

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY**

JUUL LABS, INC.,

Plaintiff,

v.

Civil Action No. _____

**EONSMOKE, LLC,
ZLAB S.A.,
ZIIP LAB CO., LTD.,
SHENZHEN YIBO TECHNOLOGY CO.,
LTD.,
JOHN DOES 1-50,**

Defendants.

**PLAINTIFF JUUL LABS, INC.'S BRIEF IN SUPPORT OF APPLICATION FOR A
TEMPORARY RESTRAINING ORDER AND PRELIMINARY INJUNCTION**

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I. INTRODUCTION

Juul Labs, Inc. (“Juul Labs”) is on a mission to improve the lives of the world’s one billion adult smokers by eliminating traditional combustible cigarettes. According to the FDA, “[w]hile it’s the addiction to nicotine that keeps people smoking, it’s primarily the combustion, which releases thousands of harmful constituents into the body at dangerous levels, that kills people,” and so “new innovations that don’t use combustion, like the electronic cigarettes, offer an important opportunity for adults to transition off combustible tobacco.” Arnold Ex. 1. To that end, Juul Labs revolutionized the market for electronic nicotine delivery systems (commonly called vaporizers and e-cigarettes) by developing the award winning and highly successful Juul System, made up of the Juul Device and JUULPods.

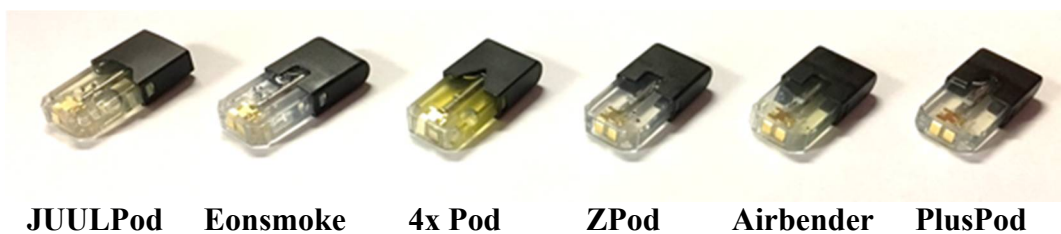


In November 2018, in continued cooperation with the FDA’s efforts to keep e-cigarette products out of underage hands, Juul Labs took the drastic step of voluntarily halting sales of certain flavored JUULPods to all of the 90,000+ retail stores that carry Juul Labs products, such as convenience stores and smoke shops. Juul Labs continues to sell tobacco- and menthol-based (mint and menthol) flavors through retail stores, while cucumber, creme, mango, and fruit flavored JUULPods are now for sale only at Juul.com.

During this same time, Defendants have done the opposite, brazenly increasing their efforts to sell illegal, knock-off e-cigarette cartridges with kid-targeted packaging and flavor names like Sour Gummy, Peach Madness, and Silky Strawberry. Defendants market their products as “Juul Compatible” and stock their products next to Juul Labs products in retail stores, often taking over the shelf space that used to hold the JUULPod flavors that Juul Labs

recently pulled from retail stores. Defendants’ products are also rapidly proliferating online, for sale on websites with no age verification at all. And all of this is happening despite that fact that Defendants are also *forbidden* by FDA regulations from selling *any* of their new products without first obtaining FDA premarket approval.

This is not fair competition. Defendants’ products copied — without authorization — the design of the JUULPods and are being advertised as “Juul compatible.” Put side-by-side with a legitimate JUULPod, Defendants’ knock-offs are virtually indistinguishable:



Juul Labs seeks immediate injunctive relief. To streamline its request, Juul Labs is not pursuing all of the claims in its complaint, but rather just one design patent that issued *just last week* and one common law unfair competition claim. The danger to the public is immediate and alarming — without injunctive relief, minors in New Jersey and elsewhere will continue to have access to Defendants’ infringing and illegal pods. Juul Labs’ business and reputation will also suffer irreparable harm as it is dragged down by Defendants’ unfair and illegal misconduct.

II. BACKGROUND

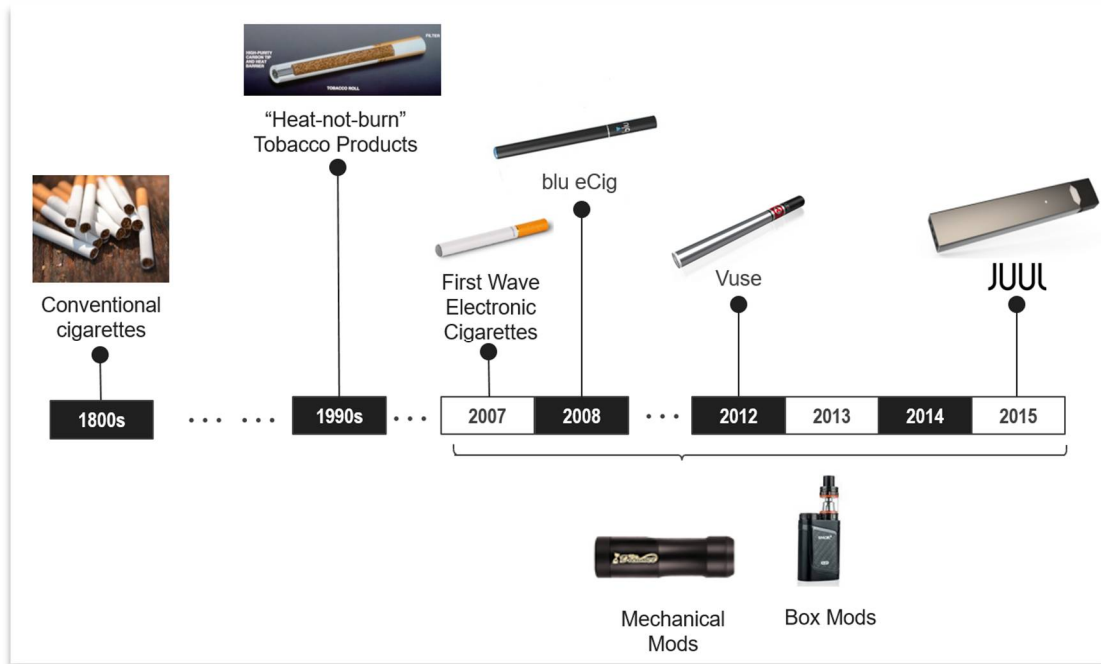
A. The Juul System’s Iconic Design

Juul Labs was founded in 2007 by James Monsees and Adam Bowen with the goal of designing an innovative and viable alternative for adult smokers. Danaher Decl. ¶¶ 2-3.¹

