

Patent Enforcement Under Section 337 Before The USITC

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To facilitate the dialogue at The Sedona Patent Litigation Conference 2010, this paper has been prepared to address a number of important issues facing domestic innovators and their access to patent enforcement investigations under 19 U.S.C. § 1337 ("Section 337") before the United States International Trade Commission ("Commission").

After an introduction, this paper provides an overview of the history behind Section 337, along with an explanation as to why these specialized proceedings are attractive to domestic patent owners, and why fiscal year 2010 is a record year for Section 337 investigations. Next, the article addresses the Section 337 jurisdictional requirement of a "domestic industry," particularly from the perspective of a non-manufacturing entity ("NME") located in the United States. The impact of patent reexamination is also examined, and how these proceedings affect pending Section 337 investigations. Finally, the article discusses types and availability of remedial orders, with an emphasis on NMEs, and a conclusion summarizes the role Section 337 investigations will play in the future for NMEs.

I. Introduction

In this global economy of free trade, jobs go to the region of the world where the cost of operation is lowest, assuming other commercial and international trade factors are met. Enterprises, large and small, understand this global economy and often structure their companies to spread job functions between the United States and overseas locations, choosing to do their manufacturing and other tasks in the production chain outside the United States.

Their backers, including shareholders and venture capitalists, increasingly insist on this multinational enterprise model to increase profitability. These multinational entities continue to protect the fruits of their innovation in the traditional manner, through patents and other intellectual property modes. But while innovators obtain protection for their intellectual property domestically, the products that embody innovation increasingly arrive in this country from overseas.

Patent owners, therefore, require a forum for protecting their innovations that better addresses a foreign source of infringing products. Section 337 investigations before the Commission are a particularly attractive tool in the arsenal of the patent owner for addressing these issues. It is the view of the authors that a confluence of events will lead

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to Section 337 becoming one of the most important developing areas in United States patent law in the next decade and this paper is focused on why that is the case.

II. Brief History of Section 337

Before 1922, patent owners had limited causes of action available to police the importation of articles that infringed United States intellectual property rights.² Without an adequate remedy available, infringing articles were imported, often in large quantities, and subsequently distributed throughout the country for sale. Although a patent owner could bring infringement lawsuits directly against the retailers who sold those infringing articles, this needed to happen in the forum where that retailer was located. As a result, patent owners typically had to file multiple, duplicative lawsuits for the same products, in a variety of domestic forums. *In re Amtorg Trading Corp.*, 75 F.2d 826, 835 (C.C.P.A. 1935).³

Congress acknowledged this imposed a heavy burden on patent owners who sought to enforce their patents and recognized that "[s]toppage of importation of infringing articles through an order of exclusion from entry [into the United States] is the only effectual remedy [to prevent against multiple duplicative patent lawsuits]." *Id.* In turn, Congress enacted Section 316 of the Tariff Act of 1922, and provided the remedy of *exclusion* against articles that were found to infringe a valid and enforceable United States patent. Tariff Act of 1922, § 316(a), Pub. L. No. 67-318, 42 Stat. 858 (1922). As a result, for the very first time in United States history, domestic patent owners could seek extraterritorial protection against the unlawful importation and sale of infringing articles within the United States. *Id.*⁴

Since 1922, the Tariff Act has been amended over ten times. *See* 1930, 1958, 1975, 1979, 1980, 1982, 1984, 1988, 1992, 1994, 1996, 1999, and 2004 Amendments. 19 U.S.C. § 1337 (2006). At the onset of the Great Depression, for example, Congress enacted Section 337 in the Smoot-Hawley Tariff Act of 1930. Ch. 497, 46 Stat. 590 (1930) (codified as amended at 19 U.S.C. §§ 1330-1341 (2006)). Although Section 337, as it is commonly referred to today, was slightly revised from its predecessor Section 316, the statutory changes did not alter the intended goal of protecting the United States economy from increasingly unfair acts of competition in the import trade. Over eighty years later, and with the current version of 19 U.S.C. § 1337, as amended, Congress's

² This article is focused on enforcement of "patent" rights under Section 337, even though Section 337 provides broad relief against unfair acts of competition in the import trade, which include, *inter alia*, trademark and copyright infringement, trade dress violations, trade secret and antitrust disputes.

³ These duplicative lawsuits often resulted in inconsistent judgments that depended on the forum in which the patent infringement action was adjudicated. Also, a unitary court of appeals to preside exclusively over patent appeals did not exist, leaving dissatisfied plaintiffs subject to the precedent of the regional circuit in which the district court resided. *See* H.R. Rep. No. 97-312, at 20 (1981) (noting the problems of forum-shopping and regional inconsistencies in patent jurisprudence as factors in the decision to create a unitary court of appeals with national jurisdiction -- the United States Court of Appeals for the Federal Circuit).

