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Lanham Act reaches foreign defendants' extraterritorial conduct, but worldwide injunction too broad

United States of America - [McDermott Will & Emery](#)

- **The 10th Circuit found that the district court had properly applied the Lanham Act to foreign distributors' extraterritorial conduct**
- **The distributors' foreign infringing conduct had a substantial effect on US commerce**
- **However, the court narrowed the injunction to countries where the plaintiff currently markets or sells its products**

In [Hetric International Inc v Hetric Germany GmbH](#) (Case Nos 20-6057, -6100, 24 August 2021) (Phillips J), the US Court of Appeals for the 10th Circuit has upheld a district court's injunction barring multiple foreign companies from directly or indirectly using a US remote control manufacturer's trade dress based on the extraterritorial reach of the Lanham Act. However, the court narrowed the scope of the worldwide injunction to countries where the US company currently markets or sells its products.

Background

Hetric International is a US company that manufactures radio remote controls for heavy-duty construction equipment. Hetric Germany GmbH, Hydronic Steuersysteme GmbH, ABI Holding GmbH, Abitron Germany GmbH and Abitron Austria GmbH (collectively, 'the distributors') are foreign companies that have distributed Hetric's products - mostly in Europe - for almost a decade. Based on an old research and development agreement between the parties, the distributors concluded that they, not Hetric, owned the rights to Hetric's trademarks and other intellectual property. The distributors accordingly reverse-engineered Hetric's products and began manufacturing and selling their own copycat products, mostly in Europe. The copycat products were identical to Hetric's and were sold under the Hetric brand and the same product names. Hetric terminated the parties' distribution agreements, but the distributors continued to sell their copycat products. The distributors attempted to break into the US market, selling several hundred thousand dollars' worth of products before backing off after Hetric sued. They then focused their efforts on Europe.

Hetric sued the distributors, along with their manager and owner Albert Fuchs, under the Lanham Act. The distributors moved for summary judgment, arguing that the district court lacked subject matter jurisdiction to resolve the Lanham Act claims because the conduct at issue occurred overseas. The distributors asserted that Hetric's claims had to be dismissed because the Lanham Act applied extraterritorially only if a defendant's conduct had a substantial effect on US commerce, and the distributors' conduct did not. The district court rejected that argument and denied summary judgment.

In a separate proceeding initiated by the distributors in the European Union, the European Union Intellectual Property Office (EUIPO) concluded that Hetric owned all of the disputed intellectual property. Based on the EUIPO proceedings, the district court applied the doctrine of issue preclusion and granted Hetric summary judgment on the distributors' ownership defence. After an 11-day trial, a jury found that the distributors had wilfully infringed Hetric's trademarks and awarded Hetric more than \$100 million in damages, mostly for trademark infringement. The district court also entered a permanent injunction prohibiting the distributors' infringing activities worldwide. The distributors appealed.

Appeal

On appeal, the distributors accepted that the Lanham Act can sometimes apply extraterritorially, but argued that the Lanham Act did not reach their activity as foreign defendants making sales to foreign consumers. Specifically, the distributors argued that:

- the district court erroneously concluded that the Lanham Act applied extraterritorially;
- the injunction lacked the specificity required by Rule 65 of the Federal Rules of Civil Procedure; and
- the injunction's worldwide reach was too broad.

The distributors challenged the district court's exercise of personal jurisdiction over four of the six defendants, and argued that the district court erred in barring them from asserting their ownership defence at trial and in making several evidentiary rulings.

10th Circuit decision

The 10th Circuit concluded that the district court had properly applied the Lanham Act to the distributors' extraterritorial conduct, but narrowed the district court's injunction to countries where Hetric currently marketed or sold its products. The Lanham Act has a general presumption against extraterritoriality, but can still apply abroad in some circumstances. For assessing extraterritoriality under the Lanham Act, the court adopted the First Circuit's *McBee* test, which provides that:

- courts should determine whether the defendant is a US citizen;
- when the defendant is not a US citizen, courts should assess whether the defendant's conduct had a substantial effect on US commerce; and
- only if the plaintiff has satisfied the substantial effects test, courts should consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law.

Considering only the second factor, because the distributors were not US citizens and did not argue that the third factor applied, the court concluded that the distributors' foreign infringing conduct had a substantial effect on US commerce. Hetronic showed that millions of euros worth of infringing products ended up in the United States, which entitled Hetronic to an inference of confusion and reputational harm. Hetronic also presented evidence that US consumers were confused about Hetronic's products' relationship to the Abitron companies. Hetronic also presented evidence that the distributors' conduct cost it tens of millions of dollars in lost sales, which would have otherwise flowed into the US economy. The court rejected the distributors' argument that Hetronic's lost sales should be considered only against US citizen defendants. Having found that the distributors' foreign infringing conduct had a substantial effect on US commerce, the court concluded that the Lanham Act applied extraterritorially to reach the distributors' foreign infringing conduct.

On the injunction's specificity, the 10th Circuit found that Rule 65's requirement that the injunction reasonably describe the proscribed activities was satisfied. The district court's injunction prohibited the distributors from directly or indirectly using Hetronic's trade dress, which was specifically defined as "the black and yellow colour scheme and the design of the housings" of Hetronic's products. On the injunction's scope, however, the court concluded that the district court's worldwide injunction was improperly broad and narrowed the scope to countries in which Hetronic currently marketed or sold its products. The court remanded to the district court to consider whether those countries had changed since entry of the injunction.

The 10th Circuit affirmed the district court on the defendants' remaining arguments. The court found that the district court properly exercised personal jurisdiction over the Abitron entities based on a forum-selection clause in Hydronic Steuersysteme GmbH's and Hetronic Germany GmbH's licensing agreements because the Abitron entities were continuations of the former companies. Additionally, the district court correctly exercised personal jurisdiction over both Fuchs and ABI Holding GmbH under the federal long-arm statute set forth in Rule 4(k)(2) of the Federal Rules of Civil Procedure. On the distributors' ownership defence, the court affirmed the district court's summary judgment ruling, finding that the distributors were properly barred from raising their ownership defence based on the proceedings at the EUIPO and the doctrine of issue preclusion.

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