Monsees and Bowen, both cigarette smokers themselves at the time, could not find an attractive

¹ Juul Labs was originally called Ploom and then Pax Labs. In 2017, Pax Labs, Inc. and Juul Labs, Inc. became separate entities, with Juul Labs retaining the Juul brand products and intellectual property. Danaher Decl. ¶ 2.

and viable alternative to traditional cigarettes on the market. *Id.* ¶ 3. Various e-cigarette and vaporizer devices were available, but mainstream consumers had yet to adopt them over combustible cigarettes. Alarcon Decl. ¶ 29. The devices could be described as “either small and round, designed to look and feel as much as possible like a cigarette,” or “huge, assembled from many parts, and spectacularly complicated.” Arnold Ex. 2; *see also* Alarcon Decl. ¶¶ 25-35.



Timeline of E-Cigarette and Vaporizer Designs

Monsees and Bowen set out to develop a product that was different from a cigarette in design, but similar in convenience, simplicity, and user satisfaction. Danaher Decl. ¶ 3. What ultimately came to market in April 2015 was the Juul System, a combination of the Juul Device and replaceable JUULPods that are prefilled with a proprietary “e-liquid” made of vaporizer carriers, nicotine salt extracts, and flavoring. *Id.* ¶¶ 3-4. When a user inserts a JUULPod into the Juul Device and inhales through the mouthpiece, the device rapidly heats the e-liquid in the pod, aerosolizing it to allow the user to inhale a “puff” of the vapor. *Id.* ¶ 6. The current Juul System Starter pack is shown below:



Juul System Starter Kit

Juul Labs was immediately praised for using its “strong design savvy” to create a “beautiful” product that looked “far sleeker and better than [the] average gigantic multi-piece vape.” Arnold Ex. 2. Juul Labs’ products even drew comparisons to Apple products for the attractiveness of their designs. *Id.* The JUULPods have always been an integral part of those celebrated designs, featuring prominently on packaging and marketing materials:



Advertisement for JUULPods

B. The Juul System’s Stratospheric Success

The Juul System has achieved overwhelming commercial success. In late 2016, the Juul System started to be widely adopted, becoming the recognized market leader in the e-cigarette and pod refill market. Alarcon Decl. ¶ 41. By the end of 2018, the Juul System was responsible for 76% of the pod-based electronic cigarette market, as reported by third party analysts, with more than \$1 billion in revenue that year alone. *Id.*; Arnold Exs. 3 & 4.

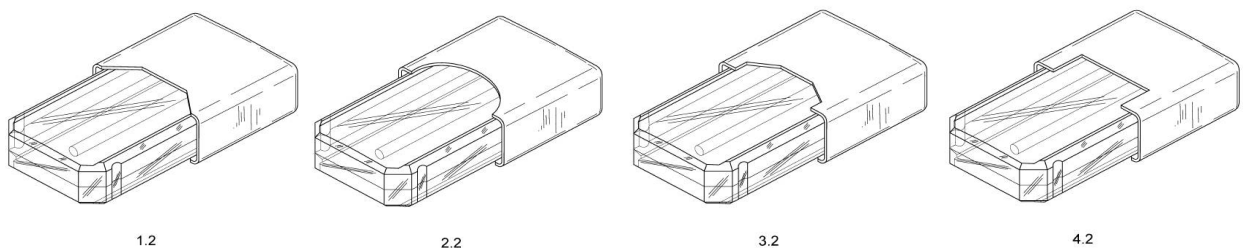
Most significantly, the Juul System has been successful in helping adult smokers switch away from traditional cigarettes. In a recent study conducted by an independent third party, almost half of the 11,689 survey participants were completely abstinent from smoking 90 days after initiating on the Juul System. Arnold Ex. 5. Today, the Juul System is the leading alternative for adult smokers, and analysts are calling it a “runaway success.” Arnold Ex. 6.

C. Juul Labs’ Quality Safeguards

Juul Labs expends significant resources maintaining and verifying the quality of each JUULPod. Juul Labs manufactures the e-liquid for its JUULPods under tight quality controls in the United States. Engelke Decl. ¶¶ 3-5. Juul Labs also works to make sure that each of its JUULPods complies with international and U.S. safety and quality standards, and subjects them to extensive testing and inspection. *Id.* ¶¶ 4-5.

D. U.S. Design Patent No. D842,536 Issued Last Week

Juul Labs sought patent protection for the innovative and unique ornamental design of its JUULPods. And, just last week, on March 5, 2019, the U.S. Patent Office issued Design Patent No. D842,536 (the “D’536 patent”) titled “Cartridges for an Electronic Vaporizer,” which claims the “[t]he ornamental design for a vaporizer cartridge as shown and described.” Arnold Ex. 7. The patent includes four embodiments, each of which is shown below in perspective view:



D’536 Patent

The design is distinctive in its depiction of a rectangular cartridge containing a transparent half and a non-transparent half, along with a notch where the halves meet. Juul Labs has never authorized another entity to use any embodiment of its patented D'536 design. Danaher Decl. ¶ 10.

