An Overview of Section 337 Litigation at the U.S. International Trade Commission

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Introduction to the ITC and Section 337 Practice
The International Trade Commission ("ITC")

• The ITC is an independent quasi-judicial Federal agency with broad investigative responsibilities on matters of trade
• Located in Washington, DC and led by six Commissioners
• The Commissioners are appointed by the President for 9-year terms, with no more than three Commissioners from the same political party.
Section 337 of the Tariff Act of 1930

- Grants the ITC responsibility for investigating and issuing appropriate remedies for importation of products into the United States that infringe U.S. intellectual property rights or that constitute unfair competition.

- Codified at 19 U.S.C. § 1337
Section 337 Investigations

• Begins with IP owner filing of complaint with the ITC
• Commission determines whether to institute investigation based on review of complaint
• If investigation is instituted, administrative law judge (“ALJ”) is designated to oversee the investigation
• ALJ issues ground rules and procedural schedule
• Schedule provides for a period of fact discovery, expert discovery, and then evidentiary hearing before the ALJ
• Discovery includes requests for production, interrogatories, requests for admission, and depositions
Section 337 Investigations (cont.)

- After the evidentiary hearing, ALJ issues initial determination on violation of § 337 and recommended determination on remedy
- Any party can petition the Commissioners to review the ALJ’s initial determination
- Commissioners can adopt or modify the ALJ’s initial determination, and then issue a final determination and a remedial order
- Commission’s final determination can be appealed to the Federal Circuit
Types of Cases that Qualify under Section 337

• Section 337 generally prohibits unfair activities in connection with importation of articles into the United States

• Unlawful activities under Section 337 include:
  – Violations of registered IP rights
    • importation, sale for importation, or sale within the United States after importation of articles that infringe a valid and enforceable United States copyright, patent, trademark, or other enumerated intellectual property rights
  – Unfair competition
    • unfair methods of competition and unfair acts of importation of articles, or sale of such articles, that threaten to destroy or substantially injure an industry, prevent the establishment of such industry, or restrain or monopolize trade and commerce in the United States.
Section 337 Also Requires Showing of U.S. Industry

• For claims involving infringement of copyright, patent, or trademark, Section 337 requires that an industry in the U.S. relating to the protected intellectual property either exists or is in the process of being established

• Referred to as the “domestic industry” requirement

• Domestic industry requirement can be satisfied by showing
  – Significant investment in plant and equipment,
  – Significant employment of labor or capital, or
  – Substantial investment in the exploitation of the intellectual property, including engineering, research and development, or licensing.
Section 337 Also Requires Showing of U.S. Industry

• For claims involving unfair acts other than infringement of a registered intellectual property right, Section 337 requires that the threat or effect of the unfair act is:
  – to destroy or substantially injure an industry in the United States;
  – to prevent the establishment of such an industry; or
  – to restrain or monopolize trade and commerce in the United States.
Comparison of ITC Investigations and District Court Actions – Procedural Differences

• ITC investigations proceed much more quickly than district court litigations
  – Discovery responses due in 10 days rather than 30 days.
  – Typically proceed to trial within 7 to 9 months after institution, whereas district court litigations can take 2 to 3 years before reaching trial.

• ALJ acts as fact finder—no jury

• Multiple unrelated defendants can be named as respondents in a single ITC action

• Staff attorney from ITC’s Office of Unfair Import Investigations participates in most investigations as additional party representing public interest
  – Has same rights as other parties, such as to serve discovery requests, take depositions, and examine witnesses at trial
Comparison of ITC Investigations and District Court Actions – Substantive Differences

• Requires showing of additional elements to establish Section 337 violation, such as importation and existence of domestic industry
• ITC cannot award damages
• Remedies limited to exclusion orders prohibiting importation and cease and desist orders prohibiting sales and other activities with respect to articles previously imported
• In determining whether to issue remedial order, ITC must consider public interest factors:
  – the effect of any exclusion order upon the public health and welfare,
  – competitive conditions in the U.S. economy,
  – the production of like or directly competitive articles in the US, and
  – U.S. consumers.
Comparison of ITC Investigations and District Court Actions – Substantive Differences (cont.)

