions show that there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law.” *Fay v. Oxford Health Plan*, 287 F.3d 96, 103 (2d Cir. 2002); see Fed. R. Civ. P. 56(a). “[T]he dispute about a material fact is ‘genuine’ . . . if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). A fact is “material” if it “might affect the outcome of the suit under the governing law,” and “[f]actual disputes that are irrelevant or unnecessary will not be counted.” *Id.*

⁵ Defendants assert that “the jeggings [they] sold are Plaintiffs’ genuine goods and, according to Plaintiffs, the jeggings contained Plaintiffs’ ‘actual labels’ with Plaintiffs’ ‘actual Mark,’ as opposed to labels with Plaintiffs’ ‘identical’ mark.” (Ds’ 56.1 Resp. ¶ 14.)

On a motion for summary judgment, the moving party bears the initial burden of establishing that no genuine factual dispute exists, and, if satisfied, the burden shifts to the nonmoving party to “set forth specific facts showing that there is a genuine issue for trial,” *id.* at 256, and to present such evidence that would allow a jury to find in his favor, *see Graham v. Long Island R.R.*, 230 F.3d 34, 38 (2d Cir. 2000).

To defeat a summary judgment motion, the nonmoving party “must do more than simply show that there is some metaphysical doubt as to the material facts,” *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986). “A party asserting that a fact cannot be or is genuinely disputed must support the assertion by . . . citing to particular parts of materials in the record, including depositions, documents, electronically stored information, affidavits or declarations, stipulations (including those made for purposes of the motion only), admissions, interrogatory answers, or other materials . . .” Fed. R. Civ. P. 56(c)(1). In the event that “a party fails . . . to properly address another party’s assertion of fact as required by Rule 56(c), the court may,” among other things, “consider the fact undisputed for purposes of the motion” or “grant summary judgment if the motion and supporting materials—including the facts considered undisputed—show that the movant is entitled to it.” Fed. R. Civ. P. 56(e)(2), (3).

Finally, in considering a summary judgment motion, the Court must “view the evidence in the light most favorable to the nonmoving party and draw all reasonable inferences in its favor, and may grant summary judgment only when no reasonable trier of fact could find in favor of the nonmoving party.” *Allen v. Coughlin*, 64 F.3d 77, 79 (2d Cir. 1995) (internal citations and quotation marks omitted); *see also Matsushita*, 475 U.S. at 587. “[I]f there is any evidence in the record that could reasonably support a jury’s verdict for the non moving party,” summary judgment must be denied. *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 286 (2d

Cir. 2002).

B. *Applicable Substantive Law*

“Under § 1114 of the Lanham Act, plaintiff in a trademark infringement action must show that defendant (1) without consent, (2) used in commerce, (3) a reproduction, copy or colorable imitation of plaintiff’s registered mark, as part of the sale or distribution of goods or services, and (4) that such a use is likely to cause confusion.” *Gruner + Jahr USA Publ’g v. Meredith Corp.*, 991 F.2d 1072, 1075 (2d Cir. 1993). Similarly, with respect to a claim for false designation of origin under § 1125(a), the plaintiff must show that the plaintiff has a valid mark that is entitled to protection and that the defendant’s actions are likely to cause confusion with respect to the plaintiff’s mark. *See, e.g., Lopez v. Gap, Inc.*, 883 F. Supp. 2d 400, 413 (S.D.N.Y. 2012). To prevail on a trademark dilution claim under § 1125(c), a plaintiff must establish that: “(1) its mark is famous; (2) the defendant is making commercial use of the mark in commerce; (3) the defendant’s use began after the mark became famous; and (4) the defendant’s use of the mark dilutes the quality of the mark by diminishing the capacity of the mark to identify and distinguish goods and services.” *Louis Vuitton Malletier v. Dooney & Bourke Inc.*, 454 F.3d 108, 118 (2d Cir. 2006) (quoting *Savin Corp. v. Savin Grp.*, 391 F.3d 439, 448-49 (2d Cir. 2004)). Dilution may occur either by blurring, i.e., “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark,” 15 U.S.C. § 1125(c)(2)(B), or by tarnishment, i.e., “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark,” *id.* § 1125(c)(2)(C). *See, e.g., Pfizer Inc. v. Sachs*, 652 F. Supp. 2d 512, 525 (S.D.N.Y. 2009).

