

Litigating patents at the ITC

The International Trade Commission is an increasingly popular venue for the resolution of IP disputes - not least thanks to the availability of an exclusion order and the prospect of intimidating accused infringers in this tersely paced forum.

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The International Trade Commission (ITC) has emerged as a preferred forum for intellectual property owners to enforce their rights. At the time of writing, 19 new Section 337 complaints have already been filed in 2008, a 21% increase from the same period in 2007.

The primary reason for the ITC's increasing popularity is the US Supreme Court's 2006 decision in *eBay Inc v MercExchange, LLC*, 126 S Ct 1837 (2006), which made it more difficult for patent owners to obtain injunctive relief in district court cases. *eBay* does not apply to the ITC and exclusion orders (the ITC equivalent to injunctions) remain a potent weapon at the ITC. Another factor contributing to the upward trend is the increased number of foreign companies that have established US operations, such that foreign companies can satisfy Section 337's "domestic industry" requirement and use the ITC offensively. Additionally, increases in foreign imports increase the supply of products that are subject to ITC jurisdiction.

Monetary damages are not available at the ITC. However, even if a complainant's primary objective is a monetary settlement, the threat of an injunction can effectively compel accused infringers towards that end.

The accused infringer in a Section 337 action can easily feel besieged by the threat of an exclusion order, the demands of discovery and the rapid pace of ITC proceedings – with a trial looming within about six to nine months after institution of an investigation. Foreign defendants

relatively unfamiliar with US litigation can be particularly daunted by the prospects of litigating at the ITC.

However, foreign respondents should not be intimidated. The fact that there is no jury, with trial proceeding before an administrative law judge (ALJ) having more patent experience than a typical district court judge, should be reassuring to a foreign defendant. Even a relatively "new" ALJ will rapidly gain patent experience in a modest amount of time as compared with a more tenured judge in a typical district court. This can be particularly appealing to a foreign accused infringer that has had the distaste of dealing with creative claim interpretations asserted by aggressive patent owners. Indeed, the patentee win rate at the ITC (about 50%) is lower than the win rate for patentees in a typical district court case that proceeds past summary judgment (about 61%).

The keys to successful ITC litigation are an understanding of the rules and the conduct of the proceedings and preparation, preparation and more preparation. Approximately 40% of all ITC actions proceed to trial, compared to less than 5% of district court actions. Thus, ITC litigants must recognise and prepare for the substantially higher likelihood that a trial will result.

This article provides an overview of the ITC litigation process, the major differences as compared with district court patent litigation and practice tips for both complainants and respondents.

Anatomy of a Section 337 ITC investigation

Section 337 of the Tariff Act of 1930, 19 USC § 1337 was enacted to protect US industry from unfair competition by imported foreign goods and provides an important tool

to enforce US patent rights against infringing foreign imports.

The party initiating an ITC action is the complainant and the defending party is the respondent. Because the ITC has *in rem* jurisdiction over imported articles, unlike a district court action, the complainant does not have to establish personal jurisdiction over the respondent.

Like the district court plaintiff, the complainant in an ITC action must allege ownership of a patent and infringement of that right. The complainant must also establish importation of the accused product(s). In addition, the “domestic industry” requirement must be met. Section 337 provides three different ways to establish a domestic industry: (1) significant investment in plant and equipment; (2) significant employment of labour or capital; or (3) substantial investment in exploitation, including engineering, research and development or licensing. In general, the domestic industry requirement is easily met – for example, licensing activities alone can be sufficient to establish the existence of a domestic industry.

What is the ITC?

The ITC is an independent federal agency headed by six commissioners who sit as an administrative review board with final decision-making authority. The commissioners are appointed by the president for nine-year terms and not more than three commissioners can be from the same political party. The ITC also includes four ALJs who conduct formal trial-type hearings; the General Counsel’s Office, which provides legal advice to the ITC; and the Office of Unfair Import Investigations (the “ITC Staff”).