⁴ The remedy of exclusion was enforced directly at United States borders and points of entry. *Id.*

original intent remains largely protectionist of domestic patent owners,⁵ who are essential to the long term economic growth of the United States.

a. Why 337 Investigations Are Attractive to Domestic Patent Owners

There are a number of reasons why Section 337 is a preferred alternative for enforcement of patent rights when compared to federal district courts. Four primary reasons are examined below.

First, time is a constraint in any Commission fast-track investigation, a factor that is routinely used to a patent owner's advantage. For example, Administrative Law Judges ("ALJs") set a target date of around sixteen months from filing for completing an investigation. This means that a full adversarial hearing on the merits, and comporting with due process, will usually take place within nine months after institution.⁶ Even in comparison to the fastest district court jurisdictions, this pace puts Section 337 investigations at among the fastest forums in the country for resolution of patent disputes, guaranteeing patent owners a quick adjudication of their rights.⁷

Second, given the speed at which 337 investigations proceed, combined with nuances unique to the Commission, patent owners have a distinct tactical advantage as the party initiating the investigation. For example, in contrast to traditional district court notice-pleading requirements, in ITC investigations patent owners are required to develop fully the merits of any cause of action pled in their complaint in order to meet the strict fact-pleading requirements of Section 337. 19 C.F.R. § 210.12 (2010). As a result, a patent owner must identify, in detail, at the time of filing the complaint:

- a. All accused entities;
- b. All accused products;
- c. A description of how the accused products enter into the United States along with specific instances evidencing actual entry;
- d. A description of how the accused products function or are intended to be used, along with infringement claim charts for every independent claim asserted;
- e. The ownership chain of the patent(s) that are asserted; and
- f. A description of the patent owner's business and specific facts that support the relevant domestic industry.

Id. Moreover, as part of the pre-filing process, patent owners begin collecting relevant documents, drafting discovery requests, identifying and interviewing likely client fact

⁵ The protection afforded to domestic patent owners includes multinational and foreign corporations that choose to pursue United States patent rights and to develop a domestic industry, which, as discussed below, is an important jurisdictional requirement for instituting a Section 337 investigation.

⁶ An ALJ's initial determination on violation must be issued no later than four months before the target date, and an ALJ typically requires three months after the hearing to issue an initial determination. 19 C.F.R. § 210.42(a)(1).

⁷ Compare time to trial in the W.D. Wisconsin (8 months); E.D. Virginia (12 months); S.D. Florida (20 months); and the E.D. Tex. (26 months). Mark A. Lemley, *Where to File Your Patent Case*, Stanford Public Law Working Paper No. 1597919 (2010), <http://ssrn.com/abstract=1597919>.

witnesses, retaining key industry experts and consultants, and drafting "shell" motions that will be filed later in the investigation (motions for summary determination of importation, infringement, *etc.*). As a result of these actions, patent owners begin investigations extremely focused and prepared by the time the investigation is instituted, which allows them to maintain pressure on the accused entities, making it difficult for them to develop the merits of their positions sufficiently before a hearing is held.⁸

Third, the powerful remedies afforded to a patent owner against infringing importers can be fatal to an infringer's business operations. Although monetary damages are not available, the Commission has the authority to issue limited and/or general exclusion orders ("LEO" or "GEO") along with cease and desist orders ("CDO"). As discussed below in more detail, LEOs and GEOs exclude infringing articles from entry into the United States via ports of entry, while CDOs direct an infringing party to cease its unfair acts, including selling previously imported infringing articles out of its United States inventory. The enforcement of these remedies can sever an infringing party's ties to the world's largest market, which often forces a monetary settlement favorable to patent owners.

Fourth, investigations before the Commission, as compared to district court actions, are specialized intellectual property proceedings that involve highly-trained ALJs. The vast majority of Section 337 investigations involve patent infringement disputes. Although most of the ALJs do not have technical degrees, they generally become experts in the complex technology of a particular investigation as a result of dealing with it on a daily basis. Further, ALJs also rely on experienced attorney advisors to assist them, in order to comply with the demanding investigation time limits set forth by the Commission. There are currently six ALJs at the Commission who preside over Section 337 disputes: ALJ Luckern,⁹ ALJ Bullock,¹⁰ ALJ Charneski,¹¹ ALJ Essex,¹² ALJ Rogers,¹³

⁸ Each ALJ issues ground rules which govern the investigation and dictate timing on certain discovery procedures (*e.g.*, ten day period in order to respond to discovery requests as opposed to thirty days in district courts).

