

News

Court Ruling Provides Help to Brands Struggling with Grey Market Sales on Online Marketplaces

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A California federal court has entered a final judgment that strengthens brands' mission to rid online marketplaces of unauthorized sellers and preserve their brand equity. The ruling confirms that manufacturers have a viable strategy to combat grey market sellers and stop the unauthorized sale of their products.

Tyler B. Pensyl at Vorys, Sater, Seymour and Pease LLP argued on behalf of ADG Concerns Inc. d/b/a Health Concerns, a health supplement company (See ADG Concerns, Inc. v. Tsalevich LLC, No. 18-cv-00818-NC, 2018 U.S. Dist.).

The Northern District of California entered judgment against the defendant for trademark infringement and unfair competition arising from the unauthorized sale of Health Concerns products on the online marketplaces. The court's decision is significant because it recognizes the unlawfulness of grey market sellers selling products online in an unauthorized manner.

"We hear from hundreds of global manufacturers each year struggling with a growing number of unauthorized sellers that are hurting their brand equity on the online marketplaces," said Whitney Gibson, leader of Vorys online seller enforcement group. "This ruling is significant because it gives brands a roadmap to combat unauthorized sellers. Brands that have struggled with unauthorized and grey market sellers can now integrate this approach into their comprehensive strategy to tackle the problem."

The court's decision is also noteworthy because it discredits unauthorized sellers' attempts to rely on the "first sale doctrine" to justify their sale of products. The first sale doctrine is the primary defense raised by grey market and other unauthorized sellers when targeted by a brand with enforcement efforts. The court's decision confirms, however, that the first sale doctrine is not absolute and does not apply when an unauthorized seller is selling goods that are materially different or that do not meet the trademark holder's quality control standards. Specifically, the court held that because the defendant did not comply with Health Concerns' quality controls, the

products it sold were materially different and likely to cause customer confusion. As such, the court held that defendant had engaged in trademark infringement and unfair competition.

The court issued a permanent injunction against the unauthorized seller defendant, prohibiting it from, among other things, advertising or selling Health Concerns products on online marketplaces. As a result, the defendant's online marketplace storefront has now been shut down. Further, the court disgorged the unauthorized seller defendant's profits and awarded Health Concerns damages of more than \$175,000, as well as attorneys' fees of over \$70,000.

This ruling makes clear that brands with legitimate quality controls for their authorized goods can bring legal claims against unauthorized sellers peddling products outside of those quality measures. Some examples of quality control measures that are important in protecting brands in today's marketplace era include maintaining clear storage, handling and shipping requirements; requiring authorized sellers to conduct thorough inspections of products and execute other heightened quality controls; prohibiting commingling of inventory in marketplace warehouses; and prohibiting the resale of products that have been returned or repackaged.

About Vorys Online Seller Enforcement Group

The Online Seller Enforcement Group was founded on this vision: to provide effective, efficient and legally compliant solutions that allow brands to control their sales and protect brand value in the digital age. Today, we represent more than 230 brands, including several of the world's largest companies, with respect to stopping unauthorized sales and product diversion, executing effective MAP programs, and preserving product quality in today's e-commerce driven market. Vorys works with its clients to provide end-to-end solutions - from consultations and strategy development to providing foundational policies and enforcement. Vorys' full scope of services allows us to provide a comprehensive approach that delivers unique business value. Learn more at <https://www.onlinesellerenforcement.com/>.

About Health Concerns

Health Concerns is at the leading edge of research in herbal medicine and is known for bringing the centuries of knowledge amassed in the Chinese herbal tradition to the West. Health Concerns was the first company to manufacture Chinese herbal products in the United States for practitioners. Today Health Concerns continues to research, test, and adapt traditional formulas by applying the science of modern biochemistry. As a result, Health Concerns can offer a variety of formulas for a full range of TCM treatment protocols as well as many products that address the specific conditions of Western patients. Learn more at <https://www.healthconcerns.com/>.