Section 337 complaint

Unlike the short and plain notice pleadings of a district court complaint, a Section 337 complaint must plead specific facts. The complaint is more detailed and must include, among other things, certified copies of the patent, its file history, assignment information, cited prior art references and any licence agreements. The complaint must also include claim charts demonstrating that the accused product(s) and the domestic industry article(s) are each covered by a representative claim of the asserted patent(s). ITC rules permit the complainant to file both confidential and redacted public versions of the complaint so that confidential information (eg, licence information) is not present in the public version.

Institution of ITC investigation

The ITC (ie, the commissioners) vote whether to institute an investigation within 30 days of filing of the complaint. After institution, the subject matter of the investigation and the parties involved are published as a notice of investigation in the Federal Register. In addition, all non-confidential documents filed with the ITC are made publicly available via the ITC’s Electronic Document Information System, which can be accessed at www.usitc.gov.

Response to Section 337 complaint

Responses to the complaint are due within 20 days of service for US companies and within 30 days for foreign companies. Like the complaint, responses are more detailed than answers in district court. The response must assert all defences that will be raised and typically will include claim charts demonstrating the invalidity of the asserted patent(s). If a respondent is also a defendant in a parallel district court action, it can request a stay of the district court case pending completion of the ITC investigation. Such stay requests are automatically granted if filed within 30 days of the party being named as an ITC respondent or within 30 days of the district court action being filed, whichever is later.

ITC Staff involvement

Unlike in district court actions, the ITC Staff participates as a party to the investigation, representing the public interest. The ITC Staff is “neutral” because it is not an advocate for the complainant or the respondent. For a given issue, the ITC Staff will present an independent position, which might agree with the private parties, fall somewhere in between or present a unique view not espoused by any party.

Another unique aspect is that the ITC Staff is available and willing to meet with prospective complainants to provide comments on draft complaints before they are filed. The wise prospective complainant should take advantage of the benefits of this opportunity.

Section 337 rules and discovery procedures

Section 337 actions are governed by the Administrative Procedures Act, the Commission Rules as set forth in 19 CFR §§ 210.1 *et seq* and the ground rules of the particular ALJ assigned to the investigation. These rules are generally consistent with the Federal Rules of Civil Procedure and Evidence.

One of the major differences between ITC actions and district court actions is the rapid

pace. After the ITC decides to institute an investigation, it is assigned to an ALJ who typically sets a target date of 12 to 15 months for completion of the investigation. Within this window, the parties will complete all discovery and participate in a trial, the ALJ will issue an initial determination (ID) and the ITC will review the ID and adopt, modify or reverse it. Also, unlike district court orders, ITC protective orders (governing confidential information) are standardised and automatically issue from the ALJ.

Parties must respond to discovery requests within 10 days of service, as opposed to the 30 days permitted in a district court action. There is no limit on depositions or the number of discovery requests that may be propounded.

Evidentiary hearing (trial)

The evidentiary hearing before the ALJ is similar to a district court bench trial. Hearings take place at the ITC's Washington, DC office and are open to the public, except for those portions dealing with confidential information. Hearings typically last one to two weeks and usually take place approximately six to nine months after institution of the investigation.

Unlike district court judges, the ALJ deals almost exclusively with patent cases. Thus, the ALJ is experienced with patent law issues and in dealing with complex technologies.

The ALJ must issue an ID no later than three months before the target date (ie, the ID typically issues about nine to 12 months after institution of the investigation). Rarely

is there a separate *Markman* hearing and decision. Typically, the ID will address all substantive issues in the case, including claim interpretation, infringement, validity, enforceability and domestic industry.

The ALJ must also issue a recommended determination regarding remedy and bonding if a Section 337 violation is found.

Potential remedies

If a violation is found, the ITC may issue a cease and desist order against any respondents to bar the sale of infringing articles that are presently in US inventory. The ITC may also issue a limited exclusion order directing US Customs to bar the importation of additional infringing articles by the named respondents. The ITC may issue a general exclusion order to bar the entry of all infringing articles, regardless of their source. Downstream products that contain the infringing articles can also be covered.

