No. 21-1043

IN THE
Supreme Court of the United States

ABITRON AUSTRIA GMBH; ABITRON GERMANY GMBH; HETRONIC GERMANY GMBH; HYDRONIC-STEUERSYSTEME GMBH; ABI HOLDING GMBH; AND ALBERT FUCHS,

Petitioners,

v.

HETRONIC INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit

REPLY FOR PETITIONERS

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

CASES

OTHER AUTHORITIES

IN THE

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ABITRON AUSTRIA GMBH; ABITRON GERMANY GMBH; HETRONIC GERMANY GMBH; HYDRONIC-STEUERSYSTEME GMBH; ABI HOLDING GMBH; AND ALBERT FUCHS,

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REPLY FOR PETITIONERS

This case presents a square circuit conflict concerning the Lanham Act's extraterritorial application. Even though trademark law is concededly territorial in scope, the Tenth Circuit held that the Lanham Act extends to purely foreign sales—sales by foreign defendants, in foreign countries, to foreign customers, for use in foreign countries. No one argues that *those* $88 million in sales reached the United States or confused any U.S. customer. But the Tenth Circuit declared they had a "substantial effect on U.S. commerce," justifying the Act's extra-territorial application, on the theory that they diverted "foreign sales" away from a *U.S. plaintiff* and thereby

limited foreign revenues that could have "flowed into the U.S. economy." Pet. App. 45a-47a. As the Tenth Circuit acknowledged, Pet. App. 45a-46a, its holding conflicts with the Fourth Circuit's decision in *Tire Engineering & Distribution, LLC* v. *Shandong Linglong Rubber Co.*, 682 F.3d 292, 310-311 (4th Cir. 2012), which *rejected* that diversion-of-foreign-sales theory.

Denying that this case "implicate[s] any" circuit conflict, Br.in.Opp. 2, International urges that the Tenth Circuit offered an "independent[ ]" rationale to "justif[y]" a $90 million verdict based almost entirely—all but €1.7 million—on foreign-sold products that never entered the United States, Br.in.Opp. 20. But that "independent" rationale is even more extreme and does not eliminate the conflict. According to International, the Lanham Act applies extraterritorially to punish *all* of a foreign company's foreign sales if some tiny quantity of products reaches the U.S. The expansiveness of that position—which also conflicts with *Tire Engineering*—only underscores the need for review.

In the 70 years since this Court decided *Steele* v. *Bulova Watch Co.*, 344 U.S. 280 (1952), the courts of appeals have adopted *six* different tests for determining when the Lanham Act applies extraterritorially. International dismisses those differences as "semantic." Br.in.Opp. 23. But courts and commentators alike agree that the divergent tests lead to inconsistent results.

The issue is exceptionally important. The Tenth Circuit imposed $88 million in liability on foreign defendants for foreign sales having *zero* U.S. nexus. Its decision departs from statutory text, disregards trademark territoriality principles, defies U.S. treaties, and invites serious foreign policy consequences. Review is warranted.

I. THE COURTS OF APPEALS ARE DIVIDED OVER THE LANHAM ACT'S EXTRATERRITORIAL EFFECT

A. The Circuits Are Divided Over the Tenth Circuit's Diversion-of-Foreign-Sales Theory

1. The Tenth Circuit held that purely foreign sales, for use by foreign defendants in foreign countries, are subject to the Lanham Act based on a "diversion-of-sales theory—the idea that [petitioners] stole sales from [International] abroad, which in turn affected [International's] cash flows in the United States." Pet. App. 44a. The Tenth Circuit acknowledged that its holding conflicts with the Fourth Circuit's decision in *Tire Engineering*, 682 F.3d 292. Pet. App. 46a. It rejected as "unpersuasive" the Fourth Circuit's holding that a "'diversion-of-[foreign]-sales theory'" could support the Lanham Act's extraterritorial application at most where the defendants are "'U.S. corporations that conducted * * * at least some of the infringing activity * * * within the United States.'" *Ibid.* (quoting *Tire Engineering*, 682 F.3d at 311).

