Retailers, both online and in traditional brick-and-mortar stores, as well as suppliers and other middlemen, deal with hundreds, if not thousands, of products that are packaged and labeled with all kinds of verbiage—trademarks, product claims (“all natural;” “increases sexual function”), and geographic designations (“Colombian coffee”). All of this content, potentially, carries with it liability. The Lanham Act includes several causes of action that can be triggered by the content of labelling. Potential claims under the Lanham Act include trademark infringement, false advertising, and false designation of (geographic) origin.

All of this content, potentially, carries with it liability. The Lanham Act includes several causes of action that can be triggered by the content of labelling. Potential claims under the Lanham Act include trademark infringement, false advertising, and false designation of (geographic) origin.

Such claims are not only asserted against the manufacturer who create the labelling and packaging, but at times against retailers and middlemen in the supply chain who deal with such products. As these entities usually exert little control over labelling content, this potential liability can create a major headache for these entities, who may carry items manufactured and labelled by numerous different manufacturers.

Surprisingly, there are few cases that have considered liability of retailers who sell products with (allegedly) false or misleading labels under the Lanham Act, or who engage in other promotional acts related to third-party products. Recently, however, two cases, Outlaw Laboratories L.P. v. Shenoor Enterprises, 371 F. Supp. 3d 355 (N.D. Tex. 2019) and Corker v. Costco Wholesale Corp., 2019 U.S. Dist. LEXIS 195958 (W.D. Wash. 2019), have addressed these issues in the context of both brick-and-mortar and online retail outlets.

Stocking and Selling Products Labelled by Others

So, what is the liability of a retailer under the Lanham Act whose only involvement with problematic content created by another is stocking
and selling the products? The answer is a mixed one, depending on the asserted cause of action.

**Trademark Infringement.** It is long settled that selling a product bearing an infringing mark is itself trademark infringement, regardless of the fact that the infringing mark was applied by someone else. The relevant sections of the Lanham Act only require use of a confusingly similar copy of a trademark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services.” 15 U.S.C. 1114(1).

Selling a product bearing a trademark is using the mark “in connection with [a] sale or offer for sale” of goods. That suffices for liability, even if there is no use in connection with advertising.

**False Advertising.** Section 43(a) of the Lanham Act creates a cause of action for false advertising, defined as commercial use of a “false or misleading representation of fact, which … in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities.” 15 U.S.C. 1125(a). That, the two courts both held, makes a difference when it comes to retailer liability.

*Outlaw Laboratories* was brought by a plaintiff selling male dietary/sexual enhancement supplements against a competitor’s supplements products that had been labeled “all natural” and “no harmful synthetic chemicals.” Outlaw claimed these representations were false and that the competitor’s supplements in fact contained dangerous ingredients typically only found in prescription drugs.

Outlaw then commenced several federal suits against retailers (drug stores, convenience stores) and wholesalers around the country selling the competing product. (For some reason, it apparently never sued the manufacturer.)

But the *Outlaw* court rejected plaintiff’s false advertising claim. It reasoned that making a false representation “in commercial advertising or promotion” implies dissemination of statements designed to influence consumers to purchase goods or services. Merely stocking a shelf with product is not “advertising or promotion.”

**False Designation of Geographic Origin.** Section 43(a) of the Lanham Act also creates liability for use of “any false designation of origin,” 15 U.S.C. §1125(a), which has long been interpreted as including false use of a geographic origin indication, including by the Supreme Court in *Dastar v. Twentieth Century Fox Film*, 539 U.S. 23, 29-30 (2003).

Thus, for example, labelling a cigar a “Cuban cigar” represents that it is made in Cuba or made from Cuban tobacco, and if that is false, then there is liability for “false designation of origin” under this section of the Lanham Act.

*Corker* considered the liability of a retailer both for false advertising and false designation of origin, concluding that for false designation of origin, as for trademark infringement, merely selling a mislabeled good suffices for liability.

The *Corker* case was brought by a group of coffee farmers located in the Kona district of Hawaii. They claimed that the term KONA is understood to indicate that the coffee originates from that geographic region. They alleged that the term was misused on coffee products containing coffee not grown in that region, which, they charged, was both “false advertising” and a “false designation of origin” under the Lanham Act.

The suit was brought against numerous defendants, including several coffee companies; prominent retailers like Costco, Safeway, Albertsons and Walmart; and online retail platform Amazon.

In its ruling, *Corker* distinguished false designation of origin from false advertising. It dismissed the plaintiffs’ false advertising claims, using the same reasoning as the *Outlaw* court discussed above, i.e., merely stocking and selling the product is not “advertising or promotion.”

So, what is the liability of a retailer under the Lanham Act whose only involvement with problematic content created by another is stocking and selling the products? The answer is a mixed one, depending on the asserted cause of action.
defendant used the designation “in commerce” and “on or in connection with any goods or services, or any container for goods.” Merely selling a geographically mislabeled product qualifies. Unlike false advertising, there is no requirement that the false designation be used in advertising or promotion.

So, a retailer who merely stocks and sells product labelled by others can be held liable for trademark infringement and false designation of origin, but not false advertising.

