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Another Victory for Trademark Owners in Fight Against Gray Market Goods

A recent decision by the United States District Court for the Eastern District of New York expands the right of trademark owners to halt the unauthorized distribution and sale of gray market products. In that decision, *Johnson & Johnson Consumer Companies, Inc. V. Harry Aini, et al.*, No. 02-CV-6624 (March 25, 2008) (the "J & J case"), the Court found that even "earlier versions" of an owner's product may be infringing if the products were sold without the owner's authorization and were "materially different" than the authorized product.

Gray market products are produced under authority of the trademark owner for sale in a designated territory, but are distributed and sold outside such territory without authorization. Such products may be sold in competition with the trademark owner's authorized products, or as in the J & J case, may be products that the trademark owner has decided not to sell in a designated territory. Gray market products can damage a company's valuable goodwill because they often contain different ingredients than products authorized for domestic sale by the trademark owner, may not be eligible for product warranties, and may also lack required consumer safety warnings. In addition, due to different pricing structures for domestic and international sales, gray market products can undermine a company's domestic distribution system.

U.S. trademark law does not prohibit the sale of genuine goods, even if the goods are sold without the trademark owner's consent. Trademark owners generally must rely on contractual restrictions with their distributors and manufacturers, rather than trademark law, to prevent the unauthorized distribution of gray market products. However, under a developing body of case law, courts have found that gray market product may violate a trademark owner's rights if the products (1) are not authorized for sale in the United States, and (2) are materially different from products authorized by the trademark owner for sale in the United States.

The J & J case involved skin care products produced by Johnson & Johnson for sale in various countries throughout the world, but not authorized for sale in the United States. In the J & J case, defendants claimed the products they sold were "earlier versions" of the skin care product plaintiff was now selling under the same trademark and should therefore be considered genuine. The Court held that the analysis of whether the "earlier version" can be

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considered genuine is the same as the analysis for determining whether a gray market product is genuine.

The gray market analysis focuses on whether differences between the authorized and gray market products would likely be considered relevant to consumers in making a purchasing decision. The J & J Court concluded that defendant's sale of the goods was not authorized and that defendant's products were "materially different" from plaintiff's in at least three aspects: (1) the active ingredients were different; (2) plaintiff's genuine product displayed an expiration date and batch codes whereas defendant's product did not; and (3) certain safety warnings on plaintiff's product were lacking on defendant's product – including a listing of potential drug interactions and a warning to keep the product out of children's reach. The Court issued a permanent injunction and referred the case to a magistrate judge for determination of statutory damages of up to \$1 million available in cases of counterfeiting.

The J & J case continues the federal courts' trend of expanding the scope of trademark law to cover the unauthorized sale of non-genuine products, even if those products are "earlier versions" which are no longer genuine because the product has been reformulated or repackaged. Clients who face gray market problems in the United States should therefore consider, in addition to contractual remedies, proceeding under federal trademark law if they can establish that the products being sold without authorization are "materially different" than genuine products, under the standard defined above.