Plaintiffs’ trademark-related state law claims are governed by essentially the same standards. The elements of trademark infringement under New York common law are the same

as those under the Lanham Act. *See Gucci Am., Inc. v. Guess?, Inc.*, 868 F. Supp. 2d 207, 240 (S.D.N.Y. 2012); *Pfizer, Inc.*, 652 F. Supp. 2d at 526. To prevail on their claim under New York General Business Law § 360-1, Plaintiffs must similarly show “(1) that the trademark is truly distinctive or has acquired secondary meaning, and (2) a likelihood of dilution either as a result of ‘blurring’ or ‘tarnishment.’” *L & L Wings, Inc. v. Marco-Destin, Inc.*, 676 F. Supp. 2d 179, 189 (S.D.N.Y. 2009) (quoting *U-Neek, Inc. v. Wal-Mart Stores, Inc.*, 147 F. Supp. 2d 158, 175 (S.D.N.Y. 2001)).⁶

A different standard governs Plaintiffs’ claim for deceptive business practices under New York General Business Law § 349, with which Plaintiffs do not assert a parallel federal cause of action. “A plaintiff under [§] 349 must prove three elements: first, that the challenged act or practice was consumer-oriented; second, that it was misleading in a material way; and third, that the plaintiff suffered injury as a result of the deceptive act.” *Stutman v. Chem. Bank*, 731 N.E.2d 608, 611 (N.Y. 2000) (citations omitted).

III. Discussion

A. *Plaintiffs’ First, Second, Third, Fifth, Sixth, and Seventh Causes of Action: Trademark-Related Claims*

1. Exhaustion Doctrine

“As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner. Thus, a distributor who resells trademarked goods without change is not liable for trademark infringement.” *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61-62 (2d Cir. 1992) (footnote and citations omitted). Even if a

⁶ Federal law requires a showing of “actual dilution,” as opposed to the showing of a “likelihood of dilution” required under state law. *Louis Vuitton Malletier*, 454 F.3d at 119. This distinction is irrelevant to the analysis in this Memorandum and Order.

trademark owner did not authorize a distributor to resell the product, the resale of the genuine product would not confuse consumers as to the product's source or dilute the strength of the mark. *See Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243 (2d Cir. 2009). Therefore, Defendants' unauthorized resale of genuine LIKE AN ANGEL jeggings, by itself, would not be actionable under the Lanham Act and parallel state statutory and common law. *See id.*; *see also H.L. Hayden Co. v. Siemens Med. Sys., Inc.*, 879 F.2d 1005, 1023 (2d Cir. 1989). Put differently, Defendants have the "right to resell a branded item in an unchanged state." *Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 317 (S.D.N.Y. 2007) (quoting *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 76 (2d Cir. 1987) (Cardamone, J., concurring)). However, confusion or dilution could occur and thus Defendants could be liable under the trademark laws if, for example, they interfered with Plaintiffs' ability to control the quality of the jeggings or sold jeggings that materially differed from those initially authorized for sale by Plaintiffs. *See Zino Davidoff SA*, 571 F.3d at 243. "One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark." *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986).

Courts in this district have characterized this principle—that the unauthorized resale of genuine goods, by itself, is not actionable under the trademark laws—as the "exhaustion doctrine" or, by analogy to copyright law, the "first sale doctrine." *E.g.*, *Microban Prods. Co. v. API Indus., Inc.*, No. 14-CV-41, 2014 WL 1856471, at *9 (S.D.N.Y. May 8, 2014); *Bel Canto Design, Ltd. v. MSS Hifi, Inc.*, 837 F. Supp. 2d 208, 222 (S.D.N.Y. 2011); *O.D.F. Optronics Ltd. v. Remington Arms Co.*, No. 08-CV-4746, 2008 WL 4410130, *13 (S.D.N.Y. Sept. 26, 2008) ("first sale/exhaustion doctrine"); *Dan-Foam A/S*, 500 F. Supp. 2d at 317; *Ryan v. Volpone*