⁹ Chief ALJ Paul J. Luckern has served as an ALJ at the Commission since 1984, and has presided over 137 investigations. ALJ Luckern holds an LL.B (J.D.) degree and an LL.M degree from Georgetown University, and received a bachelor of science degree in chemistry, *cum laude*, from Georgetown University and a master of science degree in organic chemistry from Cornell University. Press Release, U.S. International Trade Commission, Luckern Named Chief Administrative Law Judge at U.S. International Trade Commission (July 3, 1998), http://www.usitc.gov/press_room/news_release/2008/er0703ff1.htm.

¹⁰ ALJ Charles E. Bullock has served as an ALJ at the Commission since May 2002, and has presided over 73 investigations. ALJ Bullock holds a juris doctor degree from George Washington University and a bachelor of arts degree from Bucknell University. Press Release, U.S. International Trade Commission, Bullock Named New Administrative Law Judge at U.S. International Trade Commission (April 19, 2002), http://www.usitc.gov/press_room/news_release/2002/er0419z1.htm.

¹¹ ALJ Carl C. Charneski has served as an ALJ at the Commission since April 2007, and has presided over 35 investigations. ALJ Charneski holds a juris doctor degree from St. John's University School of Law and a bachelor of arts degree from St. Francis College. Press Release, U.S. International Trade Commission, Charneski Named New Administrative Law Judge at U.S. International Trade Commission (April 16, 2007), http://www.usitc.gov/press_room/news_release/2007/er0416ee1.htm.

¹² ALJ Theodore R. Essex has served as an ALJ at the Commission since October 2007, and has presided over 34 investigations. ALJ Essex holds a juris doctor degree from The Ohio State University and

and ALJ Gildea.¹⁴ This is the largest number of Section 337 ALJs ever serving at the Commission. This increase in the number of ALJs was in response to the higher volume of investigations being filed by patent owners over the past six years. Having recognized the effectiveness of these ALJs, patent owners have made adjudication of their patent rights before the Commission a more common occurrence, regardless of the complexity of the technology.

b. The Future of 337 Investigations

In order to understand the future of Section 337 investigations, we need to examine the past. In doing so, the chart below (Figure 1) tracks the number of new investigations that have been instituted since 1976 (by fiscal year).¹⁵

a bachelor of arts degree from Miami University. Press Release, U.S. International Trade Commission, Essex Named New Administrative Law Judge at U.S. International Trade Commission (October 17, 2007), http://www.usitc.gov/press_room/news_release/2007/er1017ee1.htm.

¹³ ALJ Robert K. Rogers has served as an ALJ at the Commission since July 2008, and has presided over 26 investigations. ALJ Rogers holds a juris doctor degree from Brigham Young University's Clark Law School and a bachelor degree from San Diego State University. Press Release, U.S. International Trade Commission, Rogers Named New Administrative Law Judge at U.S. International Trade Commission (July 7, 2008), http://www.usitc.gov/press_room/news_release/2008/er0707ff1.htm.

¹⁴ ALJ Edward J. Gildea has served as an ALJ at the Commission since December 2008, and has presided over 17 investigations. ALJ Gildea attended De Paul University, College of Commerce as an undergraduate and holds a juris doctor degree from De Paul University, College of Law; a masters degree in management from Northwestern University, J.L. Kellogg Graduate School of Management; and an LL.M. degree from De Paul University, College of Law. Press Release, U.S. International Trade Commission, Gildea Named New Administrative Law Judge at U.S. International Trade Commission (December 8, 2008), http://www.usitc.gov/press_room/news_release/2008/er1208ff1.htm.

¹⁵ Patent-based investigations prior to 1976 were relatively uncommon, in part because formal procedures were lacking and the Commission (at the time named the Tariff Commission) could only make a recommendation to the President to take action. See 133 Cong. Rec. H 2548 (Apr. 28, 1997); Richard G. Allison, Note, *Section 337 Proceedings Before the International Trade Commission: Antiquated Legislative Compromise or Model Forum for Patent Dispute Resolution?*, 5 N.Y.U. J. L. & Bus. 873, 875 (2009). The 1975 amendments to the statute made a number of changes designed to make the forum more accessible, including making available many legal and equitable defenses, including invalidity and unenforceability; empowering the Commission with final decision-making authority; and imposing statutory deadlines of 12-months (or 18-months for more complicated investigations). Trade Act of 1974, Pub. L. No. 93-618, 88 Stat. 1978 (1975).

