# Hallmark Win in Greeting Card Trademark Dispute: Court Finds Unauthorized Sale of Cards Meant for Destruction Infringing

**Minding Your Business Blog** on **October 29, 2020**

It is generally understood that trademark law protects against a third party's use of your mark or a confusingly similar mark to mislead consumers into thinking goods manufactured by someone else were made by your company. But what happens if those goods were in fact made by your company, but you didn't authorize their sale? The Eastern District of New York recently answered one version of that question in granting Hallmark summary judgment on its trademark infringement and trademark dilution claims against defendant Dickens, where Dickens obtained twenty trailers of Hallmark greeting cards and related paper products that were intended for destruction, and began to sell them for resale to the public.

In 2015, Hallmark closed its distribution facility in Enfield, Connecticut, and delivered seventy-three trailers of greeting cards and related paper products to Northstar Pulp & Paper Company to be turned into paper pulp and recycled. Instead, Northstar sold the intact greeting cards to Square Peg Logistics, which in turn sold twenty trailers worth to defendant Dickens. Dickens then began to sell these cards for resale to the public, prompting Hallmark to send Dickens a cease and desist. When Dickens refused to comply, Hallmark filed a federal lawsuit, alleging Lanham Act trademark infringement, trademark dilution, unfair competition, and other claims under New York State law.

In granting Hallmark's motion for partial summary judgment on its trademark infringement and dilution claims, the court recognized that "[a]s 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," since "the right of a manufacturer to control distribution of its products does not extend beyond the first sale of the product."  However, the court found the "first sale" doctrine did not apply here since the first sale was not authorized.  Although Hallmark "sold" the greeting cards to Northstar, it did so with the restriction that Northstar would destroy them.  Pointing to the record evidence that Hallmark intended for Northstar to destroy the cards, as well as the contract between Hallmark and Northstar, which expressly referred to the transfer of goods to Northstar as a sale of "commodities" (*i.e.* a paper source to be converted to paper pulp), and not as a sale of trademark-protected retail greeting cards, the court found "the transfer of goods from Hallmark to Northstar was never with the intention of placing trademark-protected greeting cards (and other trademark-protected products) into the stream of commerce for consumer consumption."  The court thus likened this transaction to a bailment, rather than a sale, whereby Hallmark entrusted the cards to Northstar for destruction, and found Dickens could not shield itself from liability by invoking the "first sale" doctrine as a defense.

Citing Hallmark's careful controls over its product distribution to protect the goodwill and value of the brand, the court also found that the cards sold by Northstar outside that carefully controlled distribution network "were not genuine," even though Hallmark had previously sold the exact same style of Hallmark cards to its retail outlets.  In *El Greco Leather Prods v. Shoe World*, the Second Circuit held: "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. For this purpose the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain" for purposes of protecting its brand.  Citing *El Greco*, the court credited Hallmark's argument that eliminating trademarked product from the market through destruction was a means of protecting the brand and its goodwill, and that allowing Dickens to flood the market by selling cards intended for destruction as "genuine" products would be damaging to Hallmark's brand and a violation of trademark laws.

In granting summary judgment on Hallmark's trademark dilution claim, the court cited the fact that the cards sold by Dickens "were actual Hallmark trademarked greeting cards" as weighing in Hallmark's favor. Since these cards naturally bore the Hallmark trademark, the court found the alleged infringement was by an "identical junior mark," giving rise to a presumption of actual dilution, which Dickens failed to rebut.

While this case does not undercut the "first sale" doctrine as a defense to trademark infringement as a general rule, it does provide a potential roadmap for companies to protect against the unauthorized sale of goods obtained through some improper channels. With the explosion of independent online sellers, many unauthorized, this ability to control distribution channels of products that might otherwise be considered "genuine" is perhaps more important now than ever.

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