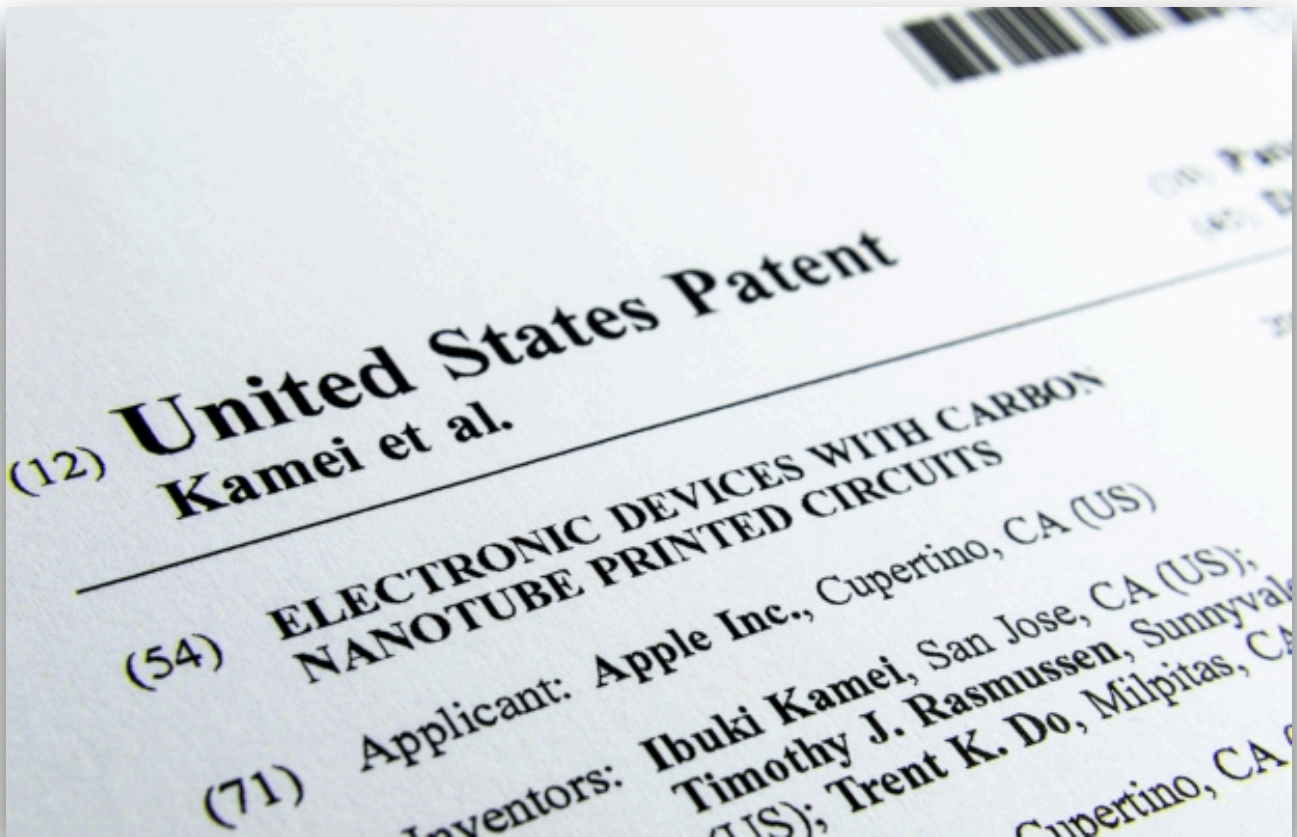


Do 'Schedule A' cases threaten foreign firms in the US?



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Foreign defendants who anticipate a design patent infringement lawsuit should be wary of the drastic consequences of a Schedule A case, say Marko Zoretic and Jack Hendershott of Knobbe Martens.

'Schedule A' cases get their name from the fact that the defendants are identified as such rather than on the cover or in the body of the complaint, as is the norm in the US.

In these design patent cases, the Schedule A is filed under seal. As a result, defendants are not initially aware that a lawsuit has been filed against them, which is the intention. The plaintiff then files an *ex parte* motion for entry of a sealed Temporary Restraining Order (TRO) to enjoin the offer for the sale of the allegedly infringing products by the defendants.