• ITC need not issue any relief if it determines that an order is not in the public interest

• ITC remedial orders are also subject to review and disapproval by the President/U.S. Trade Representative for policy reasons
Benefits of Filing in the ITC

- Speed (7-9 months to trial, 15-18 months target for completion)
- ITC investigations generally not stayed based on concurrent proceedings at PTAB, such as IPR proceeding
- No risk of transfer to an unfavorable venue
- Ability to include multiple unrelated respondents in one action
- Issuance of exclusion order not subject to eBay factors
- Remedial orders typically not stayed pending appeal
- Personal jurisdiction over foreign entities simplified because ITC cases are in rem proceedings
Recent Developments at the ITC
Effect of PTAB Proceedings on ITC Investigations

• Requests for stays based on concurrent proceedings at PTAB are typically denied
  – ITC is mandated to complete investigations expeditiously
  – Factors that may be considered in ruling on a motion to stay include:
    • The state of discovery and the hearing date
    • Whether a stay will simplify the issues and hearing of the case
    • The undue prejudice or clear tactical disadvantage to any party
    • The stage of the PTO proceedings
    • The efficient use of Commission resources
    • The alternative remedies available in Federal Court

See Certain Laser-Driven Light Sources, Inv. No. 337-TA-983, Order No. 8, at 4-5 (USITC Mar. 3, 2016)
Effect of PTAB Proceedings on ITC Investigations

• Requests for stays based on concurrent proceedings at the PTAB are typically denied (cont.)

  – *Certain Laser-Driven Light Sources*, Inv. No. 337-TA-983:
    • ALJ denied respondents’ motion to stay the investigation pending issuance of a final written decision by the PTAB, explaining:
      – Status of the IPR proceedings did not provide a reason to stay the investigation as there would not be any time to integrate the insights from the IPRs into the initial determination
      – IPR proceedings would not simplify the issues since the IPR process used a different claim construction standard, is not able to address the question of indefiniteness, and could not consider the prior art devices that respondents were planning to rely upon in the ITC investigation
      – Respondents might gain an advantage from a stay, as it could allow respondents to import infringing products for years before a final determination could be made
      – Would be most efficient to proceed with the ITC investigation because the IPR and the ITC investigation were not truly parallel since the investigation would involve a number of issues that were not raised in the IPR
Effect of PTAB Proceedings on ITC Investigations

• Remedial orders may be suspended after PTAB issues final decision
  – If the PTAB issues a final written decision finding one or more claims unpatentable, the ITC may suspend enforcement of a remedial order until completion of the appeal of the PTAB decision
Effect of PTAB Proceedings on ITC Investigations

- Remedial orders may be suspended after PTAB issues final decision (cont.)
  - Certain Three-Dimensional Cinema Systems and Components Thereof, Inv. No. 337-TA-939
    - ALJ found a violation of Section 337
    - After ALJ issued initial determination but before Commission completed its review, PTAB issued a final written decision in IPR finding certain claims unpatentable
    - Commission addressed the impact of the PTAB’s decision:
      - Issue preclusion does not apply because ITC and PTAB use different legal standards
      - Declined to adopt the PTAB’s invalidity opinion because (i) respondent failed to meet its burden of proof for invalidity in ITC, and (ii) invalidity arguments at PTAB and ITC were not identical
    - Commission affirmed ALJ’s finding and issued a limited exclusion order and cease-and-desist order but suspended enforcement of the remedial orders with respect to the claims found unpatentable by PTAB pending final resolution of the PTAB’s decision by the Federal Circuit
100-Day Proceedings Program at the ITC