E. Juul Labs' Youth Action Plan

On April 25, 2018, Juul Labs announced that it was building on its existing youth prevention and education programs through an initial investment of \$30 million over three years dedicated to independent research, youth and parent education, and community engagement efforts. Engelke Decl. ¶ 12, Ex. 1. Juul Labs announced it would be working with Tom Miller, the Iowa Attorney General, and a group of public officials and tobacco control individuals to continue strengthening existing initiatives and new efforts to keep Juul-brand products out of the hands of young people, as well as to develop a transparent and effective framework for independent research focused on the scientific and societal implications of vapor products. *Id.* Juul Labs also stated its support for state and federal efforts to raise the minimum age of purchase for tobacco and vapor products to 21+, which was in line with Juul Labs' prior announcement in August 2017 that it had raised the minimum age of purchase on its own e-commerce site to 21+ even though the legal age of purchase in most states was (and remains) at 18. *Id.* Juul Labs also announced that it was building on its efforts to enforce appropriate age verification at retail stores through its "secret shopper" program. *Id.*

In September 2018, the FDA publicly raised similar concerns about e-cigarette use among youth and asked manufacturers, including Juul Labs, to form action plans to address the issue. Arnold Ex. 1. Juul Labs responded immediately that it would continue working alongside the FDA toward that goal. Engelke Decl. ¶ 13, Ex. 2. In November 2018, Juul Labs added even more initiatives to the Youth Action Plan it had already implemented, including using industry-

leading age verification protocols on the Juul.com website to prevent sales to minors, utilizing public record searches, photo I.D. requirements, and strict limits on bulk purchases. *Id.* ¶ 15.

Juul Labs also announced it was adding two factor authentication and face recognition to mobile purchases to prevent underage and fraudulent sales. *Id.*

Most importantly for this case, in November 2018, Juul Labs also voluntarily restricted sales of certain flavored JUULPods and stopped distributing them to all of the 90,000+ retail outlets selling Juul Labs products (including everything from chain convenience stores to independent smoke shops). Engelke Decl. ¶ 16. Juul Labs now sells its Cucumber, Creme, Fruit, and Mango JUULPods only on its website to adults 21 or older who agree to be age verified through industry-leading technology. *Id.* As a result, the only flavors that Juul Labs distributes to retail outlets are Virginia Tobacco, Classic Tobacco, Menthol, and Mint. *Id.*

F. Defendants' Rampant Infringement and Misconduct

Seizing on the moment, Defendants are filling the retail spaces Juul Labs gave up with illegal e-cigarette cartridges that deliberately appeal to youth through flavor names like Sour Gummy, Citrus Burst, Peach Madness, Silky Strawberry, and Pineapple Crush. Walter Decl. ¶¶ 6-7, 9. And Defendants are doing this through products that unabashedly copy Juul Labs' proprietary cartridge design. Alarcon Decl. ¶¶ 52-70. Indeed, the number one selling point of Defendants' infringing products, which Defendants proudly advertise on their packaging and websites, is that they are made to be "Juul compatible." Juul Labs never authorized this. Walter Decl. ¶ 4. Nevertheless, shelf space once occupied by legitimate JUULPod products is now being filled with infringing, youth-targeting knockoffs that have never been approved by the FDA and that are now being sold next to Juul Labs' legal products in a way that suggests they are approved by Juul Labs and the FDA. Neither is true. Walter Decl. ¶¶ 6, 10, 19; Engelke Decl. ¶ 11. And many of Defendants' products are offered at nicotine concentrations up to 6%

or 7%, where JUULPods are sold at 3% and 5% (with a 5% JUULPod providing an amount of nicotine that is equivalent to that provided by a pack of traditional cigarettes). Below is just a small sample of the illegal products Defendants market with flavor names and images designed to attract underage users while using Juul Labs' design and name:



Sample of Defendants' Products

The lure of Defendants' flavors is put front and center in their advertising. For example, Ziip says that "Iced Pina Colada Ziip Pods energize the exotic essence of pineapple and coconut with a spark of mint that results in a unique flavor that stands out in a sea of Juul compatible pod flavors."²

² ZPods, *Iced Pina Colada*, available at <https://ziiplab.com/product/zpods-iced-pinacolada-50mg/?v=7516fd43adaa>.

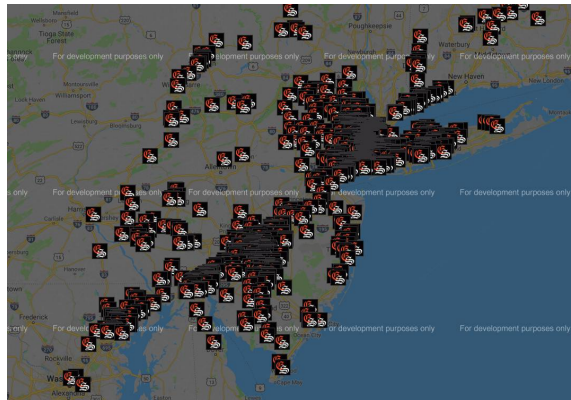
The design similarity of Defendants' pods to the JUULPod is also undeniable. In the words of one reviewer, "it[']s pretty much exactly like a Juul."³ By stealing Juul Labs' design and free-riding on its goodwill, while also failing to implement the same safety and quality protocols, Defendants compete unfairly, cutting costs at every turn so they can undercut the price of Juul Lab's products in the marketplace. Walter Decl. ¶¶ 15, 22.

Defendants are doing this with products that the FDA has never approved for sale. According to FDA regulations, any new tobacco-related products that came on the market after August 8, 2016 have to be preapproved by the FDA before sale. *See* 21 U.S. C. § 387j.⁴ All of Defendants' infringing products were released after this date. Engelke Decl. ¶ 11. The FDA even issued letters to the Defendants several months ago, informing them of the regulations requiring "premarket authorization" for their products, including their "Juul Compatible" pods. Arnold Ex. 8 (FDA letter to Eonsmoke) & Ex. 9 (FDA letter to Ziip Labs). The FDA has not authorized Defendants' products, yet Defendants continue to sell them with impunity. *See* Engelke Decl. ¶ 11.

