



DESIGN PATENT NEWS

U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT DISSOLVES A PRELIMINARY INJUNCTION AGAINST VIOLATORS OF U.S. DESIGN PATENTS FOR HOVERBOARDS

On October 28, 2022, the U.S. Court of Appeals for the Federal Circuit held in *ABC Corporation I. v. Tomoloo Official, et al.* Appeal No. 2022-1071, that the U.S. District Court for the Northern District of Illinois should not have entered a preliminary injunction preventing the many named defendants from making, using or selling their hoverboard designs in the U.S., which the District Court had found would likely infringe several U.S. design patents owned by the Plaintiffs. The Defendants in this case made and sold several models of Gyroor-branded hoverboards. Plaintiffs brought a design patent infringement lawsuit against the Defendants in which they accused four (4) models of the Gyroor hoverboards of infringing four (4) of their U.S. design patents for hoverboard designs. The Plaintiffs sought a temporary restraining order and then a preliminary injunction from the District of Court that would prevent the sale of the accused hoverboards, both of which were granted. The District Court enjoined the defendants from “offering for sale, selling, and importing any products not authorized by Plaintiffs that include any reproduction, copy or colorable imitation of the designs claimed in the Patents-in-Suit.”

The Plaintiffs in this case asserted that the Defendants’ hoverboard products infringed U.S. Patent Nos. D737,723, D738,256, D784,195 and D785,112. Representative drawing figures from those patents were compared to an accused hoverboard product and to the closest prior art reference in an Appendix to the Federal Circuit’s opinion:

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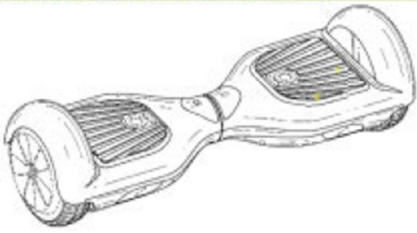
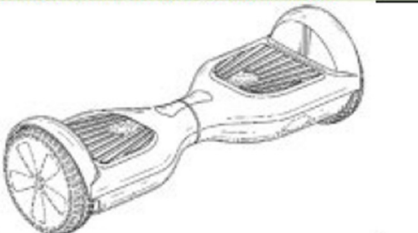
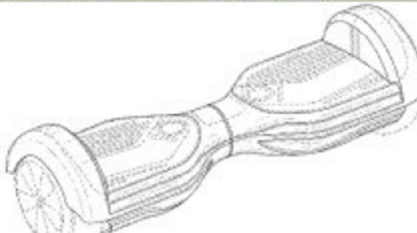
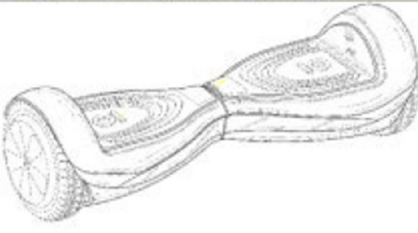
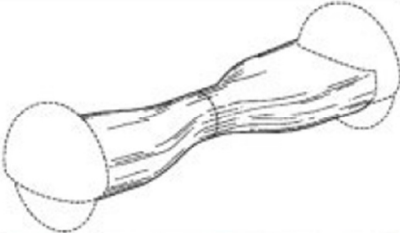

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TABLE OF CONTENTS

DESIGN PATENT NEWS

The U.S. Court of Appeals for the Federal Circuit Dissolves A Preliminary Injunction Against Violators of U.S. Design Patent for Hoverboards.

Page 1.

Accused Product D — Perspective View Comparison	
Patents-in-suit D'723 Patent	Patents-in-suit D'256 Patent
	
Patents-in-suit D'195 Patent	Patents-in-suit D'112 Patent
	
Prior Arts D'906 Patent	
Accused Product D	

The main issue that was considered by both the District Court and by the Federal Circuit was whether the preliminary injunction should have been entered. Under U.S. law, a court may only enter a preliminary injunction if the patent owner can establish 1) that it is likely to succeed on the merits (*i.e.*, proving infringement of the design patents at issue), 2) that it will suffer irreparable harm in the absence of preliminary relief, 3) that the balance of equities moves in its favor, and 4) that an injunction will be in the public interest. In the present case, the parties' arguments focused on whether the patent owner would have a likelihood of success in proving design patent infringement at trial.