**Online Liability**

What about online retailing activities? The retailer defendants in *Corker* offered the accused KONA products online, and the webpages offering that product included the KONA designations. The retailer defendants argued that they were entitled to immunity from the coffee farmers’ claim under §230 of the Communications Decency Act (CDA), 47 U.S.C. §230. This met with only partial success.

The CDA provides that “[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.” 47 U.S.C. §230(c)(1). The CDA broadly immunizes providers of interactive computer services from liability for content posted by third parties.

The *Corker* plaintiffs, in what was probably a tactical mistake, did not dispute that the retailers who operated commercial websites qualified as “interactive service providers,” which the statute broadly defines as “any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server.”

What the *Corker* plaintiffs did argue is that their claims fell within an exception to CDA immunity for intellectual property claims, codified at 47 U.S.C. §230(e)(2). The Ninth Circuit, however, in *Enigma Software Group USA v. Malwarebytes*, 938 F.3d 1026, 1038-39 (9th Cir. 2019) had earlier held that Lanham Act claims for false advertising are not intellectual property claims and do not qualify for the exception. The *Corker* court extended that decision to claims for false designation of origin, since, like false advertising claims, they do not require a showing of an ownership interest in a trademark.

So, given the plaintiffs’ concession that the CDA immunity applied (other than the intellectual-property exception), the *Corker* court held that the CDA immunized the retailers from this Lanham Act liability.

But this victory for the retailers regarding false designation claims was only partial. Many of the retailers did more than simply post offerings online; they were involved in actual physical delivery of product to the customer. That, the *Corker* court held, was not immunized by the CDA, since shipping mislabeled product is not an activity covered by CDA immunity.

So, according to the *Corker* court, CDA immunity does cover false designation of origin and false advertising claims based on the posting of content on a retail website. But it does not extend to other retailer activities, like delivering mislabeled product.

However, as we have noted, it appears that the *Corker* plaintiffs erred in conceding that the retailers fell within the CDA immunity (apart from the IP exception). The immunity applies only to third-party content, as the statute expressly bars treating an ISP as a speaker or publisher of “information provided by another information content provider.” But a website owner that posts *its own* content can still be liable.

It is not clear that the retailers’ posting of content touting the purchase of the Kona coffee at issue qualifies as third-party content. There are three scenarios that are common in online retailing:

1. An online retailer drafts and posts its own content offering a product and touting its features;
2. An online retailer offers product on its website, and as part of the offering posts content drafted by a manufacturer about its products;
3. An online retail platform allows vendors to post their own offerings and content.

Scenario (3) clearly seems to fall within the CDA, while scenario (1) clearly seems not to. It is not clear whether scenario (2) would fall within the CDA immunity; a future case perhaps will decide that.

**Other Retailer Activities**

Thus far, we have only considered stocking and selling product with
questionable content labelling. But what about retailers who engage in additional activities connected to challenged content?

The Outlaw decision distinguished one prior California case, which also featured a dispute involving male enhancement products. In that case, the defendant, who had sold the falsely labelled product, also was involved in promoting it through various websites, where it disseminated false advertisements created by the manufacturer. That dissemination went beyond mere selling falsely labelled products and sufficed to hold it liable for false advertising.

Similarly, the Corker court noted in dictum that, although merely selling mislabeled product is not enough for false advertising liability, in some circumstances retailers still could be liable for false advertising. For example, a retailer who “controls or participates in the creation of the offending label” or who “creates additional marketing materials for a product that amplify the manufacturer’s misrepresentations.”

Thus, retailers who are involved in either creating or disseminating content that contains false advertising may well incur liability for false advertising.

**New York False Law**

The Lanham Act is not the only statute that regulates false advertising; various state laws also provide liability for forms of false advertising. New York law, for example, provides that “[d]eceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service in this state are hereby declared unlawful.” General Business Law §349. That law provides for both enforcement by the attorney general and private claims for damages.

Notably, §349 is not limited to advertising or promotion the way the false advertising section of the Lanham Act is. All deceptive acts or practices in business are outlawed. (A separate section, General Business Law §350, outlaws false advertising)

So, does a New York retailer who merely stocks goods bearing labels that contain false statements liable? One would think that offering such goods is a “deceptive act.” Notably, §349 does not require any showing of an intent to defraud (Small v. Lorillard Tobacco Co., 94 N.Y.2d 43, 55 (1999)), merely employment of “a material deceptive act or practice [that] caused actual, although not necessarily pecuniary, harm.” Id.

One federal court, however, ruled there is no liability. Cohen v. Kind, 2016 U.S. Dist. LEXIS 6059, *9-10 (S.D.N.Y. 2016). It reasoned that because the retailer did not have control over the content of the label, it could not be held “vicariously liable” for its content.

It is not clear, however, whether other courts will reject or distinguish the Cohen decision.

**Summary**

So, what liability do retailers face for selling mislabeled third-party products?

Retailers who merely sell products with challenged content labelled by others can be liable for trademark infringement and false designation of origin, but not false advertising. (One case applying New York law reached a similar result, but we have questioned whether it was decided correctly.)

Retailers involved in creation of the label contents, or who disseminate advertising claims through additional marketing materials or online promotion could be liable for false advertising.

But, to the extent this involves allowing posting of third-party content, the CDA likely provides immunity. Defining what content is third-party is not always clear and will have to be determined in future cases.