Defendants are selling their infringing and unauthorized products through partner retail stores throughout the country. In New Jersey alone, Eonsmoke identifies the following retail locations on its website where consumers can purchase Eonsmoke products:

³ "Donny Smokes," YouTube Review of Eonsmoke JUUL Compatible Pods, (Mar. 23, 2018), available at <https://www.youtube.com/watch?v=7kWZ6n7uxLg&t=4s> (11:30 min mark).

⁴ *See also Extension of Certain Tobacco Product Compliance Deadlines Related to the Final Deeming Rule (Revised)*, U.S. DEP'T OF HEALTH & HUM. SERVS., FDA (Nov. 2018), available at <https://www.fda.gov/downloads/TobaccoProducts/Labeling/RulesRegulationsGuidance/UCM557716.pdf>.



Eonsmoke Store Locator

Below, for example, are images from an EZ Market convenience store on University Avenue in Newark where Eonsmoke’s infringing, fruit-flavored offerings now outnumber legitimate tobacco- and menthol-flavored JUULPods 3 to 1:



JUULPods



Eonsmoke Pods (top and bottom-left rows)

At an Exxon in Freehold, infringing Eonsmoke pods are offered for sale side-by-side with

JuulPods:



Exxon Molly Pitcher in Freehold, New Jersey

In addition to retail, Defendants are selling their products on the internet, and do so with no meaningful age verification barriers, unlike the robust, industry-leading technology on the Juul.com website. Eonsmoke's website, for instance, encourages users to click a green button to indicate they are over 18 years old (*see* Walter Decl. ¶ 12):



Eonsmoke.com

And this message is no different when the website is accessed in New Jersey, where the legal age is 21. Indeed, New Jersey is one of the pioneer states in the 21+ movement.⁵ There is also no legitimate age verification when the user actually attempts a purchase on Eonsmoke’s website. *See* Walter Decl. ¶¶ 12-13.

The extent of Defendants’ misconduct has grown at an alarming rate. At the beginning of 2019, Juul Labs tasked its own marketing team with tracking “Juul compatible” pods over 7 weeks in 63 stores. Walter Decl. ¶¶ 26-27. As flavored JUULPods have left the retail market as part of Juul’s Youth Action Plan, the shelf space has been filling up with an enormous number of infringing and illegal products marketed as “Juul compatible,” rather than other JUULPods or legitimately competing products. Over the period of the survey, the number of unauthorized “Juul compatible” pods for sale grew by 49%. Walter Decl. ¶ 26.

Defendants’ products make up nearly two-thirds of these “Juul compatible” offerings. Walter Decl. ¶ 27. The top brands that Juul Labs now has to compete against include Eonsmoke, ZPod, Airbender, PlusPod, and 4X, all of which are linked to Defendants. *Id.* ¶ 27. In some stores, Eonsmoke has more inventory available even than Juul Labs, despite that Juul Labs is the market leader in pod-based e-cigarette products and operates in compliance with FDA regulations. *Id.* ¶ 26.

The risk of harm caused by Defendants’ kid-targeted products is acute. In an independent study commissioned by Juul Labs, the Centre for Substance Use Research asked almost 10,000 teenage respondents to identify the first flavor they ever tried in a Juul Device.

⁵ STATE System Tobacco 21 Fact Sheet, CENTER FOR DISEASE CONTROL (Sept. 30, 2018), available at <https://chronicdata.cdc.gov/download/873a-if74/application%2Fpdf> (listing New Jersey as among just 5 states that have a minimum legal age of 21 for buying cigarettes and e-cigarettes) (last visited Mar. 12, 2019).

Danaher Decl. ¶ 16, *see also* Danaher Ex. 1. Of the self-reported users, 54.0% reported having initiated use of a Juul Device with a pod flavor not manufactured by Juul Labs, whereas 31.2% reported a pod flavor manufactured by Juul Labs. *Id.* A quarter of the first time flavors identified by the adolescents matched products sold by Ziip. *Id.* Further, of the respondents who had used a Juul Device in the past 30 days, 69% identified having used a flavor that the researchers could match to Ziip. *Id.* The study also tested the level of interest that youth had in various flavors of pods, including legitimate JUULPod flavors and flavors Juul Labs has never made. *Id.* The top flavors of interest were Cotton Candy, Strawberry, and Gummy Bear, none of which are JUULPod flavors. *Id.*

Defendants are misusing Juul Labs’ designs and goodwill to put nicotine products into the hands of youth. And this is all being done in a way that causes the widespread misconception that Juul Labs is selling or is otherwise affiliated with Defendants’ products. In a February 11, 2019 interview, the Centers for Disease Control and Prevention (“CDC”) indicated that they were working with the FDA to update the National Youth Tobacco Survey to include references to the Juul brand in order to “capture Juul use among kids.” Danaher Decl. ¶ 15. If Defendants continue to sell illegal “Juul compatible” pods, there is a very real risk that researchers and respondents involved in the CDC’s survey efforts will mistakenly attribute Defendants’ products to Juul Labs, giving the false impression that Juul Labs is selling products to youth when in fact it is not. *Id.* To the extent the FDA relies on any such inaccurate data to promulgate new regulations or prohibitions on Juul Labs’ products, the result could be catastrophic to Juul Labs’ business, as well as to adult access to Juul Labs’ products. *Id.*

III. THE LEGAL STANDARD APPLICABLE TO THIS APPLICATION

The party seeking a preliminary injunction must demonstrate: (1) a likelihood of success on the merits; (2) irreparable harm absent an injunction; (3) that the balance of hardship weighs

in its favor; and (4) that the public interest favors such relief. *Metalcraft of Mayville, Inc. v. The Toro Co.*, 848 F.3d 1358, 1363 (Fed. Cir. 2017). The same standard applies for a temporary restraining order, *Ne. Lumber Manufacturers Ass'n v. Sky of New York Corp.*, No. CV 16-9487, 2016 WL 7491903, at *2 (D.N.J. Dec. 29, 2016), which the Court may issue without notice to the opposing party where “specific facts in an affidavit or a verified complaint clearly show that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition,” Fed. R. Civ. P. 65(b)(1)(A).