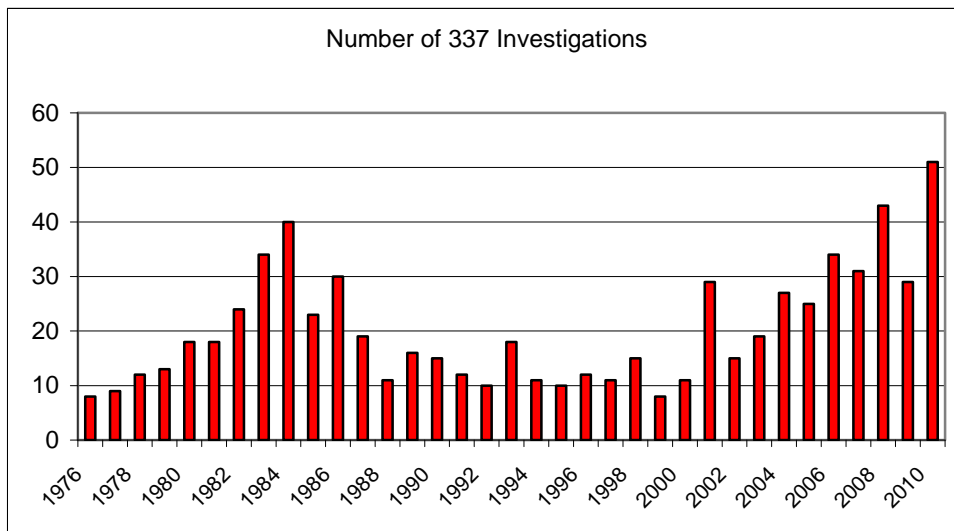


Figure 1. Number of New 337 Investigations Instituted per Fiscal Year Between 1976-2010

Significantly, there are two trends that reflect heightened activity—one occurred in the mid-1980’s,¹⁶ and the other is occurring today. It is important to note that by the end of fiscal year 2010, the number of new investigations instituted will be the largest ever in the history of Section 337. This increased activity can be attributed to at least three primary reasons:

First, in *eBay Inc. v. MercExchange L.L.C.*, the Supreme Court held permanent injunctions no longer issue, *ipso facto*, after a finding of patent infringement in district court litigation. 547 U.S. 388, 390 (2006). The Court’s adoption of an equitable four-part test for determining whether a permanent injunction is appropriate, and further suggestion that direct competition between the parties is needed, *id.* at 396, left patent owners seeking to enforce their exclusionary rights in district courts with a new found uncertainty.

Parties most effected by this ruling include NMEs, who have started to look more to the Commission to enforce their intellectual property rights. As evidence, after *eBay* was decided in 2006, the number of new investigations instituted under Section 337 increased significantly for all patent owners (Figure 1 above)—as well as for NMEs (Figure 2 below). Thus, because injunctions have become more difficult to obtain from district courts, it is likely that the number of 337 investigations instituted in the years to come will remain high, as patent owners seek to preclude harmful infringing activity through the Commission instead of, or in addition to, district courts. *See* PATSTATS.org, Post-*eBay* Permanent Injunction Rulings in Patent Cases to 7-12-10, http://www.patstats.org/Injunction_rulings_post-eBay_to_07-12-2010.post.xls (last visited Sept. 2, 2010).

¹⁶ In the mid-1980’s, the United States economy was under siege from Asian manufacturers of both low-cost (Taiwan) and high-tech (Japan) electronic goods. *See* H.R. Rep. No. 100-40, at 3-5 (1987). The elimination of the injury requirement to Section 337 in 1988, and the added option of showing a domestic industry through licensing activities with the patent(s) in suit, have made it easier to establish a domestic industry. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (1988); *see also* H.R. Rep. No. 100-40, at 156-57.