• **100-Day Proceedings Program:**
  – Commission may identify a potentially dispositive issue, and in the notice of institution, direct the ALJ to expedite fact-finding and hold an abbreviated evidentiary hearing limited to the identified issue(s) so that the ALJ can issue an initial determination within 100 days of the institution of an investigation
  – Commission’s stated goal of the program is to “limit unnecessary litigation, saving time and costs”
  – Launched June 2013
  – Often referred to as “100-Day Pilot Program”
100-Day Proceedings Program at the ITC

• Currently, inclusion in 100-Day Proceedings Program can be requested by the parties or initiated by the Commission
  – Parties can request inclusion by submitting letter to ITC shortly after filing of complaint
  – Alternatively, ITC can designate investigation sua sponte
    • Certain Inflatable Products With Tensioning Structures And Processes For Making The Same, Inv. No. 337-TA-1009, Notice of Institution (USITC June 20, 2016) (instituting 100-Day Proceedings Program on the issue of the economic prong of the domestic industry requirement despite the fact that none of the parties requested participation in the program)
100-Day Proceedings Program at the ITC

• Commission’s proposed rulemaking identifies three ways an investigation can be included in the program:
  – (1) Commission can designate a potentially case-dispositive issue for early ruling at the time of institution
  – (2) Parties may file a motion within 30 days of institution asking the presiding ALJ to issue an order designating a potentially case-dispositive issue for early ruling
  – (3) ALJ can, on his or her own initiative, designate a potentially case-dispositive issue for early ruling

100-Day Proceedings Program at the ITC

• Commission has steadily been increasing the use of the 100-Day Proceedings Program
  – Between 2013 and 2015, the program was used in two investigations:
    • Domestic industry
      – *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874
    • Standing
      – *Certain Audio Processing Hardware and Software and Products Containing Same*, Inv. No. 337-TA-949
100-Day Proceedings Program at the ITC

• Commission has steadily been increasing the use of the 100-Day Proceedings Program (cont.)
  – In 2016, the program was used in three investigations:
    • Domestic industry
      – Certain Inflatable Products with Tensioning Structures and Processes for Making the Same, Inv. No. 337-TA-1009
      – Certain Silicon-on-Insulator Wafers, Inv. No. 337-TA-1025
    • Subject matter eligibility under 35 U.S.C. § 101
      – Certain Portable Electronic Devices and Components Thereof, Inv. No. 337-TA-994
100-Day Proceedings Program at the ITC

• Not all issues are appropriate for inclusion in the program
  – Issue must fully dispose of the case
    • Issue that relates to only 2 of the 5 asserted patents is insufficient
      – *Certain Quartz Slabs and Portions Therefore (II)*, Inv. No. 337-TA-1017, Order Denying Request for Entry Into Early Disposition Pilot Program (USITC Aug. 11, 2016)
    • Issue that relates to activities of only 1 of 3 respondents is insufficient
100-Day Proceedings Program at the ITC

• Not all issues are appropriate for inclusion in the program (cont.)
  – Issue must be capable of resolution at the beginning of the investigation rather than during the remedy phase
    • Issue that relates only to the public interest factors in the remedy phase is not appropriate for resolution via 100-day proceeding
Electronic Transmission of Data

• Section 337 grants the ITC jurisdiction over unfair acts involving the importation of “articles”

• In 2016, the Federal Circuit confirmed that electronically transmitted data is not an “article” within the meaning of Section 337
  – Case involved digital models of orthodontic appliances that were electronically transmitted into the U.S.
  – *ClearCorrect Operating, LLC v. Int’l Trade Comm’n*, 810 F.3d 1283 (Fed. Cir. 2015) (holding that the term “articles” is limited to “material things”)

• Therefore, the ITC cannot find a violation of Section 337 based on the importation of data that is solely transmitted electronically into the United States
Subject Matter Eligibility (35 U.S.C. § 101)

