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CD corporate disputes

# ITC SECTION 337 PATENT DISPUTES

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Founded in 1978 and based in Washington, DC, **Sterne, Kessler, Goldstein & Fox P.L.L.C.** is dedicated exclusively to the protection, transfer and enforcement of intellectual property rights. Our team of attorneys, registered patent agents and technical specialists includes some of the country's most respected IP law practitioners (60+ hold a doctorate in science or engineering fields). IP issues have never been more complex or challenging and the choice of legal counsel has never been more critical. We understand the importance of aligning IP with business strategy. Our team understands technology and is known for anticipating the next big thing.

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ONE-ON-ONE INTERVIEW

# ITC SECTION 337 PATENT DISPUTES

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**Daniel E. Yonan** is an experienced intellectual property trial attorney focusing on complicated, fast-track patent investigations before the US International Trade Commission. In addition to working with a former Director of the Office of Unfair Import Investigations (OUII) in private practice, Mr Yonan has served as ITC trial counsel in more than 20 patent-based Section 337 investigations representing both complainants and respondents. To the benefit of his clients, Mr Yonan leverages his detailed knowledge of the intricacies of Section 337, along with his wide range of trial skills, to secure the best legal and business-focused outcomes.

**CD: Could you provide a brief overview of Section 337 as it relates to intellectual property? What particular significance does this have for technology companies?**

**Yonan:** In the US, there are two primary ways for domestic patent holders to enforce intellectual property. One is through the US District Courts under Title 35 of the Domestic Patent Act; the other is through the United States International Trade Commission under 19 USC Section 1337 (Section 337), a trade statute that addresses unfair acts of competition in the import trade. The latter, enacted by Congress in the early 1900s, evolved over the years and affords domestic US patent holders two key remedies: one, an exclusion order, and the other, a cease and desist order, both of which may be applied against imported products that infringe their patents. These powerful remedies work in tandem with each other to keep infringing articles out of the US market – while an exclusion order prevents the importation of infringing goods, a cease and desist order restricts companies from selling or otherwise distributing infringing inventory already stockpiled within the US. Experienced Section 337 practitioners have noticed an increase in the ITC's popularity over two key periods – first, in the mid-1980s, when we saw an influx of electronic goods from Japan, Taiwan and other Far East countries that were competing in the US market; and the second beginning about three years ago, largely the result of the smartphone wars. From these experiences, we have learned that when the market share of a 'bet-the-company' type of product is on the line, US companies will aggressively seek to prevent infringement of key patents and stem the loss of market share by enforcing their intellectual property rights before the Commission. While there are thousands of patent infringement actions filed each year in District Court under Title 35, it is important to note that there are far fewer investigations instituted each year under Section 337 – at their peak in 2011, there were just 70 ITC investigations, 48 in 2012, and 39 in 2013. Partly because of the cost associated with such investigations, the time constraints and speed under which they must be completed, as well as the unique requirements imposed by Section 337 – the accused products must be imported into the US and the patent holder must show that a domestic industry exists in the US or is being established – the use of Section 337 is not appropriate in every instance. However, when the 'facts' make sense, Section 337 can be a very effective tool for a US patent holder, as part of a larger, more sophisticated IP enforcement strategy.

**CD: What are the benefits of taking patent disputes to the US International Trade Commission (ITC) rather than local district courts? What particular challenges are presented by litigating before the ITC?**

**Yonan:** There are a number of advantages to US patent holders that Section 337 investigations offer over District Court litigation. The first involves the remedy available. Although monetary damages are still commonly awarded to successful plaintiff patent holders in District Court, injunctions are now subject to scrutiny, and no longer issue as a matter of course. At the Commission on the other hand, while monetary damages are not available, the remedies may include an exclusion order against the infringing products as well as a cease and desist order. Another key difference is that the ITC is an administrative body governed by its own set of rules, regulations and statutes. As a result, success at the Commission, either representing patent owners or importers, requires an understanding of the Administrative Procedure Act and familiarity with the six Administrative Law Judges (ALJs) who preside over the investigations. Moreover, ITC investigations proceed to a full hearing on the merits typically within 7-9 months after institution – faster than most District Courts with an average time to trial of 24 months from filing of a complaint. It is also important to note that in most Section 337 investigations, The Office of Unfair Import Investigations (OUII) typically plays a role. The OUII is usually a party to the investigation, and is tasked with developing a full evidentiary record to assist the Commission in making its findings. As a result, OUII attorneys are involved in all aspects of discovery, take positions on substantive issues in the investigation, and participate as a party at hearings. This concept is foreign to many US patent litigation attorneys who otherwise practice before District Courts where there are generally only two principal parties – plaintiff and defendant.

**CD: Could you comment on any recent high profile cases resolved by the ITC? How have these rulings been received, and what has been their impact?**

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>
> *Daniel E. Yonan, Sterne Kessler Goldstein Fox*

**Yonan:** There have been a number of important decisions by the Commission since Section 337 was amended in 1988 that have guided strategy and the way Section 337 practitioners litigate. More recent decisions in *Certain Product Having Laminated Packaging* (2013) and *Certain Computer*

*Peripheral Devices* (2014) have clarified the domestic industry requirement, particularly as it relates to non-practicing entities. As a result, it is clear now that complainants may rely on expenditures related to peripheral components and products only if they are 'integral' to the patented product as a whole. Moreover, non-practicing entities can no longer establish a domestic industry simply through generalised investments in R&D or licensing. Instead, they must show the existence of a product that practices the asserted patent. Also, within the past few months, as a result of the Federal Circuit's decision in *Suprema v. ITC* (2013), we have seen clarification on how induced infringement is viewed under Section 337. Recognising that infringement under Section 337 is determined at the moment of importation into the US, *Suprema* essentially eliminated induced infringement as a cause of action if the direct infringement upon which it is based necessarily occurs after importation. In other words, like direct infringement, if induced infringement does not occur at the exact moment of importation into the US, there can be no violation of Section 337. As a result of these rulings, many complainants and respondents alike are rethinking their approach and their strategy to litigating investigations.