**TABLE OF CONTENTS
(Continued)**

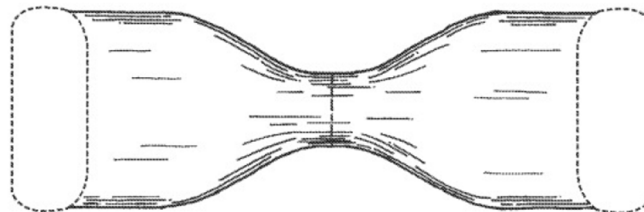
U.S. Supreme Court Agrees to Decide Whether U.S. Trademark Law Extends Extraterritorially to Prevent Acts of Trademark Infringement Occurring Outside of the United States.

Page 6.

According to U.S. patent law, design patent infringement occurs when a party, “without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied.” 35 U.S.C. 289. Under the proper test for showing design patent infringement, the patent owner must demonstrate that an ordinary observer, familiar with the prior art designs, would be deceived into believing that the accused product is the same as the patented design. According to that test, when the differences between the claimed design shown in the patent and the accused design are viewed in light of the prior art (*i.e.*, designs that previously existed), the attention of the hypothetical observer will be drawn to those aspects of the claimed design that differ from the prior art, so that design patent infringement will normally be determined based on whether those novel, distinctive design features not shown in the prior art are substantially the same or different in the patented and the accused infringing designs.

In support of its motion for a preliminary injunction, the plaintiffs presented the testimony of their design expert, Mr. Hatch, who submitted side-by-side comparisons of the drawings of each of the asserted patents with photographs of the accused products. His testimony described how the “ordinary observer” test for design patent infringement generally applied to the “accused products” as a group. He did not provide a product-by-product analysis of why an ordinary observer would have been confused into believing that the particular accused product was sold by the Plaintiffs. Mr. Hatch simply opined that “Unlike the cited prior art, the claimed design of the [patent-in-suit] and the Accused Products share an integrated ‘hourglass’ body with many horizontal styling lines across the body and a relatively flat surface across the top, arched covers over the wheel area, larger radii on the front and back of the underside. Unlike any of the prior art the foot plates narrow as they extend toward the center.” Mr. Hatch did not explain why having an “hourglass body” was unlike the prior art, particularly the prior art D’906 Patent that was the closest prior art reference that was cited by the parties:

Fig. 1



J.A. 67 (Fig. 1 of the D’906 Patent).

Mr. Hatch’s testimony even referred to three tables which showed the primary prior art references, including the D’906 Patent. Nonetheless, Mr. Hatch concluded that “the overall impression of the claimed design ... is entirely unique: and that “[n]one of the prior art create the impression of” the patented designs, including for instance “an integrated ‘hourglass’ body with many angled lines across the body and a relatively flat surface across the top, arched covers over the wheel area, larger radii on the front and back of the underside.” Again, Mr. Hatch did not explain how the prior art D’906 Patent failed to show an “hourglass body.” Therefore, Mr. Hatch relied on the hourglass shape of the accused hoverboard products to show a substantial similarity, even

though the legal test for design patent infringement limited the relevance of features shown in the prior art to the substantial similarity analysis.

The Defendants' two design experts rebutted Mr. Hatch's testimony by presenting a patent-by-patent, product-by-product noninfringement analysis with reference to the design disclosed in the prior art D'906 Patent, including its "hourglass figure." They both concluded that an ordinary observer "would not be confused as to purchase one [hoverboard design] thinking it to be the other." The Defendants' experts found that "[t]he substantially dissimilar [features such as] foot pads, lighting design, ... design of the undercarriage and ... fender design creates a substantial different overall visual impression to the ordinary observer.

The Plaintiffs' expert, Mr. Hatch, attempted to respond to the opinions of the Defendants' expert, by stating "Unlike the '906 Patent, the claimed design of the '723 Patent and the Accused Products share the same overall visual impression and have an integrated '*hourglass*' body with a relatively flat surface across the top of the main body, arched covers over the wheel area, larger radii on the front and back of the underside, and elongated light panels on the front surface." Mr. Hatch provided a similar analysis for the other design patents, but failed to explain how the "hourglass body" was unlike the prior art.

Nonetheless, the District Court entered the preliminary injunction based on a finding that the Plaintiffs would likely succeed on the merits of their design patent infringement claims, because the claimed designs and the accused hoverboard products were "not sufficiently dissimilar or plainly dissimilar," so that an ordinary observer would be deceived into thinking that the products sold by the Defendants are the same as the products sold by the Plaintiffs under the patents-in-suit.