IV. ARGUMENT

All four equitable factors weigh heavily in Juul Labs’ favor and compel a temporary restraining order and preliminary injunction stopping further sales and distribution of Defendants’ infringing pods.

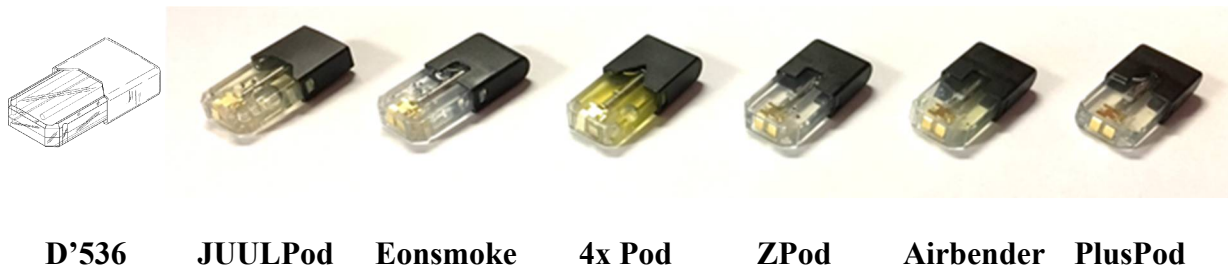
A. JUUL LABS IS LIKELY TO SUCCEED ON THE MERITS

1. Juul Labs Is Likely To Prevail On Its Design Patent Claim

Juul Labs is likely to prove at trial that the accused pods infringe the D’536 patent. Design patent infringement occurs when “an ordinary observer, taking into account the prior art, would believe the accused design to be the same as the patented design.” *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665, 670, 682 (Fed. Cir. 2008) (en banc). The test looks to “the design as a whole,” rather than “analyz[ing] each element separately.” *Amini Innovation Corp. v. Anthony California, Inc.*, 439 F.3d 1365, 1372 (Fed. Cir. 2006). And this “mandated overall comparison is a comparison taking into account *significant differences* between the two designs, not minor or trivial differences that necessarily exist between any two designs that are not exact copies of one another.” *Int’l Seaway Trading Corp. v. Walgreens Corp.*, 589 F.3d 1233, 1243 (Fed. Cir. 2009) (emphasis added); *see also Payless Shoesource, Inc. v. Reebok Int’l, Ltd.*, 998 F.2d 985, 991 (Fed. Cir. 1993). The Court can compare the parties’ products directly to assist in

the analysis. See *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1125-26 (Fed. Cir. 1993). Finally, no verbal claim construction is necessary for a design patent because that “risks undue emphasis on particular features of the design rather than examination of the design as a whole.” *Crocs, Inc. v. Int’l Trade Commission*, 598 F.3d 1294, 1302 (Fed. Cir. 2010).

Here, even a cursory visual comparison confirms that the overall design of the accused products is substantially the same as the overall design of the D’536 patent and the JUULPod:



The accused pods are virtually identical to the claimed design, including the overall shape, relative proportions, distinctive transparent chamber on one half, opaque portion on the other, a tube running through the middle of the chamber, and a notch where the two halves meet. The infringing similarity is confirmed in the declaration of design expert Ramon Alarcon, where each accused cartridge is matched side-by-side with each image in the D’536 patent. Alarcon Decl. ¶¶ 52-70.

The similarity is obviously the result of direct copying. The only reasonable conclusion is what ordinary observers *already* have said — the accused pods are “pretty much exactly like a Juul.”⁶

⁶ “Donny Smokes,” YouTube Review of Eonsmoke JUUL Compatible Pods, (Mar. 23, 2018), available at <https://www.youtube.com/watch?v=7kWZ6n7uxLg&t=4s> (11:30 min mark).

2. Juul Labs Is Likely To Prevail On Its Common Law Unfair Competition Claim

Juul Labs will also likely prevail on its common law unfair competition claim, which broadly prohibits unscrupulous business practices. “New Jersey’s law of unfair competition ... is as flexible and elastic as the evolving standards of commercial morality demand.” *Capital Health Sys., Inc. v. Veznedaroglu*, No. 15-8288, 2017 WL 751855, at *9 (D.N.J. Feb. 27, 2017). Even apart from the design patent infringement, Defendants are forcing Juul Labs to compete against illegal and unregulated products. This is baseline unfair competition. *See, e.g., Columbia Broad. Sys., Inc. v. Melody Recordings, Inc.*, 134 N.J. Super. 368, 375–83, 341 A.2d 348, 351–56 (App. Div. 1975) (“the essence of unfair competition is fair play”).

B. JUUL LABS WILL SUFFER IRREPARABLE HARM WITHOUT AN INJUNCTION

Without an injunction, Defendants’ infringing activities will cause irreparable harm to Juul Labs. Various harms can be irreparable, including “[p]rice erosion, loss of goodwill, damage to reputation, and loss of business opportunities.” *Celsis In Vitro, Inc. v. CellzDirect, Inc.*, 664 F.3d 922, 930 (Fed. Cir. 2012); *Kos Pharmaceuticals, Inc. v. Andrx Corp.*, 369 F.3d 700, 726 (3d Cir. 2013). Further, “[d]irect competition in the same market” “suggest[s] **strongly** the potential for irreparable harm.” *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 702 F.3d 1351, 1363 (Fed. Cir. 2012) (emphasis added).