International says "*Tire Engineering* is irrelevant" because the Tenth Circuit "*independently* justified" the Lanham Act's global application. Br.in.Opp. 27. According to International, *all* of petitioners' $90 million in worldwide sales can be punished because €1.7 million "worth of infringing products found their way" here and "caused confusion among U.S. consumers." *Ibid.* But that more extreme view—which reaches sales with *no* connection to the U.S. even under a diversion-of-foreign-sales theory—does not eliminate the conflict with the Fourth Circuit over the diversion-of-foreign-sales theory. Alternative holdings are still holdings. See *Massachusetts* v. *United States*, 333 U.S. 611, 622-623 (1948). The diversion-of-foreign-sales doctrine now supports the Lan-

ham Act's extraterritorial application to foreign defendants in the Tenth Circuit but not the Fourth.

International's own recounting confirms the conflict. It describes the Fourth Circuit in *Tire Engineering* as "conclud[ing] that it could not rely *solely* on the diversion of sales to justify extraterritorial application of the Lanham Act to a foreign defendant." Br.in.Opp. 27 (emphasis added). By International's admission, the Tenth Circuit here held that a diversion-of-foreign-sales theory by itself supports the Act's extraterritorial application, as the theory was "different" and "independent[ ]" from a consumer-confusion theory. Br.in.Opp. 20.[1]

2. International's "alternative" rationale only underscores the need for review. International urges that *Tire Engineering* "recognized that the Lanham Act could apply" to wholly foreign sales when some "products reached the United States and caused confusion here." Br.in.Opp. 27. Not so. The Fourth Circuit described the consumer-confusion theory and the diversion-of-foreign-sales theory as distinct bases for liability. *Tire Engineering*, 682 F.3d at 311. It never suggested that proof of some sales reaching the U.S. and causing consumer confusion supports liability for all of a foreign defendant's wholly foreign sales.

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[1] International ignores the conflict with *International Café, S.A.L.* v. *Hard Rock Café Int'l (U.S.A.), Inc.*, 252 F.3d 1274, 1278-1279 (11th Cir. 2001). There, the Eleventh Circuit held that a U.S. defendant's "financial gain" from infringing foreign sales did not establish a "substantial effect" on U.S. commerce. *Id.* at 1278. If revenues actually flowing into the U.S. are not sufficient to justify the Act's foreign application, then potentially diverted foreign revenues could not be enough either—as the petition explained. Pet. 22. International offers no response.

Regardless, that theory—that some tiny portion of sales reaching the U.S. can be a springboard for applying U.S. trademark law worldwide to purely foreign sales—underscores the need for review. Here, for example, the claim that "€1.7 million worth" of foreign sales "eventually entered the United States" was used to justify applying the Lanham Act *globally* and imposing a "$90 million" award for worldwide sales, 97% of which did *not* enter the United States and did *not* confuse any U.S. consumer. Pet. App. 43a-44a. International says that is "how extraterritorial application of statutes works." Br.in.Opp. 31. But no authority supports such an overreaching application of U.S. trademark law—which by its nature protects domestic rights, Pet. 26-28—to purely foreign commerce.

International claims "every circuit would find that the Lanham Act can reach the infringing foreign sales of a foreign defendant where * * * *those sales* have a substantial effect on U.S. commerce by resulting in widespread consumer confusion here." Br.in.Opp. 31 (emphasis added). True, there can be liability for products that, following foreign sales, *actually* enter the U.S. and *actually cause* U.S. confusion. U.S. law can redress U.S. consumer confusion.