A complainant may initiate an enforcement proceeding against a respondent that has violated an ITC remedial order. Respondents that violate ITC remedial orders risk significant monetary penalties. A respondent may initiate an advisory proceeding at the ITC to obtain a determination as to whether the importation of a modified product would violate an existing ITC remedial order.

Appeals

Within 10 days of the ALJ's ID, any party can petition the ITC for review (by the commissioners). Any issues not raised in a petition are deemed waived. The decision on



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whether to grant a petition is due no later than 45 days after the issuance of the ID. The standard on review is whether the ID contains a clearly erroneous finding of material fact or an erroneous legal conclusion, or impacts on ITC policy. The ITC can also vote to review the ID *sua sponte*.

At its discretion, the ITC can adopt, modify or reverse the ALJ's ID. The ITC may also set aside a finding of violation if such a determination would be contrary to the public interest. If a petition for review is denied, the ALJ's ID is adopted and it becomes the ITC's final determination.

After the ITC finds a violation, a 60-day presidential review period commences. During this review period, the president can overrule the ITC determination for policy reasons. However, presidential intervention is extraordinarily rare. Injunctive relief becomes effective after the expiration of the 60-day presidential review period.

Final ITC determinations may be appealed to the US Court of Appeals for the Federal Circuit. The notice of appeal must be filed within 60 days of the ITC's final determination.

Termination of an investigation

Any party may move to terminate an investigation at any time based upon a consent order or settlement agreement. Motions to terminate based upon a settlement agreement are generally granted, unless the agreement is found to be contrary to the public interest.

Practice tips

A Section 337 action presents unique challenges. In view of the rapid pace and detailed requirements of the complaint, prospective complainants must plan their litigation strategy in advance. Prospective complainants are strongly encouraged to meet with ITC Staff prior to filing the complaint. ITC Staff comments are helpful and minimise the potential distraction of supplementation after filing. Prospective complainants should also finalise discovery requests, evidence collection and expert witness retention before the complaint is filed.

Additionally, the complainant should serve its discovery requests immediately after the notice of investigation issues and maintain pressure on the respondent(s) throughout the initial discovery period, to ensure that necessary discovery is obtained despite the limited time. Complainants should also engage expert witnesses early and secure the substance of their reports as soon as possible.

Complainants should also consider filing a parallel district court case. The companion district court case preserves potential damages claims in the complainant's choice of forum and avoids the risk that respondents will file a declaratory judgment action in a less desirable forum.

Potential Section 337 respondents should regularly monitor the ITC's website for recently filed complaints. If named as a respondent, stay calm and retain competent ITC counsel. While the complainant always has a head start, it is possible to catch up quickly. In order to do so, however, it is critical immediately to identify and develop all available defences. Retention of expert witnesses is also a high priority. Finding the best expert can often be time consuming and therefore this search must commence immediately. Moreover, the expert must also become familiar with the issues of the case, a difficult task in view of the pace of the proceedings. However, a case can easily be lost where an otherwise qualified expert testifies poorly for lack of preparation, lack of consideration of the issues or lack of recognition of the impact of his or her testimony. Respondents must also locate and interview potential fact witnesses and begin gathering evidence immediately. Discovery of non-parties should also commence early. Non-parties are not concerned with the schedule of your case and if discovery is sought too late, the clock can easily run out without having the benefit of complete discovery of non-parties.

As with all litigation, respondents in a Section 337 action must assess their case and the cost of a licence/settlement versus the cost of litigating. Immediate preparation efforts make this assessment more reliable and provide the requisite weapons to fight, or to convince your opponent the battle is not worth waging and settle the case.

Conclusion

The availability of an exclusion order and the prospect of intimidating accused infringers in a tersely paced forum will likely continue to attract complainants to the ITC. Respondents should not fear, but instead should immediately prepare. A successful resolution, whether through settlement or at trial, is at least as probable as a favourable result in district court, but only if the respondent understands and prepares to meet the challenges posed by ITC litigation.

The views expressed are those of the authors and do not necessarily reflect the views of Oblon, Spivak or any clients of Oblon, Spivak.

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