Assuming the plaintiff's motion is granted—which routinely occurs because the defendants are not provided the opportunity to oppose—the plaintiff then provides the TRO to online marketplaces, which then close the relevant product listings and institute an asset freeze before defendants learn about the proceedings against them.

Such cases, therefore, provide plaintiffs with a powerful and relatively quick tool for enforcing design patents against sellers—in particular, foreign parties—who sell products on popular online marketplaces.

Given the increasing popularity of Schedule A cases in the US (the Northern District of Illinois being the preferred venue), foreign defendants who suspect that they might be accused of design patent infringement should be mindful of the potentially drastic and immediate consequences of a Schedule A design patent case.

Schedule A complaint

The most important distinction between typical design patent complaints and Schedule A complaints is that Schedule A complaints are written in a manner intended to prevent the defendants from learning about the proceedings prior to the execution of the TRO.

Instead of publicly identifying the defendants, the complaint identifies the defendants as, for example, “The Partnerships and Unincorporated Associations Identified on Schedule A,” which the plaintiff seeks to file under seal. Even when the Schedule A is filed under seal, the list of defendants also generally does not specifically identify the true names of the defendants, as the identities may not be readily ascertainable. In such cases, defendants are identified by their seller aliases on the respective online marketplaces.

Plaintiffs allege that filing under seal is necessary to prevent defendants from learning of the proceedings prematurely, which would allegedly result in the destruction of relevant documentary evidence and the hiding or transferring of assets to foreign jurisdictions.

Ex Parte TRO

After filing the complaint, the plaintiff will promptly file an *ex parte* motion for entry of a TRO and seek to file the motion under seal. Consequently, the defendants remain unaware that a lawsuit has been filed against them and are not provided with any opportunity to oppose the TRO motion.

This lack of adversarial proceeding provides plaintiffs with an opportunity to more easily obtain the requested TRO. The success rate for obtaining TROs in the Northern District of Illinois Schedule A design patent cases is staggering. Based on the authors' analysis, at the time of writing this article, there have been 106 such motions ruled on since the start of 2022, with 104 granted in their entirety and two granted-in-part. Similarly, all five *ex parte* motions for TROs in Schedule A cases made in the Southern District of New York have been granted within this timeframe.

As for the TROs, they usually (1) temporarily enjoin defendants from making or selling unauthorised products, (2) temporarily restrain and enjoin defendants from transferring or disposing of any monies or assets, (3) authorise the plaintiff to serve third-party discovery on an expedited basis, and (4) authorise the plaintiff to serve discovery on the defendants on an expedited basis concerning the identity and location of defendants and financial information concerning defendants' online marketplace accounts.

TRO enforcement

Because the granted TRO is also filed under seal, defendants, even at this stage, remain unaware that a lawsuit has been filed against them and that a TRO has been granted. Once granted, the plaintiff will promptly serve the TRO on the online marketplaces, which then promptly remove the infringing product listings and institute an asset freeze (eg, preventing withdrawals from the defendant's balance). These actions by the online marketplaces are typically the first notice that defendants receive that an action has been taken against them, which can be a devastating shock to their business, especially during peak shopping seasons.

Once the TRO has been executed by the online marketplaces, the plaintiff serves the complaint and TRO on the defendants, who are then able to participate in the litigation.

Preliminary injunction

Plaintiffs quickly move for the entry of a preliminary injunction to extend the relief previously granted in the TRO for the pendency of the action. It is worth noting, however, that even if the TRO expires and the plaintiff does not seek a preliminary injunction, the online marketplaces might continue to block the alleged infringing product listings and asset freeze until they receive a request from the plaintiff to release the restrictions and process the request.

The ability to obtain a TRO in design patent cases against foreign sellers on US online marketplaces via Schedule A cases has made them an effective method for closing online marketplace listings, at least temporarily, which can be very disruptive to defendants.

Given the disruptive nature of Schedule A proceedings, foreign sellers on US online marketplaces who suspect they might be accused of design patent infringement should be mindful of the Schedule A procedure and should implement business practices that reduce the likelihood that their US online business will be shut down due to an unanticipated TRO.

In particular, foreign sellers on US online marketplaces should consider monitoring competitor US design patents and promptly implementing product redesigns where necessary.

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