1. Defendants’ Misconduct Has Harmed Juul Labs’ Brand And Reputation, As Well As The Public’s Perception Of E-Cigarettes

As the leading supplier in its category, Juul Labs has invested, and continues to invest, heavily in the long-term growth and positive perception of the electronic cigarette marketplace. As described above, *supra* at II.E, Juul Labs has taken numerous active steps to promote JUULPods only to adult smokers. Defendants’ misconduct in the marketplace threatens to undo

all of this. Defendants' products blatantly appeal to youth, yet Defendants have no meaningful age-verification protocols or policing in place. Defendants also continue to sell their infringing products without FDA approval and with uncertain quality controls, which pose an increased health risk to consumers. Defendants' actions directly undermine Juul Labs' efforts to grow a safe marketplace, inhibit Juul Labs' attempts to prevent the underage use of electronic cigarettes, and contribute to the negative public perception of Juul Labs and the e-cigarette marketplace more generally.

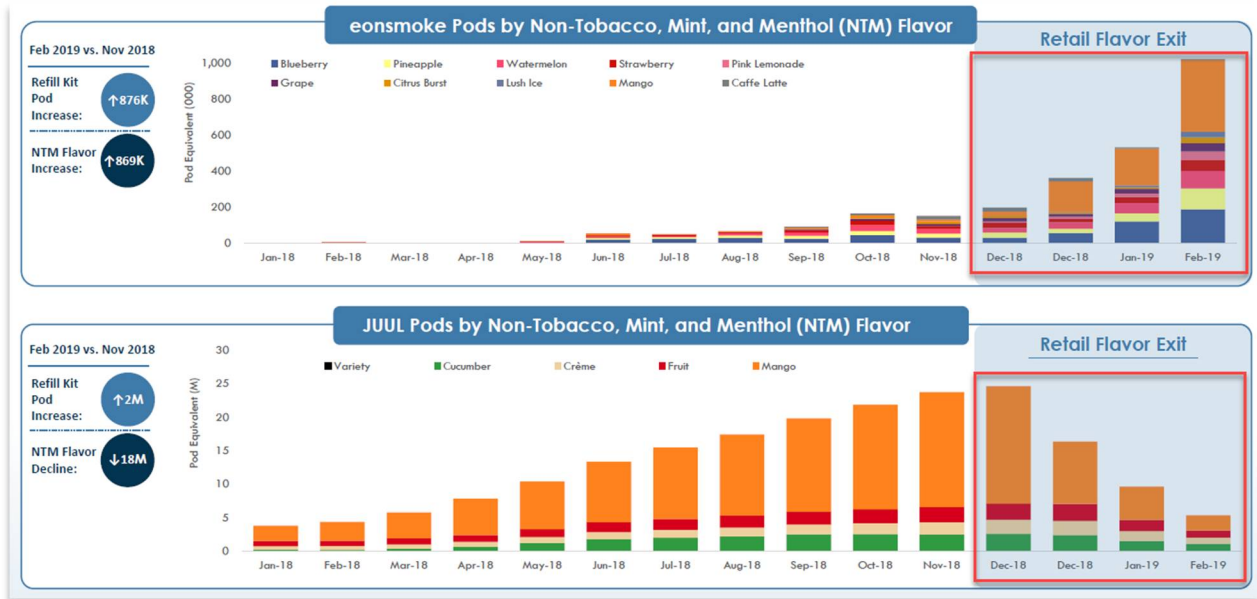
If the FDA prohibits or restricts the sale of all e-cigarette products, including refill pods, to stop Defendants' misconduct, Juul Labs' entire business will suffer. Juul Labs' device and pods are its only products in the U.S., and without them, the company would not exist. Danaher Decl. ¶ 13; *see also TruePosition Inc. v. Andrew Corp.*, 568 F.Supp.2d 500, 531 (D. Del. 2008) ("Plaintiffs are also frequently successful [in establishing irreparable harm] when their patented technology is at the core of [their] business"), *cited with approval in Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1152 (Fed. Cir. 2011). Indeed, the FDA is already associating Defendants' bad actions with Juul Labs's products. In a statement issued last week, the FDA called out Defendants and others for "attempting to capitalize on the troubling popularity of products like JUUL among kids by illegally selling similar products and outside of the [FDA's] compliance policy." Arnold Decl. Ex. 10. Defendants are largely to blame for misuse of the Juul Device, yet unlike Juul Labs they are doing nothing to stop it. They are instead doing the opposite, ignoring FDA regulations and seeking to increase their profits.

2. Defendants' Misconduct Has Harmed, And Will Continue To Harm, Juul Lab's Sales And Market Share

Juul Labs's market share in pod-based e-cigarette sales has grown significantly, rising from around 10% at the end of 2016 to 35% at the end of 2017 to 76% at the end of 2018, as

reported by third party analysts. Danaher Decl. ¶ 12. Since 2017, Juul Labs has driven nearly all e-cigarette industry growth. Alarcon Decl. ¶ 41. Defendants unfairly threaten all of that by undercutting Juul Labs in the very marketplace it helped to create, selling Juul Labs’ own designs at lower prices. *See, supra*, at II.F; *Douglas Dynamics*, 717 F.3d at 1345 (“[M]ere damages will not compensate for a competitor’s increasing share of the market, a market which Douglas competes in, and a market that Douglas has in part created with its investment in patented technology.”).