• Since the Supreme Court’s decision in Alice, the ITC has issued eight decisions in six investigations relating to subject matter eligibility
  – Certain Network Devices, Related Software and Components Thereof (I), Inv. No. 337-TA-944
  – Certain Light Emitting Diode Products and Components Thereof, Inv. No. 337-TA-947
  – Certain Activity Tracking Devices, Systems, and Components Thereof, Inv. No. 337-TA-963
  – Certain Automated Teller Machines, ATM Modules, Components Thereof and Products Containing Same, Inv. No. 337-TA-972
  – Certain Wearable Activity Tracking Devices, Systems and Components Thereof, Inv. No. 337-TA-973
  – Certain Portable Electronic Devices and Components, Inv. No. 337-TA-994
Subject Matter Eligibility (35 U.S.C. § 101)

• *Certain Network Devices, Related Software and Components Thereof (I),* Inv. No. 337-TA-944
  - Respondents filed a summary determination motion that one of six asserted patents related to computer networking devices was invalid for failing to recite patent-eligible subject matter under 35 U.S.C. §101
  - The ALJ denied respondents’ motion finding that there was an issue of material fact regarding the scope of the claims, and the claims had not yet been construed

Subject Matter Eligibility (35 U.S.C. § 101)

- **Certain Network Devices, Related Software and Components Thereof (I), Inv. No. 337-TA-944 (cont.)**
  - During hearing, respondents argued that 3 of 6 asserted patents were invalid under § 101, including patent that was subject of respondents’ earlier motion
  - ALJ held that asserted claims of all 3 patents were directed to patent-eligible subject matter
    - Regarding 1st patent, ALJ found that it was “directed to a specific thing . . . and not an abstract idea,” and “patent claims describe not only the desired functionality, but also a specific and non-generic arrangement of components within a particular type of device to carry out that functionality within the device, thereby improving the device.”
    - Regarding other two patents, ALJ found that they were directed to a “specific device . . . configured in a specific way,” and that “[t]hese physical structures are the opposite of having an idea, having no particular concrete or tangible form”
  - Commission reviewed initial determination for the two patents and affirmed ALJ’s patentability holding, but did not reach § 101 issue for other patent

Subject Matter Eligibility (35 U.S.C. § 101)

- **Certain Light Emitting Diode Products and Components Thereof** (Inv. No. 337-TA-947)
  - Complainants asserted 8 patents related to LED devices
  - Respondents argued two patents were invalid under § 101 as being “directed to the abstract idea of obtaining a wall plug efficiency of at least 60 lumens per watt”
  - The ALJ held that claims were not invalid under § 101 explaining that:
    - The respondents did not prove that the claims were invalid by clear and convincing evidence, and the asserted claims solved a technical problem in the lighting industry

Subject Matter Eligibility (35 U.S.C. § 101)

- **Certain Activity Tracking Devices, Systems, and Components Thereof** (Inv. No. 337-TA-963)
  - Respondents filed motion for summary determination that 3 of 6 asserted patents related to wearable fitness and activity tracker devices were invalid under § 101
  - ALJ found that 2 of the patents were directed to ineligible subject matter:
    - In determining whether a claim is patent eligible under § 101, “no presumption of eligibility applies”
    - The two patents were directed to abstract idea of “collecting and recording information,” and neither patent disclosed an inventive step
    - Third patent was withdrawn from investigation prior to ALJ’s ruling
  - Commission affirmed ALJ’s holding but modified decision to clarify that “the law remains unsettled as to whether the presumption of patent validity under 35 U.S.C. § 282 applies to subject matter eligibility challenges under 35 U.S.C. § 101”

Subject Matter Eligibility (35 U.S.C. § 101)

• **Certain Activity Tracking Devices, Systems, and Components Thereof** (Inv. No. 337-TA-963) (cont.)