Several of the Defendants disagreed with the District Court's decision and filed motions to dissolve the preliminary injunction. The District Court denied the Defendants' motions, finding instead that since the Plaintiffs filed an expert report in support of their motion for preliminary injunction stating that the Defendants' products infringed the design patent, and the Defendants' filed their own expert report stating that their products do not infringe, the resolution of that expert dispute would likely require a trial. On that basis, the District Court reasoned that "the need for a trial is sufficient in this case for plaintiff to have met their burden to demonstrate a likelihood of success on the merits." In reaching this conclusion, the District Court did not do a product-by-product analysis of whether each accused product infringed each asserted design patent under the "ordinary observer" legal test. The Defendants appealed.

On appeal, the Federal Circuit considered whether the preliminary injunction must be set aside because the District Court erred in determining the likelihood of success on the merits of the Plaintiffs' design patent infringement claims. Based on its analysis of the facts of this case, the Federal Circuit determined that the District Court had erred in four (4) independent respects. First, the Federal Circuit found that the District Court had applied the wrong legal standard. Contrary to the District Court's ruling, the Federal Circuit held that an injunction cannot be granted because a trial is required, or because the accused products are not "sufficiently dissimilar" or "plainly dissimilar" from the patented designs.

Second, the District Court was required to conduct the ordinary observer analysis for the design patent infringement test with reference to the known prior art. The Federal Circuit found that none of the statements made by the District Court in making its ruling demonstrated that it conducted the required analysis of the prior art. Under the controlling law, when a patented design and an accused product are not "plainly

dissimilar,” the court must conduct a three-way analysis comparing the accused product, the patented design, and the prior art. From that perspective, when the differences between the patented and accused designs are viewed in light of the disclosures of similar designs found in the prior art, the attention of the hypothetical ordinary observer will be drawn to those aspects of the claimed design that are different from what is shown in the prior art.

That is, where a dominant feature of the patented design and the accused products – such as their hourglass shape - appears in the prior art, as it does in the D’906 Patent, the focus of the “substantial similarity” analysis under the design patent infringement test should be on other features of the designs that are not shown in the prior art. The shared dominant feature that is shown in the prior art will not be sufficient by itself to support a finding of substantial similarity. In this case, since the dominant feature of the hoverboards’ designs – their hourglass shape – was already disclosed in the prior art, the other features of the patented design and the accused products were of less significance, and should have carried less weight in the infringement analysis than the District Court gave to them. Ultimately, the Federal Circuit found that the District Court erroneously relied on the expert report of Mr. Hatch, because he relied primarily on the shared hourglass design to find infringement, rather than giving less weight to that feature because it was shown in the prior art.

Third, the Federal Circuit found that the District Court failed to apply the ordinary observer test on a product-by-product basis, which was found to be of particular importance in this case, because of the significant visual, ornamental differences among the accused hoverboard products themselves. It is settled Patent Law that a patent owner has the burden of proving that each product infringes the sole claim of each design patent. As a result, when a Court presents the reasons why a preliminary injunction should issue, it must conduct a product-by-product infringement analysis for each design patent in suit. Once again, the District Court relied on the expert report of Mr. Hatch, who only provided a design patent infringement analysis based on the design features which were common to the group of accused devices, not to each accused device individually.

The Federal Circuit found that this defect in the District Court’s analysis was significant, because even a cursory review of the four accused hoverboard products shows that they are different from each other, they display features that are not found in the asserted design patents, and they lack features that are shown in those patents. In particular, the Federal Circuit found that the overall shape of the accused products is different from the designs claimed in the asserted patents, such as the wheel covers having a boxy appearance as compared to the asserted patents, the wheel covers cover less of the wheel than the designs claimed in the patents, and have angled, rather than curved, edges. The shapes of the wheel covers of several of the accused products differed from each other and from the designs shown in the drawings of the patents, thus further suggesting that grouping all of the accused products together for the infringement analysis was incorrect.