Stamp Co., 107 F. Supp. 2d 369, 381 (S.D.N.Y. 2000). Application of the exhaustion doctrine requires two steps:

First, the court must consider whether the trademark owner authorized the first sale of the goods. Second, the court must consider whether the goods were genuine. If the initial sale was authorized, the court must undertake the second part of the analysis and determine whether, as a matter of fact, the goods which were later resold without authorization were genuine. If the goods were genuine, there is no violation of the Lanham Act despite the fact that the goods were resold without the trademark owner's consent. If the goods were not genuine, that is[,] altered or not in keeping with the trademark owner's quality standards, a valid claim for trademark infringement is established. If the trademark owner did not approve the original sale, the goods cannot be considered genuine as a matter of law and infringement is established.

Microban Prods., 2014 WL 1856471, at *9 (alteration in original) (quoting *Ryan*, 107 F. Supp. 2d at 382).

Some courts have described the exhaustion doctrine as an affirmative defense for which the defendant has the burden of proof. *See, e.g., Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 300-01 (3d Cir. 1998); *Microban Prods.*, 2014 WL 1856471, at *9. Others have held that it is not an affirmative defense, but simply one way in which the plaintiff may fail to prove the element of confusion or dilution necessary to a Lanham Act claim. *See, e.g., Food Scis. Corp. v. Nagler*, No. 09-CV-1798, 2010 WL 1186203, at *7 (D.N.J. Mar. 22, 2010) ("It is an element of the infringement claim that the Defendant's conduct causes confusion, which necessarily requires allegations of sale of a materially different product bearing the trademark or allegations of other conduct creating confusion as to product origin (such as creating the false impression of official authorization)." (citation omitted)); *Taylor Made Golf Co. v. MJT Consulting Grp.*, 265 F. Supp. 2d 732, 739 (N.D. Tex. 2003) (citing *Polymer Tech. Corp.*, 975 F.2d at 61) ("The exhaustion or first-sale rule is not an affirmative defense. Rather, it defines an area of commerce beyond the reach of trademark law."); *see also* David W. Barnes, *Free Riders and Trademark*

Law's First Sale Rule, 27 Santa Clara Computer & High Tech. L.J. 457, 465-66 (2011). See generally Yvette Joy Liebesman & Benjamin Wilson, *The Mark of a Resold Good*, 20 Geo. Mason L. Rev. 157 (2012).

Here, the sole basis for Defendants' motion, (*see* Ds' Mem. 6-11),⁷ and the sole basis for Defendants' opposition to Plaintiffs' motion, (*see* Ds' Reply 6-20),⁸ is that the units of Allegedly Infringing Apparel were genuine LIKE AN ANGEL jeggings, manufactured under contract with Plaintiffs and authorized for sale by Plaintiffs. The parties have not cited and I have not identified any controlling Second Circuit authority that allocates the burden of proof on this issue. To resolve the instant cross-motions, however, I need not decide whether the exhaustion doctrine is an affirmative defense or simply one way of negating the confusion and dilution elements of Plaintiffs' trademark claims. Regardless of who has the burden of proof, there is a genuine dispute of material fact as to whether Plaintiffs authorized the initial sale of the Allegedly Infringing Apparel, and neither side is entitled to summary judgment.

2. Authorization of Initial Sale

"Trademarked goods produced by a manufacturer under contract with the trademark owner are not genuine goods until their sale under the mark is authorized by the trademark owner. Thus, if the trademark owner rejects the goods, the manufacturer may not use the mark in reselling the goods to others." *Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc.*, 979 F. Supp. 224, 230 (S.D.N.Y. 1997) (quoting Restatement (Third) of Unfair Competition § 24, cmt.