  – Respondent filed a 2nd motion for summary determination that two of remaining patents were invalid under § 101
  
  – ALJ held that the two patents were directed to abstract idea of “collecting and monitoring sleep and other health-related data,” and were “therefore ineligible under section 101”
  
  – The Commission declined to review ALJ’s determination

Subject Matter Eligibility (35 U.S.C. § 101)

- *Certain Automated Teller Machines, ATM Modules, Components Thereof and Products Containing Same* (Inv. No. 337-TA-972)
  - Respondents filed motion for summary determination that 1 of 6 asserted patents related to ATM machines was invalid under § 101
  - The ALJ found that asserted claims were “highly general and do little more than describe basic computer functions” and granted respondents’ motion
  - The Commission declined to review the ALJ’s determination

See *Certain Automated Teller Machines, ATM Modules, Components Thereof, And Products Containing The Same*, Inv. No. 337-TA-972, Order No. 21: Initial Determination (USITC June 28, 2016); *Certain Automated Teller Machines, ATM Modules, Components Thereof, And Products Containing The Same*, Inv. No. 337-TA-972, Notice of Commission Decision Not To Review An Initial Determination (USITC July 28, 2016)
Subject Matter Eligibility (35 U.S.C. § 101)

• *Certain Wearable Activity Tracking Devices* (Inv. No. 337-TA-973)
  – Respondents filed motion for summary determination that three asserted patents related to wearable activity tracking technology were invalid under § 101
  – The ALJ granted respondents’ motion finding that the claims were directed to an abstract idea and lacked an inventive concept
  – The Commission:
    • Vacated ALJ’s ruling regarding 2 patents and remanded for evidentiary hearing on § 101 issue because the parties disputed what was conventional at the time of the invention, and the ruling on the summary determination motion did not view the evidence in the light most favorable to the complainant
    • Declined to review the summary determination as to the third patent

Subject Matter Eligibility (35 U.S.C. § 101)

• Certain Portable Electronic Devices, Inv. No. 337-TA-994
  – Complainants asserted a patent related to graphical user interfaces for portable media players
  – In the notice of institution, the Commission directed the ALJ to utilize a 100-Day Proceeding to resolve the § 101 issue
  – Following an early evidentiary hearing, the ALJ issued an initial determination holding that the claims of the asserted patent were invalid under § 101
  – The Commission declined to review the ALJ’s determination, and an appeal is currently pending

Subject Matter Eligibility (35 U.S.C. § 101)

• Key takeaways
  – ITC is amendable to holding patents invalid under § 101
  – Section 101 defense can be successfully raised at different stages of the investigation and through a variety of procedural mechanisms:
    • Motion for summary determination
    • 100-Day Proceeding
    • During evidentiary hearing
  – For patent owner, can be important to demonstrate that invention solved a technological problem and provided technological improvement over what was conventional at time of invention.
Trade Secret Misappropriation

- Trade secret misappropriation claims at ITC have both substantive and jurisdictional requirements
  - **Substantive requirements:**
    - existence of a process that is protectable as a trade secret
    - complainant is the owner of the trade secret
    - complainant disclosed trade secret to respondent while in confidential relationship or respondent wrongfully took trade secret by unfair means
    - respondent has used or disclosed trade secret causing injury to complainant
  - **Jurisdictional requirements:**
    - Existence of domestic industry
    - Actual substantial injury or the threat of substantial injury to that domestic industry

Trade Secret Misappropriation

• ITC’s extraterritorial authority was revisited in 2016
  – Background
    • *Certain Cast Steel Railway Wheels, Certain Processes For Manufacturing Or Relating To Same And Certain Products Containing Same (Inv. No. 337-TA-655)*
      – Commission found that violation of Section 337 can be based on misappropriation that takes place abroad of trade secret that was developed in United States
      – Federal Circuit affirmed explaining that ITC has authority to “investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace”

*Certain Cast Steel Railway Wheels, Certain Processes For Manufacturing Or Relating To Same And Certain Products Containing Same, Inv. No. 337-TA-655, Order No. 14: Denying Respondent Tianrui Group Foundry Limited’s Motion To Terminate Investigation (USITC Feb. 27, 2009); Tianrui Group Co. Ltd. v. ITC, 661 F.3d 1322, 1324 (Fed. Cir. 2011)*
Trade Secret Misappropriation

• ITC’s extraterritorial authority was revisited in 2016 (cont.)