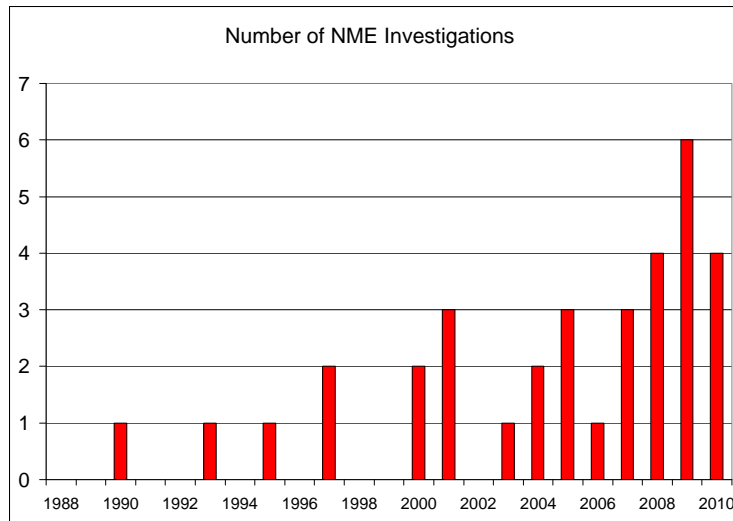


Figure 2. Number of New 337 Investigations Instituted by NMEs per Fiscal Year Between 1988-2010

Second, around the same time *eBay* was decided, *In the Matter of Certain Baseband Processor Chips and Chipsets, et. al.*, 337-TA-543 (2005-2007) ("*Baseband Processor Chips*"), was ongoing at the Commission. In that investigation, the Commission found a violation and issued an LEO that prevented the respondent, Qualcomm, from importing infringing chip-sets. See *Baseband Processor Chips*, Comm'n Op. on Remedy, The Public Interest, and Bonding at 24. Significantly, the Commission extended that remedy to handset makers, such as Samsung, Sprint, and Verizon, whose products included the infringing Qualcomm chip-sets. *Id.* at 25. Although the holding of the Commission was subsequently reversed in part, and clarified by the Court of Appeals for the Federal Circuit, the power of exclusion was highlighted to the legal community. *Kyocera Wireless Corp. v. Int'l Trade Comm'n*, 545 F.3d 1340, 1355 (Fed. Cir. 2008). This activity has raised awareness among both practitioners and clients alike—that Section 337 and the Commission offer an attractive venue for enforcement of patent owners' rights, and that the remedial power of exclusion has powerful and potentially far reaching effects.

Third, as discussed next, the addition of a licensing provision to the Section 337 domestic industry requirements in 1988 has made satisfying this requirement easier for patent owners—both practicing and NMEs. As a result, the future would seem to hold a very friendly setting for NMEs that can meet the domestic industry requirements through their licensing activities. This is reflected in Figure 2 above, which shows that since 1988, NMEs have filed an increasing number of investigations.

III. The "Domestic Industry" Requirement and How It Is Met by Non-Manufacturing Entities in the United States

Section 337 has a jurisdictional requirement of a "domestic industry" that must be satisfied by the complainant in order for the Commission to institute a Section 337 action. 19 U.S.C. § 1337(a)(2). This requirement has been a part of the statute since its incarnation in the Tariff Act of 1922. That Act excluded importations "the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry." Tariff Act of 1922, § 316(a). As the United States maintained a significant manufacturing based economy, the requirement went untouched for nearly 65 years.

The domestic industry requirement was intended to be protectionist and to prevent patent holders with little to no connection to the United States (other than mere ownership of intellectual property), from availing themselves of the benefits of Section 337 and the Commission's powerful remedies, *i.e.*, exclusion. *See* Act Relating to Trade, Tariff, and Customs Matters, 132 Cong. Rec. H9965-02 (Oct. 14, 1986), 1986 WL 788376 (statement of Rep. Rostenkowski). In practice, the requirement was quite burdensome and costly for U.S. companies to satisfy.¹⁷ Typically the requirement included a showing that an article, which was embodied by the claims of the patent(s) in suit, was manufactured¹⁸ within the United States.¹⁹ And, the requirement included a showing that significant resources, *i.e.*, investment and employment, were spent in furtherance of that manufacturing activity.²⁰ The complainant also needed to prove there was an "injury" to its domestic activity which resulted from the respondent(s), *i.e.*, defendants, unlawful importation of infringing articles.

In 1988, as part of the Omnibus Trade and Competitiveness Act, 102 Stat. 1107, Pub. L. 100-418 (Aug. 23, 1988), Congress amended the requirement to provide domestic patent holders with better access to the Commission and its remedies. The 1988 Act changed the statute to allow a complainant to satisfy the domestic industry requirement *exclusively* through its licensing activities as to the patent(s) in suit. 19 U.S.C. § 1337(a)(3)(C). In addition, the 1988 Act removed the requirement that a complainant show injury. 19 U.S.C. § 1337(a)(2) and (a)(3).