But the Tenth Circuit's "alternative" theory goes way past that. It imposes Lanham Act liability for wholly foreign sales that never entered the U.S. and caused no confusion here because *other* sales allegedly did. Pet. App. 43a-44a. That rationale is more extreme than even the diversion-of-foreign-sales theory. It imposes liability on foreign sales with no showing that those sales had any domestic impact. International cites *no* other case applying such a theory. Courts have rejected the notion that whenever some subset of a defendant's conduct is subject

to extraterritorial application of the Lanham Act, the U.S. thereby acquires global jurisdiction to police all of the foreign defendant's conduct worldwide. See *Sterling Drug, Inc.* v. *Bayer AG*, 14 F.3d 733, 746 (2d Cir. 1994) (holding injunction must be "carefully crafted to prohibit only those foreign uses of the mark * * * that are likely to have significant trademark-impairing effects on United States commerce").

This Court has rejected similar theories. The Court cautioned that one act of domestic infringement under the Patent Act could not serve as a "springboard for liability" for acts worldwide. *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 456 (2007). And in *Morrison* v. *National Australia Bank Ltd.*, 561 U.S. 247, 266 (2010), the Court explained that "the presumption against extraterritorial application would be a craven watchdog indeed if it retreated to its kennel whenever *some* domestic activity is involved in the case."

International invokes dicta from *Morrison*, 561 U.S. at 267 n.9, repeated in *RJR Nabisco, Inc.* v. *European Community*, 579 U.S. 325, 342 (2016), stating that, "[i]f [the statute at issue] did apply abroad, we would not need to determine which transnational frauds it applied to; it would apply to all of them." See Br.in.Opp. 31-32. The Court was merely addressing hypothetical statutes that, by their terms, apply abroad generally. Neither case addressed the Lanham Act. Regardless, International's argument proves too much. *No* court of appeals has held that, because the Lanham Act allegedly "applies abroad" in some cases, there is "no need to determine" whether it applies abroad in others. To the contrary, they have created myriad tests for making that determination. Pet. 17-20. If such tests are unnecessary, that too favors review.

B. The Courts of Appeals Are in Disarray

The circuit conflict over the diversion-of-foreign-sales theory reflects broader disarray. The courts of appeals have adopted *six* different tests for determining when the Lanham Act applies extraterritorially. Pet. 17. International urges that the tests all ask the "same" question: "Did the defendant's foreign infringing conduct affect U.S. commerce?" Br.in.Opp. 21. But upping the level of abstraction does not change the fact that, in their decisions, the circuits apply *different* tests that produce *disparate* outcomes. See Pet. 17-20.

International downplays differences in the tests as "semantic," dismissing them as having "little practical import." Br.in.Opp. 22-23. But the courts themselves say otherwise. The Second Circuit, for example, has explained that the Fifth Circuit's test in "*American Rice* is in conflict with [the Second Circuit's test in] *Vanity Fair*, because it specifically rejected the 'substantial effect' requirement in favor of a *more lenient* 'some effect' standard." *Totalplan Corp. of Am.* v. *Colborne*, 14 F.3d 824, 830 (2d Cir. 1994) (emphasis added).

While International asserts that the Ninth Circuit "considers the same factors" as others, Br.in.Opp. 23, it ignores the key difference. The Ninth Circuit uses a flexible balancing test, where "each factor is just one consideration to be balanced." *Wells Fargo & Co.* v. *Wells Fargo Express Co.*, 556 F.2d 406, 428 (9th Cir. 1977). The Second Circuit—and those that follow it—are mechanical. There, the absence of one "facto[r] might well be determinative" and "the absence of both is certainly fatal." *Vanity Fair Mills, Inc.* v. *T. Eaton Co.*, 234 F.2d 633, 643 (2d Cir. 1956). Consequently, where the Ninth Circuit conducts a "sweeping" survey, the Second Circuit undertakes a "more formalistic" approach. T. Holbrook, *Is There a New Extra-*

territoriality in Intellectual Property?, 44 Colum. J.L. & Arts 457, 465 (2021).

