

Injunction On 'Gray Market' Abbott Diabetes Test Strips Grows

By **Bonnie Eslinger**

Law360, Los Angeles (December 23, 2015, 10:54 PM ET) -- A New York judge on Wednesday expanded a preliminary injunction barring pharmacies and distributors from selling international versions of Abbott Laboratories' diabetes test strips domestically, rejecting some defendants' arguments that English-language versions of the product pose little confusion risk.

The decision from U.S. District Judge Carol Bagley follows on the heels of a similar order she granted last month preventing the "gray market" test strips from being sold while Abbott litigated its suit alleging Adelpia Supply USA and other companies imported FreeStyle glucose test strips intended for international distribution at lower, foreign prices and resold them to U.S. customers.

The additional list of defendants to the suit includes 19 distributors and one pharmacy, discovered as a result of limited expedited discovery the court also granted Abbott. The global health care company received lists and invoices from the original defendants showing from whom and to whom the international test strips were sold domestically and came back to the court seeking to also stop those sales.

While the pharmacy and some of the newly discovered distributors did not oppose the injunction, five opposed the ban, including HMF Distributing Inc.

Their arguments "distill to one primary claim: that international test strips intended for English-speaking countries are not likely to confuse U.S. consumers," wrote Judge Bagley in her Wednesday order.

This claim, "is not persuasive," she said.

The strips are used by people with diabetes to monitor their blood-sugar levels. The HMF defendants argued that, unlike the original defendants, all their diabetes test strips boxes contain an insert with English and Spanish-language instructions. The fact that the imports lacked the toll-free U.S. help number was immaterial, the distributors said, because the insert directs consumers to call "Customer Care," which puts buyers on notice to look up that information within their glucose reader's instruction booklet or on the Internet, according to the judge's order.

Abbott attorney Geoffrey Potter of Patterson Belknap Webb & Tyler LLP told Law360 on Wednesday that the judge's conclusions were significant.

"This decision is important for brand owners seeking to keep gray market products out of the United States, because the court emphasizes that small differences between the the gray market and authorized products are enough for the brand owner to be entitled to an injunction stopping the sale of the diverted products," Potter wrote in an email.

Although the U.S. and international strips are identical, the health care company said it sells the test strips outside the U.S. at markedly lower list prices. It maintains the defendants capitalized on these pricing differences and received undeserved reimbursement payments from insurance companies, costing it millions of dollars.

The complaint, filed in October in Brooklyn federal court, accuses the defendants of trademark infringement, fraud and racketeering, among other things, and also seeks an undisclosed amount of damages.

In its push for preliminary injunction, Abbott said the packaging and instructions on its international products have certain critical differences, such as missing toll-free contact numbers and different instructions on how to use to strips. The international strips are also not authorized for sale in the U.S. by the Food and Drug Administration, it said.

Similar to her ruling last month, Judge Bagley found the domestic sale of international test strips could interfere with Abbott's quality-control measures.

For example, if it were ever necessary, Abbott wouldn't be able to effectively issue a targeted recall of its products since it wouldn't know what country the product could be found. The HMF defendants contended a recall could be conducted by lot number rather than geographically, but the judge noted that Abbott produced testimony affirming the effectiveness of geographically-targeted recalls.

The judge said Abbott had shown it was likely to succeed on its claim the defendants' scheme caused market confusion and harmed its reputation.

Abbott also demonstrated that it will likely suffer irreparable harm to its consumer goodwill or reputation due to the domestic sale of the international test strips, the judge wrote in her Wednesday order.

And while the HMF defendants argued that would voluntarily cease selling the international strips domestically during the litigation, the judge wasn't buying it, saying they would have entered into a stipulated agreement with Abbott as the other defendants did.

"Without such a commitment, there is a cognizable danger of recurrent violations, and preliminary relief is appropriate," she wrote.

A representative for the HMF defendants was not able to respond with comment late Wednesday on the judge's order.

Abbott is represented by Geoffrey Potter, Aron Fischer, Jeremy A. Weinber, R. James Madigan III and Matthew Funk of Patterson Belknap Webb & Tyler LLP. HMF Distributing Inc., Wholesale Diabetic Supplies Inc., Matthew Frank, Massalah Trading USA Ltd. and Saad Haddad are represented by Derrelle M. Janey.

The case is Abbott Laboratories et al., v. Adelpia Supply USA et al., case number 1:15-cv-5826, in the U.S. District Court for the Eastern District of New York.

--Additional reporting by Matthew Bultman. Editing by Kelly Duncan.

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