⁷ "Ds' Mem." refers to Defendants' Joint Memorandum of Law in Support of Motion for Summary Judgment. (Doc. 86.)

⁸ "Ds' Reply" refers to Defendants' Joint Reply in Support of Motion for Summary Judgment and Opposition to Plaintiffs' Cross-Motion for Partial Summary Judgment. (Doc. 137.) Notwithstanding Defendants' assertion that the first sale doctrine is entirely irrelevant and reflects Plaintiffs' "effort to fit their flawed theories into some legal framework," (Ds' Reply 14), the first sale doctrine is, as explained above, simply a label that courts have given to the precise argument Defendants are making.

c)); *see also El Greco Leather Prods.*, 806 F.2d at 393.

The record is devoid of documentary evidence establishing a chain of custody over the Allegedly Infringing Apparel prior to it coming into the possession of Oakbeach.⁹ Virtually all of the relevant evidence concerning the provenance of the Allegedly Infringing Apparel comes from the declaration and two depositions of Nouri Chaya, who is the owner and vice-president of both Minerva and Vault, (*see* Chaya Decl. ¶ 1).¹⁰ According to Chaya, Vault is and always has been the only entity authorized to sell apparel bearing the Mark at the wholesale level. (*Id.* ¶ 6.) Chaya averred in his declaration and testified at his deposition that Vault did not sell, or authorize anyone else to sell, the Allegedly Infringing Apparel to anyone. (*See id.* ¶ 10; Chaya Dep. 11:1-13:9, 136:5-11, 183:2-22.)¹¹ The primary basis for this statement, Chaya explained, is that ABC was selling the jeggings for much lower than their usual retail price. (*See* Chaya Dep. 12:16-22.) Upon noticing the sharply discounted prices, Plaintiffs “checked our sales records to see if we have sold any of these styles to ABC, which we haven’t. We checked if we sold to any jobbers or people who resell product at a very low price that would end up retailing for that price and we don’t have any of that.” (*Id.* at 11:22-12:3.) Chaya’s statement that Plaintiffs never authorized the sale of the Allegedly Infringing Apparel was also based upon the existence of noticeable defects in the jeggings Plaintiffs purchased from ABC, (*see id.* at 12:23-13:9), such as legs of different lengths, a twisted inside seam, and an upside-down brand label, (*id.* at 14:22-24, 15:18-24, 19:9-16).

The Allegedly Infringing Apparel is labeled “Made in Pakistan,” (*id.* at 18:3-5), and, at the time, Plaintiffs contracted with manufacturers in Pakistan to produce LIKE AN ANGEL

⁹ Based upon this lack of evidence and the default by Oakbeach it appears as if no discovery was taken of Oakbeach.

¹⁰ “Chaya Decl.” refers to the Declaration of Nouri Chaya. (Doc. 108.)

¹¹ “Chaya Dep.” refers to the Transcript of the Deposition of Nouri Chaya, July 11, 2014. (Doc. 85-1.)

jeggings, (*see id.* at 28:9-14). When asked whether he believed that the Allegedly Infringing Apparel had been “manufactured in a factory or a facility retained by [P]laintiffs,” Chaya testified that he “can’t be certain” but “it is possible.” (*Id.* at 22:13-19.) Chaya further explained that he “can’t” definitively find out whether the Allegedly Infringing Apparel was produced by Plaintiffs’ manufacturers, but stated: “[T]hey are very similar to our prints, they are very similar to our styles, they carry some of our markings, not all of them, and it’s possible that that’s where they would have come from.” (*Id.* at 24:13-20.) When questioned further, Chaya agreed that it was “very probable” and “highly possible” that the Allegedly Infringing Apparel was produced by Plaintiffs’ manufacturers in Pakistan. (*Id.* at 25:11-12, 86:24-87:5).

