

Second Circuit Affirms Preliminary Injunction of "Identical" Gray Goods

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Earlier this month in *Abbott Laboratories v. Adelpia Supply USA et al*, the Second Circuit affirmed a district court's grant of a preliminary injunction halting the alleged sale of gray-good diabetes test strips made by Abbott Laboratories. The decision is notable because the authentic test strips were identical to the gray-good versions.

Abbott sells blood glucose test strips for monitoring diabetics' blood-sugar levels under the trademark "FreeStyle." Abbott sells the test strips both in the U.S. and abroad, but manufactures all of the test strips abroad. Test strips bound for the U.S. are packaged differently from their foreign counterparts. Abbott allegedly discovered that the defendants were buying the international FreeStyle test strips at a cheaper rate abroad and then selling them in the United States at a profit. Abbott moved for a preliminary injunction based on the defendants' alleged trademark infringement in violation of the Lanham Act.

The district court explained that gray goods may give rise to Lanham Act liability where (1) the goods are not intended for domestic sale and are materially different from the domestic version, or (2) the goods are sold in contravention of legitimate, established, substantial, and nonpretextual quality-control measures that the trademark holder follows, and such sale will diminish the value of the mark.

Abbott demonstrated that it was likely to succeed under both theories. First, although the international test strips were identical to the domestic test strips, their respective packages and instruction manuals differed. The international test strip packages had "unexplained and unfamiliar symbols, atypical warnings, international units of measurement, and different languages." In addition, the international test strip packages lacked the toll-free phone number on domestic packages that consumers may call with questions about the product. These differences, the district court held, amounted to a "material difference" which, in the gray goods context, "requir[es] no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product."

Second, the district court found that the sale of international test strips in the U.S. interfered with Abbott's quality control efforts. Abbott alleged that it operates a quality control program through which it monitors its market, fields customer inquiries, and investigates complaints. Abbott contended that it would not be able to execute a targeted recall of certain products, should that ever be necessary, because it would not know in what country the product would need to be recalled. Instead, Abbott would need to recall none or all of the product. The district court agreed that the sale of the international test strips interfered with Abbott's quality control program, and therefore found that the international test strips were not "genuine" for Lanham Act purposes.

Based on the foregoing, the district court concluded that Abbott was likely to prevail on its Lanham Act claim under both the materially-different and the quality-control standards. Abbott also showed that it was likely to suffer irreparable harm absent injunctive relief, and that the balance of hardships and the public interest favored an injunction. Thus, the district court preliminarily enjoined the defendants from importing, purchasing, selling, distributing, marketing, or otherwise using in commerce in the United States any International FreeStyle Test Strips.

In a summary order, the Second Circuit affirmed the preliminary injunction and endorsed the district court's reasoning. While the Second Circuit's decision is non-precedential, it is a reminder that even "identical" gray goods are not immune to Lanham Act liability.

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