**CD: What constitutes a violation of Section 337? How can complainants establish unfair competition or an unfair act?**

**Yonan:** A violation is a final determination from the Commission that a complainant has proven the following elements: infringement of a valid patent; importation into the US of the infringing product; and establishing a domestic industry through the requisite level of investments made in products covered by the patent. A violation finding is based upon the ALJ's initial determination and recommendations issued after the hearing. If a violation is found, an exclusion order or cease and desist order will issue only if such remedies will not

unduly harm the US public interest. Complainants go about establishing a violation by meeting the required evidentiary standards for these elements, which typically involves using information learned during fact and expert discovery.

**CD: How can firms initiate proceedings under Section 337, and how are investigations generally conducted?**

**Yonan:** Investigations are instituted based upon a complaint filed by a complainant. The complainant may be a US company or it may be a non-US company. All that is required is that the complainant satisfy the pleading requirements unique to Section 337. Specifically, these complaints themselves are fact-intensive – they must do more than simply put the respondent on notice of the claims being asserted. Typically many hours of research go into preparing an ITC complaint, which must be based upon an unfair act of competition in the import trade such as a patent infringement, anti-trust, trademark and trade secret violation, and so on. A complaint must include a statement on the ownership of any asserted patents, detailed identification of the accused parties and where they are located; any acts of importation; a description of the infringement including a listing of all accused products and claim charts comparing the products to any asserted independent claims; all facts necessary to support a domestic industry through investments made in the US; and a statement on whether the US public interest will be affected by any requested remedy. The complainant then files the complaint and any supporting materials with the Commission, and within 30 days, the Commission typically makes a decision on whether to institute an investigation. After institution, ITC investigations are governed by target dates for the issuance of a final determination adopted by the Commission. We have noticed that target dates today are being set between 14 to 16

months. These dates are largely dependent on the case load at the Commission. Importantly, to the experienced 337 practitioner, this translates into about 4-6 months to conduct all fact discovery, and another couple of months for expert discovery. Compacting everything that needs to happen between filing of the complaint and the hearing into such an expedited timeframe provides considerable leverage for the complainant, who typically prepares its case and all discovery to be served before actually filing its complaint.

**CD: What consequences can litigating firms expect in the event of an adverse outcome? Is the option of appeal available, and what immediate steps should firms take in this regard?**

**Yonan:** If there is an adverse outcome, impacted respondents can expect to be precluded from importing any accused products into the US market as well as distributing any existing inventory. For the complainant, the risk is the possible invalidation of their patent. Hiring experienced counsel therefore is a must. The counsel's team must include not just ITC practitioners, but also experienced patent attorneys, knowledgeable in both US patent law as well as the technology involved. In terms of any appeal, there is an internal layer of review built into every investigation via the Commission. The Commission has the option of reviewing an ALJ's initial determination before issuing its final determination. Detailed knowledge of the ITC, its laws, procedures and timeframes, as well as the patent law and the technology, therefore, are a requirement for anyone expecting success under Section 337.

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**CD: In 2013 the ITC adopted new rules on e-discovery, providing administrative judges with the discretion to manage both the cost and burden of discovery. To what extent have these rules improved the patent dispute resolution process?**

**Yonan:** There was a notice in the federal register of proposed changes to e-discovery. Those changes, however, have not been implemented in the ways that we had expected. For instance,

strict limitations have not been placed upon the ALJs by the Commission with regard to the number of custodians for e-discovery. While there were suggestions in those rules, what we are actually seeing instead is that the parties themselves are entering into stipulations that narrow down the scope of the discovery being made available. For example, the e-discovery stipulations that are typically entered into between the parties put limitations on the number of e-discovery custodians, and they limit materials that can be collected for review, such as metadata.

**CD: Even companies with rigorous compliance programs may harbour 'unauthorised IP' in their supply chains. In your opinion, are today's firms sufficiently aware of the risks? What steps should companies take to protect themselves from IP litigation?**

**Yonan:** Any importing company that does not closely follow developments at the Commission can find itself in a precarious position. For example, complainants can pursue a so-called 'general exclusion order'. This occurs in instances where the complainant can show that there are widespread acts of infringement occurring in the import trade, but cannot identify with particularity every entity that is actually responsible for importing the products accused of infringement. If successful, and a general exclusion order is entered, the result is that unnamed party goods may be prevented from entering into the US. Any party seeking to import its products into and do business in the US must, therefore, be careful and monitor the active investigations before the Commission. Such monitoring should include reviewing the federal register which regularly publishes the complaints that are being filed, when they are being instituted, and a summary of the relief being requested by the filer.

**CD: Is there any final advice you would offer to parties engaged in, or facing, a Section 337 patent dispute?**

**Yonan:** ITC investigations are proceedings with demanding time constraints, unique rules and procedures and nuanced remedies. As a result, there is no substitute for hiring skilled ITC counsel to be involved on either side of an investigation, whether it be representing the complainant or the respondent importer. Sophisticated ITC counsel will necessarily have been involved in a significant number of investigations, from start (institution) to end (enforcement). Indeed, based on my experience, having the required level of expertise directly translates into the difference between winning and losing a Section 337 investigation. CD