Chaya testified, however, that having been produced at a factory under contract with Plaintiffs did not make the Allegedly Infringing Apparel authentic LIKE AN ANGEL jeggings: “They don’t meet our specifications and we did not buy them from those factories and we are the only ones who would be allowed to buy them and resell them.” (*Id.* at 26:12-16.) Chaya further explained that he has no way of tracing a specific garment to a specific manufacturer. LIKE AN ANGEL jeggings are a “replenishment garment” that Plaintiffs ship “constantly,” in response to “hundreds of orders,” and Chaya “would not know which order” a given pair of jeggings “came from.” (*Id.* at 44:18-24.) An investigation conducted by Plaintiffs into whether any LIKE AN ANGEL jeggings were sold by manufacturers without Plaintiffs’ consent revealed “[n]othing definitive[;] [n]obody admitted to selling . . . a product bearing our mark to other parties.” (*Id.* at 128:6-129:24.) Chaya stated: “We weren’t able to find any proof of what we thought was happening.” (*Id.* at 130:11-13.)

With regard to quality control—i.e., the identification and disposition of defective garments—Chaya testified that Plaintiffs communicate periodically via email, Skype, and in

person with their manufacturers regarding quality control. (*See id.* at 28:22-30:19.) However, Plaintiffs primarily communicate with their manufacturers through buying agents in Pakistan who negotiate prices and place orders with factories and communicate with factories about quality control. (*See id.* at 141:11-21, 170:4-12.) Plaintiffs “try to do as little [direct] communication with the factories as possible” because they employ buying agents for this purpose. (*Id.* at 141:18-20.) The factories with which Plaintiffs contract have their own quality control agents who conduct inspections of the product and “take[] out” defective items from the shipment. (*Id.* at 138:13-25.) Plaintiffs are not aware of the content of the manufacturers’ own quality control standards, which vary from factory to factory. (*See id.* at 172:2-14.) Chaya explained that “bare minimum stuff for clothing manufacturing” involves an individual inspection of each garment by a quality control employee of the manufacturer. (*Id.* at 176:5-20.) However, Chaya testified that production of LIKE AN ANGEL jeggings in Pakistan has been reduced in the last two to three years by “70 to 80 percent compared to what it used to be” because of quality issues. (*Id.* at 130:14-131:7.)

Plaintiffs’ buying agents also engage in their own quality control efforts, which are “more [like] checks and balances” for the factories’ own quality control, as the buying agents are responsible for generally “see[ing] if what we asked for was done” rather than inspecting every garment. (*Id.* at 173:11-17.) Plaintiffs do not know how its buying agents train the inspectors in their employ. (Chaya Supp. Dep. 84:22-23.)¹² The buying agents’ inspectors check a certain percentage of items in each order pursuant to Acceptable Quality Limit (AQL) standards commonly used in the industry. (*Id.* at 173:18-174:10. *See generally* Chaya Decl. ¶¶ 53-59.)

¹² “Chaya Supp. Dep.” refers to the Transcript of the Supplemental Deposition of Nouri Chaya, Feb. 26, 2015. This document is filed under seal. (*See* Docs. 135, 141.)

The entire order will then be accepted or rejected based upon the number of defects in the inspected sample. (*See id.* at 177:18-178:14, 179:15-22.) If an order is rejected in its entirety, Plaintiffs will receive either an email explaining why the order was rejected or a sample of the defective merchandise to document the rejection. (*See Chaya Supp. Dep.* 74:22-76:17.) Plaintiffs receive inspection sheets documenting the results when orders that pass AQL inspections are shipped. (*Id.* at 74:10-21.) Some defective individual garments will often end up being shipped within an order that passes AQL inspection. (*See Chaya Dep.* 178:11-14; *Chaya Supp. Dep.* 121:20-122:7.) Different retailers respond differently when they receive defective LIKE AN ANGEL merchandise. Some will return defective articles to Plaintiffs; some will donate the defective articles; and some will sell the defective articles as irregulars. (*Chaya Supp. Dep.* 122:8-16.)