Recent market statistics confirm that as flavored JUULPods have left the market in the last several months (*see* red box on bottom chart), Eonsmoke’s numerous flavored pods have exploded onto retail shelves to replace them (*see* red box on top chart) (Walter Decl. ¶ 29 & Walter Ex. 2):



Defendants threaten lost downstream sales as well. Both Eonsmoke and Ziip offer their own knock-off “Juul compatible” devices, not just knock-off cartridges. *See* Verified Complaint, ¶¶ 41, 43. As consumers buy Defendants’ infringing cartridges, those consumers may turn to Defendants for devices as well. And Defendants are not shy about targeting Juul Labs’ device

business. Eonsmoke offers a “Brand X-Change” program that encourages users to “package your old ecig kit,” “mail [it] to our main office,” and then “receive your brand new Eonsmoke kit at your door at no additional cost to you.” Arnold Ex. 11. This program is directly targeted to Juul Device customers. The webpage devoted to the program asks, “Does the electronic cigarette brand you use now have under 8 flavors?,” an obvious reference to Juul Labs’ recently pulling all but four of its flavors from store shelves. *Id.* Moreover, at least one commenter has described the program as the “juul exchange” where you “send your own juul in and they give you one of their devices.”⁷

Juul Labs therefore stands to lose not only sales of its pods due to infringement, but also downstream income from future purchases of other products, including those loaded with higher nicotine contents. *See, e.g., Apple Inc. v. Samsung Elecs. Co.*, 809 F.3d 633, 646 (Fed. Cir. 2015) (defendant “places a substantial hardship” on a plaintiff by “causing lost market share and lost downstream sales and by forcing [plaintiff] to compete against its own patented invention”); *Metalcraft of Mayville*, 848 F.3d at 1368 (district court correctly ruled that “damage... is irreparable because it is impossible to quantify the damages caused by the loss of a potentially lifelong customer”) (internal quotation marks omitted).

Finally, where a patentee has a history of not licensing the infringed patents to maintain market exclusivity, the right to exclude is viewed as “an intangible asset that is part of a company’s reputation” that is “under attack by [the defendant’s] infringement.” *Douglas Dynamic, LLC v. Buyers Prods. Co.*, 717 F.3d 1336, 1345 (Fed. Cir. 2013). Juul Labs has not licensed its design patents to anyone. Danaher Decl. ¶ 10.

⁷ Eon smoke ‘juul device,’” REDDIT, available at https://www.reddit.com/r/juul/comments/9a16dv/eon_smoke_juul_device/

3. A Causal Nexus Links The Infringement To Consumer Demand

For patent cases, an injunction “requires proof that a ‘causal nexus relates the alleged harm to the alleged infringement.’” *Apple*, 809 F.3d at 639 (citations omitted). To prove this, the patentee need only show that there is “‘some connection’ between the harm alleged and the infringement acts,” not that the patented feature is the main reason for purchases. *Id.* at 640. Juul Labs’ designs have been consistently praised and linked to Juul Labs’ success. *See, e.g.*, Arnold Ex. 6 (Juul Labs is a “runaway success” because users “appreciate the flat rectangular product design [and] discreet size”); *id.* Ex. 2. (product is “beautiful” and “far sleeker and better than [the] average gigantic multi-piece vape”); Arnold Ex. 12 (“a beautifully designed system” that is “definitely unique” in the market). In light of all this, there can be no real doubt that there is “some connection” between the design of Defendants’ copycat cartridges and consumer demand for them.

C. THE BALANCE OF EQUITIES SHARPLY WEIGHS IN JUUL LABS’ FAVOR

“The more likely the plaintiff is to win, the less heavily need the balance of harms weigh in his favor.” *Kos*, 369 F.3d at 729. Here, the infringement of Juul Labs’ design is rampant and obvious. Moreover, the substantial and irreparable harm that Juul Labs faces without injunctive relief far outweighs any potential harm to Defendants. When e-cigarettes appeared doomed to fail, Juul Labs spent years, at significant cost, designing, researching, developing, and introducing its JUULPod products to market. Danaher Decl. ¶ 7. Juul Labs made significant investments in facilities, equipment, personnel, and other operating expenses dedicated to developing and manufacturing the JUULPods. *Id.* ¶ 7. And Juul Labs has invested heavily in

the quality of its products. Engelke Decl. ¶¶ 3-6. As a result, Juul Labs disrupted the traditional cigarette market and created a sustainable market for e-cigarettes as alternatives.⁸

Defendants, on the other hand, have been free-riding on Juul Labs' efforts and goodwill, choosing to copy its proprietary designs and capitalize on the success of the JUULPods without creating or developing a unique system of their own. Defendants simply have no legitimate hardship they can invoke, as "one who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against a continuing infringement destroys the business so elected." *Windsurfing Int'l Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 n.12 (Fed. Cir. 1986). Instead, "[s]uch a hardship is more the regular cost of doing business in the market for 'knock off' products than an inequitable imposition to be avoided by courts considering the grant of injunctive relief." *Telebrands Direct Response Corp. v. Ovation Commc'ns, Inc.*, 802 F. Supp. 1169, 1179 (D.N.J. 1992). The balance of hardships weighs heavily in favor of Juul Labs.

D. AN INJUNCTION WILL UNDOUBTEDLY PROTECT THE PUBLIC'S INTERESTS

First and foremost, an injunction will protect minors from Defendants' illegal and dangerous products. That alone is reason enough. The FDA has made clear that reducing underage use of tobacco and e-cigarette products is a paramount priority. Arnold Ex. 1. And the FDA has called out Defendants specifically for their misconduct. Arnold Exs. 8, 9 & 10. Juul

⁸ Indeed, a recent study showed that of 9,272 adults who used a Juul Device for three months, 47% (4,367) reported at the end of the assessment that they had not smoked cigarettes at all in the prior 30 days, and among the participants still smoking cigarettes three months after initiating with the Juul Device, their cigarette consumption had declined 51.7%. See Neil McKeganey Ph.D., Christopher Russell Ph.D., Farhana Haseen Ph.D., *Vaping and the Number of Cigarettes Not Now Smoked: An Additional Means of Assessing the Public Health Impact of E-cigarettes*, JOURNAL OF PULMONARY AND RESPIRATORY MEDICINE (Feb. 18, 2019), available at <https://www.gavinpublishers.com/articles/Research-Article/Pulmonary-and-Respiratory-Medicine-Open-Access/vaping-and-the-number-of-cigarettes-not-now-smoked-an-additional-means-of-assessing-the-public-health-impact-of-e-cigarettes>.

