

INTELLECTUAL PROPERTY ALERT



REMOVAL OF UPC CODE ACTIONABLE UNDER LANHAM ACT, SAYS SECOND CIRCUIT

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In June 2009, the Second Circuit Court of Appeals handed trademark owners another potential weapon for combating sellers of counterfeit and gray-market goods. In *Zino Davidoff SA v. CVS Corp.*, No. 07-2872-CV (June 19, 2009), the court held that the sale of branded products with the UPC symbol removed, decoded, mutilated, or otherwise obscured constitutes trademark infringement under the Lanham Act.

Zino Davidoff produces high-end colognes and perfumes. Davidoff's product packaging includes Universal Product Code (UPC) symbols that are coded for quality control and anti-counterfeiting purposes, permitting Davidoff to identify specific information about the product, such as time and place of production, ingredients and distributor. CVS Corp. had been selling Davidoff's COOL WATER fragrance line with the UPC symbols disabled. Davidoff sued for trademark infringement and obtained a preliminary injunction.

The Second Circuit affirmed the preliminary injunction against CVS, preventing further sale of the offending product. Judge Pierre Leval found that defacing the UPC symbol constitutes a material alteration since it restricts Davidoff's ability to identify counterfeit goods and undermines Davidoff's ability to inspect and recall defective product – both legitimate steps to control product quality.

Among the arguments CVS asserted was that Davidoff would not likely succeed on the merits of the trademark infringement claim because the fragrances were not counterfeit but were instead gray-market goods (genuine Davidoff goods imported by others into the United States). Judge Leval dismissed each of CVS's arguments, reiterating that the resale of Davidoff's products with the UPC symbol removed or decoded interfered with Davidoff's legitimate quality control and anti-counterfeiting programs. Judge Leval noted that the right to control the quality of goods manufactured and sold under a trademark holder's brand is one of the most valuable protections afforded by the Lanham Act.

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This decision leaves a number of issues unresolved. First, while a useful tool in a trademark owner's arsenal, this decision may be limited to those suppliers with a similar quality-control feature in their UPC symbols.

Second, the quality-control measures of a UPC symbol are designed to assist the brand owner. In the *Davidoff* case, Davidoff had previously instructed CVS on how to identify counterfeits based on the products' UPCs, and CVS had continued to sell offending product in spite of this instruction. According to the court, however, the issue of whether retailers or consumers are aware of the UPC quality-control function was of no significance. This may be troubling. It is not clear, then, if retailers may be subject to infringement actions for offering goods purchased in good faith from suppliers who have already masked the products' original UPC symbols.

Third, in light of the unresolved issues, some retailers may consider taking precautionary measures, such as requiring suppliers to confirm that their UPCs are not part of a quality-control program. At this time, this is probably not necessary for many retailers, but such confirmation requirements may be reasonable for high-risk products and industries. ■