International insists the First Circuit's test "reduces to the same analysis," Br.in.Opp. 24, but the Tenth Circuit disagreed below. The "*McBee* court," it explained, "eschewed * * * an analysis [considered by] every other circuit court." Pet. App. 30a. The First Circuit does not consider comity (potential conflicts with foreign law) in its basic analysis. *McBee* v. *Delica Co.*, 417 F.3d 107, 111 (1st Cir. 2005). International admits the comity factor is "prudential" in the First Circuit. Br.in.Opp. 24. That conflicts with the approach of every other circuit. Pet. App. 30a.

Those differences are "material." Contra Br.in.Opp. 25. Commentators have recognized that the disparate approaches produce disparate outcomes. See Pet. 19 (collecting citations). Scholarly research shows that courts in the Fifth Circuit, which use the lenient "some" effects test, favor extraterritorial application of the Lanham Act at much higher rates (92.3%) than courts in the Second Circuit (48.8%), which use the more stringent "substantial" effects test. See T. Dornis, *Behind the* Steele *Curtain: An Empirical Study of Trademark Conflicts Law*, *1952-2016*, 20 Vand. J. Ent. & Tech. L. 567, 599 (2018). The Tenth Circuit's observation that *Steele* "le[ft] much unanswered" about the Lanham Act's extraterritorial reach, Pet. App. 21a, is understatement. Review is warranted.

II. THE ISSUE IS IMPORTANT

International does not dispute the issue's importance. It cannot deny that this Court has repeatedly granted review to clarify when U.S. statutes may apply to foreign conduct. Pet. 22-23. It ignores the potentially disastrous effects on global businesses from the Lanham Act's overzealous application to foreign sales. Pet. 23-24. It cannot explain why U.S. trademark law should apply to purely

foreign sales, when U.S. patent and copyright law cannot. Pet. 24. And it does not deny that extending the Lanham Act to sales between foreign nationals within foreign nations conflicts with U.S. treaty commitments. Pet. 25.

International dismisses concerns about "international friction" as "policy arguments." Br.in.Opp. 35. But the "*potential* for international controversy" undergirds the presumption against extraterritorial application. *RJR*, 579 U.S. at 348 (emphasis added). Those concerns are particularly stark where, as here, U.S. statutes provide a "private civil remedy" that includes "treble damages." *Id.* at 347-348; Pet. App. 25. Because foreign countries may recognize "different measures of damages," allowing U.S. suits for conduct abroad can "offend the sovereign interests of foreign nations." *RJR*, 579 U.S. at 348.

International argues the Lanham Act should be extraterritorial because other nations have less "efficacious" trademark protection. Br.in.Opp. 34. Such efforts to impose U.S. policy choices on foreign soil defy "a basic premise of our legal system"—that "United States law * * * does not rule the world." See *RJR*, 579 U.S. at 335 (quoting *Microsoft*, 550 U.S. at 454). Whether and how U.S. courts should apply the Lanham Act to foreign conduct is important and warrants review.

III. The Decision Below Is Wrong

International does not attempt to reconcile the Tenth Circuit's diversion-of-foreign-sales theory with the territoriality principles of trademark law. Br.in.Opp. 35; Pet. 27. Nor can it. That sweeping theory allows U.S. courts to assess damages on a foreign defendant's worldwide sales any time a U.S. plaintiff claims lost sales abroad. It is divorced from the Lanham Act's focus on domestic consumer confusion. Pet. 27-28. The alternative "springboard" theory—where *some* showing of domestic effect

opens the door to liability for *all* of a company's global sales—has never been adopted by any other circuit and has no basis in this Court's extraterritoriality precedents. See pp. 5-6, *supra*.

Contrary to International's contentions, Br.in.Opp. 28-29, nothing in *Steele*—which involved a *U.S.* defendant—suggests the Lanham Act reaches foreign sales by foreign defendants that do not confuse U.S. consumers. Pet. 29. Any contrary suggestion in *Steele* cannot be reconciled with recent extraterritoriality jurisprudence. Pet. 33. International does not dispute that the Lanham Act contains no "clear, affirmative indication that it applies extraterritorially." *RJR*, 579 U.S. at 337. And it has no response to the fact that Congress previously narrowed rather than expanded the statute's reach, which does not indicate a clear intent for it to apply abroad. Pet. 34.