Finally, the language used in the preliminary injunction to order the Defendants to stop making and selling the accused hoverboard products was found by the Federal Circuit to be overly broad. The text of the preliminary injunction generally prohibits the offer for sale, sale and importation of “any products ... that include any reproduction, copy or colorable imitation of the design claimed in the Patents-in-Suit.” The District Court’s injunction does not mention or specifically enjoin “Accused Products A through D,” which were the only products that were the subject of the lawsuit, and the District Court’s design patent infringement

analysis. According to the Federal Circuit, injunctions which “simply prohibit future infringement of a patent” are overbroad, and therefore, they must be limited to the products that are actually likely to infringe and those “not more than colorably different.” Injunctions that by their terms apply to “any device” within the scope of the patent claims do not meet the specificity requirements of the applicable Civil Rules, and are therefore overly broad.

The Federal Circuit’s opinion in *ABC Corporation* is instructive for several important reasons. First, expert witness testimony is not only important, but it is critical to proving or disproving whether a design patent has been infringed. Not only is selecting a qualified design expert critical, but that expert must be guided to providing an analysis of whether each accused product would infringe each design patent in suit. Failure to do that will likely render that expert testimony legally insufficient to support a finding of infringement or noninfringement.

The Federal Circuit also reemphasized and further clarified the important role that prior art designs play in conducting a proper, and legally sufficient design patent infringement analysis. The testimony of design patent experts, and the arguments made by the attorneys for each party, must identify which features of the design that is claimed by each patent are already disclosed in the prior art. Those known features should therefore be given less weight in the design patent infringement analysis, and attention should be focused on the features of the patented design that are not disclosed in the prior art, and whether those features are or are not substantially similar to the corresponding features of the accused infringing products. Failure to squarely address the disclosure of the designs in the known prior art, as the patent owner did in *ABC Corporation*, will not only expose weaknesses in a case, it may also prove fatal to the patent owner or the accused infringer prevailing on their case, either at the District Court, or at the Federal Circuit.

TRADEMARK NEWS

U.S. SUPREME COURT AGREES TO DECIDE WHETHER U.S. TRADEMARK LAW EXTENDS EXTRATERRITORIALLY TO PREVENT ACTS OF TRADEMARK INFRINGEMENT OCCURRING OUTSIDE OF THE UNITED STATES

The U.S. Supreme Court agreed on November 4, 2022 to hear and decide the case of *Abitron Austria GmbH v. Hetronic Int’l, Inc.*, which presents the issue of whether the owner of a U.S. trademark can bring a lawsuit and recover damages for trademark infringement under the U.S. Lanham Act (which governs trademark infringement matters) for uses of its trademarks that occurred outside of the United States, where those uses were not likely to cause consumer confusion in the United States. The Supreme Court will review the ruling of the U.S. Court of Appeals for the Tenth Circuit, which found that the foreign trademark infringers could be held liable for damages for all of their uses of the trademark outside of the U.S., without regard to whether particular infringing uses of the mark created a likelihood of confusion among consumers in the U.S. The Supreme Court’s decision will therefore determine the geographic scope of protection given to U.S. trademarks.

The *Hetronic* case involved a situation where Hetronic International, Inc., a U.S. company, manufactured radio remote controls for heavy-duty construction equipment under several brand names for which Hetronic

claimed exclusive trademark rights (both registered and unregistered) under the Lanham Act. Those trademarks included ERGO, EURO, GL, GR, HH, MINI, NOVA, Pocket, TG, and RX. Hetronic's products also featured a distinctive black-and-yellow color scheme to distinguish them from those of its competitors, for which Hetronic claimed intellectual property rights as its "trade dress." The Defendants in this case, none of whom are U.S. citizens or corporations, distributed Hetronic's products internationally, mostly in Europe. Although that business relationship worked well for almost a decade, a dispute over the ownership of Hetronic's trademarks, and the right to sell the remote-control products under those trademarks, developed between the parties, which resulted in the termination of their business relationship. The Defendants, thinking that they were the true owners of the trademarks and trade dress under which Hetronic's remote control products were sold, began to sell their own versions of Hetronic's remote control products under those same trademarks and trade dress.

Hetronic objected to the Defendants' conduct, and sued them in the U.S. District Court for the Western District of Oklahoma for, among other things, trademark infringement under the Lanham Act. After a contentious eleven-day trial, a jury awarded Hetronic over \$115 million in damages, \$96 million of which was for the Defendants' trademark infringement. Then, at Hetronic's request, the District Court entered a permanent injunction barring the Defendants from selling their infringing products anywhere in the world. The Defendants ignored that injunction and continued selling the infringing remote-control products.

