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SCOTUS to Consider Extent of the Lanham Act's Extraterritorial Reach

WRITTEN BY

Michael D. Hobbs, Jr. | Howard J. Shire | Jóna Mays | Lindsay Mitchell Henner

On November 4, the U.S. Supreme Court (SCOTUS) granted certiorari in *Hetronic Int'l, Inc. v. Hetronic Germany GmbH,* 10 F.4th 1016 (10th Cir. 2021), cert. granted sub nom. *Abitron Austria GmbH v. Hetronic Int'l, Inc*., No. 21-1043, 2022 WL 16703748 (U.S. Nov. 4, 2022). The issue under consideration is the extent of the Lanham Act's extraterritorial reach, particularly as it relates to foreign defendants operating almost exclusively outside of the U.S.

The case, previously on appeal before the Tenth Circuit from the Western District of Oklahoma, concerns the infringement of the trademarks and trade dress of Hetronic International, Inc., a U.S. manufacturer of radio remote controls used for operating heavy-duty construction equipment, such as cranes and concrete pumps. The multiple European company defendants once assembled and distributed Hetronic's products under distribution and licensing agreements between the companies. The relationship eventually soured when the European distributors began reverse-engineering Hetronic's products and selling them under Hetronic's trademarks and trade dress, with 97% of the sales occurring outside the U.S. The district court jury awarded Hetronic $115 million in damages, and the district court enjoined against the sale of the infringing goods worldwide.

It is already settled law that the Lanham Act can apply extraterritorially,[1] but SCOTUS has never laid out the test for determining under which circumstances the Lanham Act so reaches. As a result, the circuits have developed various tests for determining when the Lanham Act applies to the conduct of foreign entities. Each test considers some version of three factors: (1) whether the defendant's conduct had a substantial or significant effect on U.S. commerce; (2) whether the defendant was a U.S. citizen; and (3) whether there was a conflict with trademark rights under the relevant foreign law.[2] In this case, the European distributors were not U.S. citizens and did not argue any conflict with foreign law, so the decision hinged on whether the European distributors' conduct had a substantial effect on U.S. commerce. The Tenth Circuit held that it did because the European distributors sold their products directly into the U.S., their foreign-sold products ended up in the U.S., and their conduct diverted foreign sales that Hetronic would have made. That the U.S. sales were only 3% of the European distributors' total sales was inconsequential to the court. The Tenth Circuit upheld the jury's award of over $100 million in damages but held that the injunction was too broad and should apply only in the countries where Hetronic operates, not worldwide.

SCOTUS has granted certiorari, presumably to finally set out a test for determining when the Lanham Act applies extraterritorially and to what extent. The Tenth Circuit's decision is perhaps the most expansive to date in providing access to relief for extraterritorial sales and is likely to be walked back to some extent. For U.S.

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companies operating abroad and licensing their trademarks to foreign entities, SCOTUS' decision will provide guidance for contracting abroad. However, the question of enforcement remains. Even with an injunction in hand, what will stop foreign entities from doing as the Tenth Circuit points out the *Hetronic* defendants have done; namely, simply ignore the injunction?

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[1] *See Steele v. Bulova Watch Co.*, 344 U.S. 280, 282–85, 73 S.Ct. 252, 97 L.Ed. 319 (1952).

[2] *E.g. Vanity Fair Mills, Inc. v. T. Eaton Co*., 234 F.2d 633, 642 (2d Cir. 1956); *see Int'l Cafe, S.A.L. v. Hard Rock Cafe Int'l, (U.S.A.), Inc.*, 252 F.3d 1274, 1278 (11th Cir. 2001) (describing the three-factor analysis as the "Bulova test" but citing *Vanity Fair*); *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 152 F.3d 948, 1998 WL 169251, *2 (Fed. Cir. 1998) (per curiam) (unpublished); *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994).

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