International warns that, absent the Tenth Circuit's approach, companies that "deliberately violate a U.S. trademark could avoid any consequences" by selling in nations with "weak trademark protection, even as those sales flooded into the [U.S.] or sowed confusion among U.S. customers." Br.in.Opp. 34. Not so. Any products entering the U.S. and causing confusion here might be the basis for liability. But the Tenth Circuit imposed liability not just for the 3% of petitioners' sales that entered the United States, but also for the 97% of their sales that were purely foreign, between foreign companies, that never crossed U.S. borders or confused U.S. consumers. If International has a complaint about those purely foreign sales, its remedy "lies" in the relevant foreign country. *Microsoft*, 550 U.S. at 456.

There is, moreover, serious doubt over whether the Tenth Circuit's view can be reconciled with the Foreign Commerce Clause. The principle of constitutional doubt

thus counsels against it. Pet. 30-31. International attempts to sidestep the issue by urging that petitioners failed to preserve a *constitutional* challenge below. Br.in.Opp. 36 n.9. But constitutional avoidance is an argument *in support of* petitioners' construction of the Lanham Act. Parties can raise additional points in favor of a position otherwise already preserved. *Yee* v. *Escondido*, 503 U.S. 519, 534 (1992). Petitioners pointed that out, Pet. 31 n.5, but International has no response.

IV. THIS CASE IS AN EXCELLENT VEHICLE

This case is an ideal vehicle—not merely for addressing the conflict between the Tenth and Fourth Circuits over the diversion-of-foreign-sales theory, but also the separate "springboard" rationale. See pp. 4-6, *supra*. International does not dispute that the viability of those theories is outcome-determinative here. The Tenth Circuit's careful analysis of the various tests applied by different courts provides an excellent foundation for evaluating the broader principles that caused the courts of appeals to fracture. See Pet.App. 23a-31a.[2]

Insisting this case is a "poor vehicle" for addressing the "international friction" that results from applying U.S. trademark law abroad, International argues that "European courts have * * * rejected [p]etitioners' arguments about ownership of the intellectual property." Br.in.Opp. 35-36. The cited decisions address just *one* registered trademark, *only* under German and E.U. law—not all

[2] International's insistence that petitioners should have demanded the Tenth Circuit reconsider this Court's decision in *Steele*, Br.in.Opp. 36, is frivolous. Lower courts must follow this Court's precedent, "leaving to this Court the prerogative of overruling its own decisions." *Rodriguez de Quijas* v. *Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989). In deciding the proper rule for this case, this Court has unquestioned authority to address *Steele*'s meaning and vitality alike.

trademarks globally. Pet. 7, 31-32. More fundamentally, properly constraining extraterritorial application of U.S. trademark law is critical because it creates "*potential* for international controversy," whether or not conflict arises in a particular case. *RJR*, 579 U.S. at 348 (emphasis added). Here, moreover, the courts below imposed U.S. trademark *damages* under the Lanham Act—which can include treble damages and other non-compensatory measurements—for wholly foreign sales to foreign companies for foreign use. Interposing U.S. damages policies into foreign countries creates profound risks of conflict. Foreign law offers distinct remedies and often reviles such awards as exorbitant. See *F. Hoffmann-La Roche Ltd.* v. *Empagran S.A.*, 542 U.S. 155, 167-168 (2004).

International asserts that petitioners' "real complaint" is the exclusion of their cost-of-goods evidence. Br.in.Opp. 34. But 97% of the $90 million damages award here was based upon purely foreign sales, to foreign companies, for use abroad, for products that never entered the U.S. or confused U.S. customers. Whether the Lanham Act reaches so far is squarely presented for this Court's review.

CONCLUSION

The petition should be granted.

Respectfully submitted.

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