The Defendants appealed the Jury's verdict and the District Court's permanent injunction, arguing that, although the Lanham Act can sometimes apply extraterritorially to conduct occurring outside of the U.S., it didn't apply to their conduct, which involved foreign Defendants making sales to non-U.S. customers. On appeal, the Tenth Circuit applied the only decision of the U.S. Supreme Court on this issue, as well as the decisions of other regional federal circuit courts of appeal, and concluded that the District Court properly applied the Lanham Act to prohibit, and require the payment of damages for, all of the Defendant's infringing conduct outside of the U.S. However, the Tenth Circuit narrowed the scope of the injunction.

The Lanham Act governs federal trademark and unfair competition disputes. It subjects to liability "[a]ny person who shall ... use in commerce any ... colorable imitation of a registered mark," 15 U.S.C. § 1114(1) (Section 32), or "[a]ny person who ... uses in commerce any" word, false description, or false designation of origin that "is likely to cause confusion ... or to deceive as to the affiliation," origin, or sponsorship of any goods. § 1125(a)(1) (Section 43). Notably, the Act defines commerce broadly as "all commerce which may lawfully be regulated by Congress," § 1127, and affords federal courts jurisdiction over all claims arising under it, § 1121(a).

The U.S. Supreme Court dealt with the extraterritorial application of the Lanham Act only once before, in the case of *Steele v. Bulova Watch Co.* Although the Court in *Steele* acknowledged that U.S. federal statutes are presumed not to extend extraterritorially to control conduct occurring outside of the U.S., it held that the Lanham Act could apply abroad in at least some circumstances. However, that decision left many unanswered questions about the extent of the Lanham Act's reach, particularly with respect to the present *Hetronic* case, as it relates to the activities of the non-U.S. defendants. The Supreme Court has not yet announced a precise test for when such extraterritorial reach would be appropriate.

However, the Supreme Court has stated a general test for determining whether a U.S. federal statute should have an extraterritorial effect. It is generally presumed that U.S. law does not extend extraterritorially to regulate conduct occurring outside of the U.S. Therefore, the first part of this test is to determine whether the presumption against extraterritoriality has been rebutted by a clear, affirmative indication in the statute that it applies extraterritorially. The Supreme Court in *Steele* determined that the Lanham Act met that test, and could apply extraterritorially in certain situations, when it held that the Act's "use in commerce" language, and the broad definition given to the term "commerce" indicated that Congress intended for the Act to apply extraterritorially.

The second part of that test requires that when the presumption against extraterritoriality has been rebutted, the extent of how broadly the statute can apply extraterritorially is dependent on the limits that Congress has, or has not imposed on the statute's foreign application. The Tenth Circuit noted that the key to the Supreme Court's decision in *Steele* was that the Defendants' operations and their effects were not confined within the territorial limits of a foreign nation. The counterfeit Bulova watch products at issue in *Steele* filtered through the Mexican border into the United States, so that the inferior watches could damage Bulova's reputation in both the U.S. and foreign markets.

Ultimately, the Tenth Circuit decided that the Lanham Act will usually extend extraterritorially when the defendant is an American citizen, because Congress' power over American citizens is a matter of domestic law that raises no serious international concerns, even when the citizen is located abroad. However, when the trademark owner seeks to recover damages under the Lanham Act against a foreign national, it must show that the Defendant's conduct has *a substantial effect* on U.S. commerce. The Tenth Circuit adopted this standard, even though a "substantial effect" was not required by the Supreme Court in its *Steele* decision. The Tenth Circuit found that this standard was consistent with the Supreme Court's requirements for foreign relations law and the extraterritorial extension of U.S. antitrust law in other cases.

Finally, the Tenth Circuit determined that if a trademark owner successfully shows that a foreign defendant's conduct has had a substantial effect on U.S. commerce, then the Court should also consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under the relevant foreign law. Although the Tenth Circuit acknowledged that the Supreme Court's decision in *Steele* did not require this analysis, every other regional federal circuit court of appeal has required it.

The Tenth Circuit then applied this test to the facts of the present case. The Court noted first that none of the Defendants are American citizens. Therefore, Plaintiff Hetric was required to show that the Defendants' infringing conduct had a substantial effect on U.S. commerce. The Court found that the extraterritoriality issue was determined solely on this question, because the Defendants nowhere argued that applying the Lanham Act extraterritorially would conflict with their trademark rights under another country's laws.