Labs has consistently gone to great lengths to coordinate and cooperate with the FDA's requests and initiatives. Defendants have done the opposite, deliberately flouting the FDA and directly putting youth at higher risk. An injunction will remedy this.

An injunction will also serve the public's interest in protecting access by adult smokers to regulated and high quality alternatives to combustible cigarettes. Removing Defendants' products from the market helps in the short run by reducing the amount of low quality, potentially harmful, e-cigarette products on the market. It helps in the long run as well by making the e-cigarette market sustainable as an alternative for adult smokers. Rampant abuse by companies like Defendants will only serve to increase public criticism, and threaten the existence of the e-cigarette category altogether, despite the benefits that many adult smokers have attested to deriving from it.

Finally, the public interest further favors Juul Labs "because the public has an interest in protecting patent rights." *Apple, Inc. v. Samsung Elecs. Co.*, 678 F.3d 1314, 1338 (Fed. Cir. 2012). And so, while encouraging competition generally is viewed to be in the public's interest, "the public has a greater interest in acquiring new technology through the protections provided by the Patent Act than it has in buying 'cheaper knock-offs.'" *Douglas Dynamics*, 717 F.3d at 1346.

Not only does Juul Labs need immediate injunctive relief, the public does as well. This factor, like all the others, weighs heavily in favor of an injunction.

V. ALTERNATIVE SERVICE ON THE ZIIP DEFENDANTS IS NEEDED

The emergency nature of the sought relief requires immediate service. The Ziip Defendants are all foreign: Ziip Lab and Yibo are in China and ZLab is in Uruguay. China is a signatory to the Hague Service Convention and Uruguay to the Inter-American Convention on Letters Rogatory, but methods like these can take over a year. *See, e.g., Juicero, Inc. v. Itaste*

Co., No. 17-CV-01921-BLF, 2017 WL 3996196, at *1 (N.D. Cal. June 5, 2017). Nor do the Federal Rules require them, but instead provide that “if an international agreement allows but does not specify other means” service can be done “by a method that is reasonably calculated to give notice” or “by other means not prohibited by international agreement, as the court orders.” Fed. R. Civ. P. 4(f); *see also* Fed. R. Civ. P. 4(h)(2), *Rio Properties, Inc. v. Rio Int'l Interlink*, 284 F.3d 1007, 1016 (9th Cir. 2002) (“[T]rial courts have authorized a wide variety of alternative methods of service including publication, ordinary mail, mail to the defendant’s last known address, delivery to the defendant’s attorney, telex, and most recently, email.”); *see also Marks Law Offices, LLC v. Mireskandari*, 704 F. App’x 171, 177 (3d Cir. 2017) (upholding the district court’s alternative service order on a foreign defendant); *Celgene Corp. v. Blanche Ltd.*, No. 16-CV-501-SDW-LDW, 2017 WL 1282200, at *2 (D.N.J. Mar. 10, 2017).

Neither the Hague Nor Inter-American agreements prohibit service by other means. Instead, courts have regularly approved alternative service on defendants in signatory countries, such as service through their domestic counsel, email address, and social media accounts. *See Juicero*, 2017 WL 3996196 at *4 (approving alternative service on China-based defendant through domestic counsel, email, and Facebook account); *Bravetti v. Liu*, No. 3:12-CV-7492-MAS-TJB, 2013 WL 6501740, at *4 (D.N.J. Dec. 11, 2013) (service through domestic counsel for China-based defendants); *Dow Chemical Co. v. Daniel*, No. 13–14745, 2014 WL 1304289, at *7 (E.D. Mich. Mar. 28, 2014) (service via certified mail on Uruguay-based defendant).

All three of the Ziip Defendants are parties to several investigations at the International Trade Commission that were initiated by Juul Labs. *See In the Matter of Certain Cartridges for Electronic Nicotine Delivery Systems and Components Thereof*, Inv. No. 337-TA-1141, USITC Pub. 3354 (Nov. 20, 2018) (Instituted); *In the Matter of Certain Electronic Nicotine Delivery*

Systems and Components Thereof, Inv. No. 337-TA-1139, USITC Pub. 3346 (Dec. 10, 2018)

(Instituted).⁹ In those actions, the counsel of record for the Ziip Defendants (as well as Eonsmoke) is Stephen Michael Lobbin (CA State Bar #181195), of 7538 Draper Avenue, La Jolla CA 92037. Service on this domestic attorney will be much quicker than through Hague or Inter-American service procedures. The Ziip Defendants are also affiliated with Facebook and Instagram accounts targeted at U.S. customers (Arnold Exs. 13 & 14), and on the website they use to sell products throughout the United States, they include contact emails:

contact@ziiplab.com and wholesales@ziiplab.com (Arnold Ex. 15). ZLab also posts its physical address in Uruguay online. *Id.* Juul Labs' notice efforts on the Ziip Defendants are listed in the accompanying Losinger Declaration of Notice.

Because time is of the essence, Juul Labs respectfully requests that the Court approve alternative service for the Ziip Defendants through their current domestic counsel in the ITC investigations, their social media accounts, their publicly advertised email addresses, and (for ZLab) via certified mail.

VI. CONCLUSION

For the foregoing reasons, Juul Labs respectfully requests that the Court grant its motion for a temporary restraining order and a preliminary injunction, approve alternative service on the Ziip Defendants, and enter the proposed order submitted by Juul Labs.

⁹ These ITC investigations relate to certain Juul Labs utility patents. Despite Defendants' infringement of those intellectual property rights as well, Defendants continue with their illegal and unfair conduct.

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