Chaya could not remember giving Plaintiffs' manufacturers an instruction to destroy defective garments, (*Chaya Dep.* 139:5-7), but testified that the factories are instructed that LIKE AN ANGEL products "cannot be sold to anybody other than us," (*id.* at 139:10-14), and that the manufacturers in Pakistan are instructed to remove the LIKE AN ANGEL label from any defective garments or rejected orders, (*id.* at 139:20-24, 140:19-23, 180:9-20). When asked whether these instructions were in writing, Chaya explained: "I'm not sure of that, like it is not for every style, there's general rules about what's acceptable in doing business with our company." (*Id.* at 141:7-10.) Chaya said he was "sure at one point we've given those [instructions] in writings to our agents," but "I don't know how they communicate that to the factories, I'm not sure." (*Id.* at 141:12-15.) In other words, "that has been communicated and discussed with our agents. The agents then turn around and explain these things to the factories. We don't communicate to the factories." (*Id.* at 184:3-7.) Chaya testified that manufacturers in

Pakistan can keep the defective garments because “[t]hat’s their own product” and “[w]e cannot tell them what to do as far as like donate it or sell [the defective garments].” (*Id.* at 140:24-141:1.)

A jury could reasonably credit Chaya’s assertions that Plaintiffs never authorized the initial sale of the Allegedly Infringing Apparel. Given the defects in the Allegedly Infringing Apparel, the existence of two levels of quality control at the factories, and the nature of Gilbar’s business as a bulk purchaser of unwanted irregulars, a jury could reasonably infer that Plaintiffs’ manufacturer initially sold the Allegedly Infringing Apparel to Oakbeach without authorization and in defiance of Plaintiffs’ command to remove all labels bearing the Mark from defective items.

However, viewing Chaya’s testimony as a whole, a jury could also reasonably find that Plaintiffs did authorize the initial sale of the Allegedly Infringing Apparel. Based upon Chaya’s testimony that Plaintiffs receive documentation when orders are rejected for failing AQL inspections, (*see* Chaya Supp. Dep. 74:22-76:17), and Plaintiffs’ failure to produce any documentation of rejected orders of jeggings during the six-month period preceding Gilbar’s purchase of the Allegedly Infringing Apparel from Oakbeach, (*see* Chaya Supp. Dep. 101:2-110:18; Doc. 85-4; Doc. 108-13; Ds’ Reply 7), the jury could reasonably infer that Plaintiffs affirmatively authorized the initial sale of the Allegedly Infringing Apparel. In the alternative, if the jury did not find that Plaintiffs expressly authorized the sale of the Allegedly Infringing Apparel, it could find that Plaintiffs’ manufacturers were never told that they could not sell defective or excess goods bearing the LIKE AN ANGEL mark. Chaya testified that he lacked personal knowledge as to whether Plaintiffs’ buying agents actually instructed Plaintiffs’ manufacturers that they were required to remove Plaintiffs’ labels before reselling any defective

items. (See Chaya Dep. 141:12-15, 184:3-7.) In other words, on the existing record, there is a genuine dispute of material fact as to the scope of the authority, if any, conferred by Plaintiffs upon their manufacturers to sell irregulars and overruns bearing the Mark.¹³ See *Liz Claiborne*, 979 F. Supp. at 229-31; see also *Diamond Supply Co. v. Prudential Paper Prods. Co.*, 589 F. Supp. 470, 475-76 (S.D.N.Y. 1984).

In short, the existing record is simply inconclusive as to where the Allegedly Infringing Apparel was manufactured; whether it was approved for sale under the Mark; and, if not, whether it was beyond the scope of the manufacturer's authority to sell it under the Mark anyway. In light of this inconclusive record, there is a genuine dispute of material fact as to whether the Allegedly Infringing Apparel is genuine. See *Liz Claiborne*, 979 F. Supp. at 230.