The Tenth Circuit then concluded that Defendants' foreign conduct had a substantial effect on U.S. commerce. According to the Court, the "substantial effects" test requires that there be evidence of impacts within the U.S., and these impacts must be of a sufficient character and magnitude to give the U.S. "a reasonably strong interest in the litigation." Such a strong interest would include protecting U.S. consumers from confusion, and "assuring a trademark owner that it will reap the financial and reputational rewards associated with having a desirable name or product."

In order to support the extraterritorial application of the Lanham Act, Hetronic pointed to three categories of evidence. First, it pointed to the Defendants' direct sales into the U.S. However, the Court did not consider those U.S. sales to be a factor in its analysis, because prohibiting a foreign infringer's direct U.S. sales is not an extraterritorial application of the Act, because the infringing products were present in the U.S. Secondly, Hetronic argued that many of the Defendants' foreign sales ended up in the U.S. On that point, the Tenth Circuit noted that many other courts have found that a defendant can be held liable for Lanham Act violations when its products make their way into the U.S., even if they are initially sold abroad. Once American consumers have been exposed to the infringing marks, the Court found that "confusion and reputational harm ... can often ... be inferred."

In the present case, there was also evidence that U.S. consumers were actually confused, because U.S. consumers would sometimes reach out to the Defendants to obtain Hetronic products under the mistaken belief that the Defendants made and sold Hetronic products. Also, customers often sent Defendants' products to Hetronic for repair. On that evidence alone the Tenth Circuit was willing to conclude that the effects of Defendants' foreign conduct was sufficiently substantial to give the U.S. a reasonably strong interest in the litigation. Hetronic next relied on the fact that the Defendants acts of trademark infringement diverted sales away from Hetronic outside of the U.S., which in turn affected Hetronic's revenue flows in the U.S. The Tenth Circuit agreed, finding that when diverted sales that would have otherwise gone to a U.S. company were instead made by a foreign infringer, the loss to U.S. commerce is clear. The Court found that this evidence was more than sufficient to demonstrate that the Defendants' conduct had a substantial effect on U.S. commerce.

The Tenth Circuit concluded that the Supreme Court made clear that once a court determines that a statute applies extraterritorially to a defendants' conduct, as is the case here, the statute captures all the defendant's infringing conduct, so that the U.S. trademark owner can recover damages for all infringing conduct, whether it took place within the U.S. or abroad. The Court made this finding, even though only 3% of the Defendants' sales were made in the U.S., or found their way into the U.S. Finally, the Court determined that the permanent injunction that was entered by the District Court was overly broad, because it prohibited the infringing conduct from continuing "anywhere in the world," rather than being limited only to those countries were the legitimate trademark owner, Hetronic, had sold its products. Reviewing the trademark law on this issue, the Court concluded that the rights protected by trademark law are geographically limited, so that the injunction should have been limited only to those countries where Hetronic currently markets or sells its products.

On *certiorari*, the Supreme Court will be asked to provide more specific guidance regarding the situations under which the Lanham Act can be extended to cover trademark infringements that occur outside of the United States, as well as the scope of that extraterritorial coverage. In particular, the Supreme Court will likely address whether such an extraterritorial extension requires that the infringing conduct have a "substantial effect" on U.S. commerce, and if so, what type of conduct will be sufficient to demonstrate such a "substantial effect." For instance, will any type of negative business, financial or reputational effect on the trademark owner be sufficient, as the Tenth Circuit seemed to accept, or will that "substantial effect" be limited by the text of the Lanham Act only to instances where a likelihood that consumers in the U.S. will be confused or deceived by the infringing trademark.

Also, will the Supreme Court uphold the Tenth Circuit's conclusion that once any "substantial effect" on U.S. commerce is proven, the trademark owner is entitled to recover damages for all sales of products that infringe its trademarks, regardless of whether those sales had any effect on U.S. commerce or took place entirely abroad. Or will the Supreme Court instead rule that the trademark owner is only entitled to recover damages for those infringing sales that are proven to impact U.S. commerce, either generally or as a result of directly causing a likelihood of confusion or deception? Those are important issues which will have an impact on the scope and value of U.S. trademark rights, as well as the ability of U.S. trademark owners to enforce those rights against infringements that take place outside of the U.S.

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