More closely examined, subsection 1337(a)(3) of the current statute provides:

¹⁷ For example, as part of its findings made during consideration of the Omnibus Trade and Competitiveness Act of 1988, Congress stated that the requirements were cumbersome, making access to the Commission costly, and failed to provide "United States owners of intellectual property rights with adequate protection against foreign companies violating such rights." Pub. L. No. 100-418, 1341, 102 Stat. 1107, 1212 (1988).

¹⁸ The statute does not require that a domestic industry be established if a complainant can show that an industry is in the "process" of being established.

¹⁹ This is commonly known as the "technical" requirement for a domestic industry showing. *See* Certain Variable Speed Wind Turbines and Components Thereof, Inv. No. 337-TA-376 ("Wind Turbines"), USITC Pub. 3003 (Nov. 1996), Comm'n Op. at 14-17.

²⁰ This is commonly known as the "economic" requirement for a domestic industry showing. *See id.*

(3) For the purposes of paragraph (2), an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent ... concerned –

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

(C) *substantial investment in its exploitation, including engineering, research and development, or licensing.*

19 U.S.C. § 1337(a)(3) (emphasis added).

Prior to the amendments, licensing activities alone could *not* be used to satisfy the requirement to show a domestic industry. *Certain Products with Gremlin Character Depictions*, Inv. No. 337-TA-201, USITC Pub. 1815 (March 1986), Comm'n Op. at 9-11, *aff'd sub nom Warner Brothers, Inc. v. U.S.I.T.C.*, 787 F.2d 562 (Fed. Cir. 1986). The amended statute, as described in the various relevant passages of its legislative history, now allows for intellectual property owners who engage in extensive licensing of their rights, without any manufacturing, to take advantage of Section 337's protection. H.R. Rep. No. 100-40, at 157-58 (1987) (remarks by Rep. Kastenmeier) (stating that, for example, protection should be available to a start-up biotech firm that licenses its patents). The result of the amendments in the 1988 Act is that the Commission, now, is open to hearing and resolving disputes initiated by NMEs.

a. What Is a "Substantial Investment" in the Exploitation of a Patent Through Licensing

There is no universal definition for what qualifies as "substantial investment," as this is analyzed based upon the complainant's activities in that investigation. *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586 ("*Stringed Musical Instruments*"), Comm'n Op. at 25-26. However, understanding what has been argued in prior Commission investigations reveals a pattern, and the following six types of activities, *inter alia*, will generally be considered to show substantial investment in exploitation of a patent:

1. Any revenue paid to purchase rights to the patent(s) asserted in the investigation—licenses generated outside of litigation are entitled to the greatest evidentiary weight, licenses generated as a result of district court litigation also entitled to weight, licenses generated after an investigation has been instituted not favorably weighed;²¹

²¹ See *Stringed Musical Instruments*, Comm'n Op. at 26.

2. The scope and nature of the licenses that were granted to licensees to make, use and sell under the patent(s) in the investigation, and significantly, royalty amounts paid and/or revenue received in exchange for those rights;²²
3. The amount of revenue spent by prior licensees of the patent(s) in the investigation used to support any articles that are embodied by the patent(s) in the investigation, *e.g.*, manufacturing, research, development costs for those articles—if made in the United States;²³
4. The number of employees who are involved in complainant's licensing activities related to the patent(s) in the investigation, which include those who actively identify, solicit, and market potential licensees, those who monitor compliance with the licenses, and the salaries being paid to these employees;²⁴
5. The amount invested by complainant in any overhead used to support its licensing activities related to the patent(s) in the investigation, including amounts paid by complainant for rent, building leases, the amount of square footage in which the complainant conducts these operations, *etc.*;²⁵ and
6. Any fees incurred by complainant, as a direct result of litigation activities *directly traceable* to the patent(s) in the investigation, which include *e.g.*, fees spent on drafting and sending cease and desist letters to the investigation patent(s), conducting settlement negotiations, negotiating, drafting and executing a license to the investigation patent(s), *etc.*²⁶

The greater the number of these activities an NME can demonstrate, and the greater amount of revenue and fees spent in support of them, as a percentage of complainant's overall activity with regard to the patent(s) in the investigation, the greater the chance that the NME will satisfy the domestic industry licensing requirement. However, one telling fact remains clear—the Commission has not found a domestic industry for an NME that has not licensed the patent(s) in the investigation before that investigation was instituted. *See, e.g., Certain Digital Processors and Digital Processing Systems, Components Thereof and Products Containing Same*, Inv. No. 337-TA-559 ("*Digital Processors*"), Initial Determ. at 93-95 (May 11, 2007). Therefore, if any of the above factors would be required, Nos. 1 and 2 would be the most relevant to alleging that a domestic industry exists or is in the process of being established by the patent owner.