3. Material Difference from Genuine Goods

Plaintiffs also argue that, even if they authorized the initial sale of the Allegedly Infringing Apparel, they can still prevail on the grounds that the units of Allegedly Infringing Apparel are materially different from Plaintiffs' genuine goods. (See Ps' Mem. 18-19.) As a general matter, this is a correct statement of the law. See, e.g., *Zino Davidoff SA*, 571 F.3d at 243 ("goods are not genuine" and can constitute trademark infringement "if they differ materially from the product authorized by the trademark holder for sale" (internal quotation marks omitted)); *Ryan*, 107 F. Supp. 2d at 382 ("If the initial sale was authorized, the court must undertake the second part of the analysis and determine whether, as a matter of fact, the goods

¹³ Plaintiffs cite *El Greco* for the proposition that they were "'entitled to assume' that the factories 'would not dispose of the [goods] without either removing the [LIKE AN ANGEL] trademark (as in the custom and practice in the industry), or affording [Plaintiffs] an opportunity to inspect the goods and certify their quality prior to disposal, or, at the minimum, seeking instructions from [Plaintiffs] on how to dispose of them.'" (Ps' Mem. 24 (quoting *El Greco*, 806 F.2d at 396).) Plaintiffs, however, ignore the precondition set forth in *El Greco* that a trademark holder is only entitled to make this assumption once it cancels an order, see *El Greco*, 806 F.2d at 396, i.e., once it affirmatively makes clear it does not want to sell the goods in question under its Mark. There is no evidence in the record of Plaintiffs cancelling any orders.

which were later resold without authorization were genuine. . . . If the goods were not genuine, that is altered or not in keeping with the trademark owner's quality standards, a valid claim for trademark infringement is established."'). Here, however, if Plaintiffs did in fact authorize the initial sale of the Allegedly Infringing Apparel, there is no evidence in the record to support liability on the independent basis that the Allegedly Infringing Apparel materially differs from genuine goods.

Plaintiffs cite no authority for the proposition that a trademark holder can authorize the initial sale of goods in derogation of its own quality control standards and then hold a downstream seller liable for infringement on the basis that the goods did not comply with those standards. In some cases finding infringement on the basis that goods materially differ from genuine goods, the trademark holder authorizes one version of a product for sale under the mark in the United States and another version for sale under the mark elsewhere. The trademark holder then alleges infringement by persons who sold the overseas version in the United States on the so-called 'gray market.' Under those circumstances, the seller may be liable for infringement if the overseas version is materially different from the domestic version, as such differences may cause consumer confusion about the quality of the product associated with the mark. *See, e.g., Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 638-39 (1st Cir. 1992); *Original Appalachian Artworks*, 816 F.2d at 71-74; *cf. TechnoMarine SA v. Jacob Time, Inc.*, 905 F. Supp. 2d 482, 493 (S.D.N.Y. 2012) (no trademark liability because gray-market watch sold by unauthorized distributor was identical to watches sold by authorized distributors).

In other cases finding infringement on the basis that goods materially differ from genuine goods, a distributor or some other downstream seller alters the look, packaging, or other aspect

of the product authorized for sale under the mark. Under those circumstances, the seller may be liable for infringement if the differences between the initial authorized product and the later altered version are material, as such differences may cause consumer confusion about the product's quality and source. *See, e.g., Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 526 F.3d 1067, 1072-74 (10th Cir. 2009); *Zino Davidoff SA*, 571 F.3d at 242-44 (retailer's removal of unique production code); *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3 (2d Cir. 1996) (wholesaler's distribution of stale cough drops removed from packaging bearing freshness date); *Polymer Tech. Corp.*, 975 F.2d at 62-63 (retailer's alteration of packaging); *Bel Canto Design*, 837 F. Supp. 2d at 223 (discussing differences between "a product in its 'first sale' state and a 'second sale' product").

This case falls into neither of these broad categories. There is no suggestion here or evidence in the record that Plaintiffs authorize different versions of jeggings for sale in different markets. Although the jeggings purchased by Plaintiffs from ABC had noticeable defects, the record is devoid of evidence that the Allegedly Infringing Apparel was ever altered by Defendants or by anyone else after it left whatever factory in which it was produced. Rather, Plaintiffs' argument appears to be that, even if they authorized the initial sale of the Allegedly Infringing Apparel, the Allegedly Infringing Apparel is materially different from genuine goods and therefore infringing because it is of lesser quality than the goods usually sold under the LIKE AN ANGEL mark. Plaintiffs may hold Defendants liable if Defendants take actions that violate or frustrate Plaintiffs' *post-sale* quality control standards, *see, e.g., Warner-Lambert Co.*, 86 F.3d at 6-7, but Plaintiffs have not identified any authority that would allow them to hold Defendants liable for their own error in authorizing the initial sale of defective goods under their Mark. Put differently, if Plaintiffs authorized the initial sale of the Allegedly Infringing Apparel (as a jury

could find, but need not find, on the existing record), and if no one altered the Allegedly Infringing Apparel after the initial sale, then under the law the Allegedly Infringing Apparel does not “differ materially from the product authorized by the trademark holder for sale,” *Zino Davidoff*, 571 F.3d at 243. The Allegedly Infringing Apparel *is* the product authorized by the trademark holder for sale, and trademark liability is foreclosed by the exhaustion doctrine. *See Polymer Tech. Corp.*, 975 F.2d at 61-62.

B. Plaintiffs’ Fourth Cause of Action Under § 349

“[C]ourts in New York have routinely dismissed trademark claims brought under [§] 349 . . . as being outside the scope of the statute[], because ordinary trademark disputes do not ‘pose a significant risk of harm to the public health or interest’ and are therefore not the type of deceptive conduct that the statute[] [was] designed to address.” *Kaplan, Inc. v. Yun*, 16 F. Supp. 3d 341, 352 (S.D.N.Y. 2014) (quoting *DePinto v. Ashley Scott Inc.*, 635 N.Y.S.2d 215, 217 (App. Div. 1995)); *see also, e.g., DO Denim, LLC v. Fried Denim, Inc.*, 634 F. Supp. 2d 403, 408-09 (S.D.N.Y. 2009). Unless there is “specific and substantial injury to the public interest over and above ordinary trademark infringement or dilution,” trademark-related claims are not cognizable under § 349. *Nat’l Distillers Prods. Co. v. Refreshment Brands, Inc.*, 198 F. Supp. 2d 474, 486-87 (S.D.N.Y. 2002).

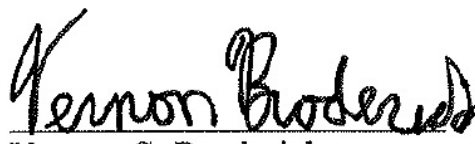
Defendants argue that this is an ordinary trademark dispute that does not implicate any additional public interest, and that Plaintiffs’ claim under § 349 must therefore be dismissed. (*See* Ds’ Mem. 11-12.) Plaintiffs do not argue that this case implicates significant public interests or otherwise contest this point. Accordingly, Plaintiffs’ trademark-related claim is not cognizable under New York General Business Law § 349. Defendants are entitled to summary judgment on this claim, and the fourth cause of action in the FAC will be dismissed.

IV. Conclusion

For the foregoing reasons, Defendants' joint motion for summary judgment, (Doc. 84), is DENIED IN PART with respect to all trademark-related claims under the Lanham Act, New York statutes, and New York common law, and GRANTED IN PART with respect to Plaintiffs' cause of action under New York General Business Law § 349. Plaintiffs' cross-motion for partial summary judgment, (Doc. 105), is DENIED in its entirety. The fourth cause of action in the FAC is dismissed, and this matter is ready for trial on the remaining causes of action.

Pursuant to my Individual Rule 6.A, the parties' proposed joint pretrial order shall be submitted within 30 days of the filing date of this order unless I grant a motion requesting otherwise in advance of the deadline. Motions in limine and any pretrial memoranda shall be due on December 7, 2015; responses thereto and a proposed jury charge, voir dire, and verdict form shall be due on December 30, 2015. A final pretrial conference shall take place on January 21, 2016, at 10:30 am. The Court will hold February 22-26, 2016 open for trial in this matter. The Clerk of Court is respectfully directed to terminate the pending motions at Docs. 84 and 105. SO ORDERED.

Dated: September 11, 2015
New York, New York


Vernon S. Broderick
United States District Judge