²² *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers and Products Containing Same, including Graphics Cards and Motherboards*, 337-TA-661 ("*Chips Having sDRAM*"), Initial Determ. at 4-8 (unreviewed).

²³ *Certain Electronic Devices Including Handheld, Wireless Communications Devices*, 337-TA-667 ("*Electronic Devices*"), Notice at 2 (March 8, 2010).

²⁴ *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, 337-TA-432 ("*Semiconductor Chips*"), Initial Determ. (Order No. 13) at 8.

²⁵ *Chips Having sDRAM*, Initial Determ. at 4-8 (unreviewed).

²⁶ *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, 337-TA-650 ("*Coaxial Cable Connectors*"), Comm'n Op. at 50-51 (Apr. 14, 2010).

IV. The Impact of Patent Reexamination on Section 337 Actions

Reexamination of a patent being enforced in a Section 337 action may have an impact on the investigation in two key ways: whether to grant a stay and whether to set aside an exclusion order.

Motions to suspend or stay Section 337 investigations were once commonly granted. See David D. Scannell, *Motions to Stay: The Impact of Reexamination Proceedings on ITC Investigations After Semiconductor Chips*, 337 Reporter, Vol. XXIV, ITC Trial Law. Ass'n, 6th Ann. Summer Associate Ed. 125 (2008). However, the trend in more recent years has been increasingly to deny stays. *Id.*; see also *Certain Course Management Systems Software Products*, Inv. No. 337-TA-677, Order No. 5, 2009 WL 2247151 at 3 (July 23, 2009). In fact, a decision in *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Inv. No. 337-TA-605, Commission Determination (March 27, 2008), strongly indicates that a patent reexamination pending before the PTO will almost always be insufficient to support a stay of a patent-based Section 337 investigation. Accordingly, even if there is a great likelihood that a patent is invalid and will be rejected by the PTO on reexamination, an investigated party must continue to defend itself in the Commission investigation.

Although not previously before the Commission, moving to set aside an exclusion order on the basis of cancelled/amended claims has not been addressed, typically because investigations usually settle before a reexamination has been completed. This is because of the extremely fast nature by which investigations must be completed, *i.e.*, within 16 months after institution as compared to a reexamination which takes on average between 2-3 years.²⁷ See http://www.uspto.gov/patents/stats/Reexam_Operations_June_10_v2.pdf.

V. The Types and Availability of Remedial Orders

As discussed above, in the event of a violation under Section 337, the Commission is authorized to issue two types of remedial orders. The first remedy is an exclusion order, either as an LEO or a GEO, and the second is a CDO.

In simplest terms, an exclusion order is directed against a respondent found to be importing articles that are in violation of a United States patent. The U.S. Customs and Border Protection ("Customs") enforces the exclusion order by excluding any infringing articles from entry into the United States. In addition, these exclusion orders cover the accused products themselves, or may be crafted to include "downstream products" that incorporate the accused products, depending on the allegations and evidence before the Commission.²⁸ *Certain Erasable Programmable Read-Only Memories, Components*

²⁷ For more on reexamination pendency and the interplay between reexaminations and concurrent district court or 337 investigations, see Robert G. Sterne, *et al.*, *Reexamination Practice with Concurrent District Court or USITC Patent Litigation*, 11 Sedona Conference J. 1 (2010).

²⁸ Any determination of whether to issue a remedial order also requires consideration of the public interest, which the Commission weighs by assessing four statutory factors: 1) public health and welfare; 2) competitive conditions in the U.S. economy; 3) production of like or directly competitive articles in the

Thereof, Products Containing Such Memories, and Processes for Making Such Memories, USITC Pub. 2196, Inv. No. 337-TA-276 ("EPROMs"), at 124-25 (May 1989), *aff'd sub nom. Hyundai Elec. Indus. Co. v. U.S. Int'l Trade Comm'n*, 899 F.2d 1204 (Fed. Cir. 1990).

The differences between an LEO and a GEO are significant. An LEO, for example, directs Customs to exclude infringing articles that originate from a specified entity that was named as a respondent in the investigation. In contrast, a GEO directs Customs to exclude *all* infringing articles, without regard to source. That is, a general exclusion order is needed in order to "prevent circumvention" of an exclusion order, or if there "is a pattern of violation" and it is difficult to identify the source of where the infringing articles are originating from. 19 U.S.C. § 1337(d)(2).

The Commission has held that a GEO is appropriate in instances where there is a "widespread pattern" of unauthorized use and importation of infringing articles, and certain business conditions exist from which one might reasonably infer that foreign manufacturers, other than respondents to the investigation, may attempt to enter the U.S. market with infringing articles. *See Certain Airless Spray Pumps and Components Thereof*, 337-TA-90, USITC Pub. 1199, at 18 (Nov. 1981). Other factors that are relevant to demonstrating a widespread pattern of unauthorized use include the importation into the United States of infringing articles by multiple foreign manufacturers, as well as other evidence that demonstrates a history of unauthorized foreign uses of the infringing articles. *Id.* at 8-19. Because GEOs are broad in their scope, they may disrupt international trade significantly and, therefore, require a higher evidentiary standard to obtain than LEOs.

NMEs have successfully obtained both GEOs and LEOs from the Commission. In *Chips Having sDRAM*, complainant Rambus obtained an LEO against the goods of those respondents found to infringe the asserted patents, including the infringing manufacturer NVIDIA. *Chips Having sDRAM*, Comm'n Op. at 11-12 (Aug. 10, 2010). The Commission granted an LEO, rather than a GEO, based on the lack of evidence showing that the respondents intended to, or had, circumvented an LEO. *Id.* at 12. The Commission also pointed to Rambus's relative ease of identifying the source of infringing goods as a reason not to grant a GEO. *Id.*

In *Coaxial Cable Connectors*, complainant PPC, Inc., succeeded in obtaining a GEO for two of the asserted patents against certain defaulting respondents based on the ALJ's finding that the defaulting respondents were all alter egos and could readily form new entities to circumvent an LEO. *Coaxial Cable Connectors*, Comm'n Op. at 57. In order to obtain the GEO against the defaulting respondents, PPC had to establish that "a violation has occurred by 'substantial, reliable, and probative evidence.'" *Id.* (quoting 19 U.S.C. § 1337(g)(2)(B)). The Commission found such evidence existed, which showed that it was difficult to identify the source of the infringing products and that there was a pattern of violation based on numerous sources of infringing goods. *Id.* at 59.

U.S.; and 4) U.S. consumers. 19 U.S.C. § 1337(d); *see also Coaxial Cable Connectors*, Comm'n Op. at 61 (Apr. 14, 2010).

The other available remedy is a cease and desist order. A CDO directs a respondent in the investigation to cease its unfair acts, including selling infringing imported articles out of U.S. inventory. Unlike exclusion orders, cease and desist orders are enforced by the Commission, not by Customs. *See* 19 U.S.C. § 1337(f)(2) (which provides for civil penalties for violation of cease and desist orders).

Again, NMEs have successfully obtained CDOs. For example, in *Chips Having sDRAM*, complainant Rambus successfully obtained a CDO against certain respondents based on evidence that a significant inventory of products containing the infringing manufacturer's controllers existed and that the public interest would not be harmed by issuing the CDO. *Chips Having sDRAM*, Comm'n Op. at 12-15 (Aug. 10, 2010). The Commission rejected the respondents arguments that because Rambus did not manufacture any memory products, there was no direct competition, and that U.S. consumers would be harmed by a CDO without showing that Rambus's licensees compete in the same markets. *Id.* at 13. The Commission found that a CDO would not harm U.S. consumers because there was ample evidence that Rambus's licensees sold licensed products in competition with the accused products. *Id.* at 14-15. The Commission also stated that "enforcement of valid United State[s] intellectual property rights advances, rather than harms, competitive conditions in the United States Economy." *Id.* at 15. Thus, a CDO is an available remedy to NMEs if they can show evidence that its licensees sell products that compete with the accused products, so that U.S. consumers are not harmed.

VI. Conclusion: Section 337 Actions Will Play an Important Role in the Future for Non-Manufacturing Entities Located in the United States

There is no question that patents are essential to innovation and any obstacle to the enforcement of patents impedes, *inter alia*, the ability to grow businesses, attract capital, and foster innovation. Research and development are quickly superseding manufacturing as the high tech output of innovation in this country and the collateral effect is that infringing products embodying the domestic innovation increasingly enter the United States markets from abroad. This shift in the situs of infringement reflects the realities of the global economy and exposes the shortcomings of traditional methods of enforcing patent rights.

For the past 80 years, Section 337 investigations have been an important tool to help domestic manufacturers develop and maintain a domestic industry. As the United States and the global economy continue to evolve, Section 337 will become an ever more vital tool to domestic patent owners seeking to protect their research and development activity in the face of economic policies promoting free trade and international exchange of goods and services.