  – Sino Legend (Zhangjiagang) Chem. Co. Ltd. v. ITC
    • Commission found that Sino Legend violated Section 337 by importing goods that were manufactured in China using misappropriated trade secrets, and issued an exclusion order barring the importation of products made using the trade secrets for 10 years
    • The Federal Circuit issued summary affirmance of Commission’s decision pursuant to Fed. Cir. R. 36
    • Sino Legend asked the Supreme Court to decide whether Section 337 authorizes the ITC to investigate misappropriation that occurred entirely outside the United States arguing, inter alia, that for a statute to apply abroad, there must be express congressional intent, and such intent is missing from Section 337
    • Supreme Court denied the petition for certiorari

Trade Secret Misappropriation

• Defend Trade Secrets Act (“DTSA”)
  – Enacted in May 2016
  – Created a federal cause of action for misappropriation, thereby allowing trade secret owners to bring action for trade secret misappropriation in federal court
  – Prior to enactment of DTSA, ITC applied a “federal standard” as the substantive law for adjudicating trade secret claims
  – Unclear whether the ITC will now apply DTSA as the substantive law for adjudicating trade secret claims
Sanctions For Spoliation of Evidence

• Commission Rule 210.33 grants ALJ authority to impose sanctions for party’s failure to make or cooperate in discovery, including sanctions for spoliation of evidence

• Sanctions for spoliation require a showing that:
  – (1) the party having control over the evidence had an obligation to preserve it at the time it was destroyed or materially altered;
  – (2) the records were destroyed or materially altered with a culpable state of mind; and
  – (3) the destroyed or materially altered evidence was relevant to the claim or defense of the party that sought the discovery of the spoliated evidence, to the extent that a reasonable fact finder could conclude that it would support that claim or defense.

Sanctions For Spoliation of Evidence

**Certain Opaque Polymers (Inv. No. 337-TA-883)**

- Complainant Dow accused respondent Organik Kimya of violating Section 337 by, *inter alia*, selling and importing into the United States opaque polymers that were produced using trade secrets misappropriated from Dow.
- Dow filed a motion for default and other sanctions against Organik Kimya for spoliation of evidence.
- After two-day hearing, ALJ issued determination granting entry of default judgment against Organik Kimya finding that it had failed to make certain computers and networks available for inspection, deleted computer files, removed recoverable data that was previously deleted, and tampered with a computer clock to make it appear as though the data was manipulated prior to the initiation of the investigation.

Sanctions For Spoliation of Evidence

• Certain Opaque Polymers (Inv. No. 337-TA-883) (cont.)
  – Commission affirmed ALJ’s determination and granted 25-year limited exclusion order and cease and desist order
  – Federal Circuit affirmed the Commission’s decision:
    • Regarding default judgment, Federal Circuit found that Commission has power to issue default judgment as discovery sanction in appropriate cases when party disobeys discovery order.
    • Regarding issuance of limited exclusion order with a 25-year term, Federal Circuit found that Commission’s analysis and imposition of the 25-year limited exclusion order was not an abuse of discretion and did not constitute legal error.

Sanctions For Spoliation of Evidence

• Certain Stainless Steel Products, Inv. No. 337-TA-933
  – Complainants alleged violations of Section 337 by Viraj Profiles and others based on importation and sale of stainless steel products manufactured using complainants’ trade secrets
  – Complainants filed a motion for default and other sanctions against Viraj Profiles for spoliation of evidence
  – ALJ found that Viraj Profiles acted in bad faith in spoliating evidence by, *inter alia*, failing to produce for inspection thirty-six USB devices in violation of a court order, making repeated false representations, and destroying information after an investigation was instituted and after receiving a litigation hold from counsel
  – ALJ issued a determination granting entry of default judgment and other relief against Viraj Profiles for spoliation
  – Commission affirmed and issued a limited exclusion order for a period of 16.7 years, and a cease and desist order

*Certain Stainless Steel Products, Certain Processes for Manufacturing or Relating to Same, and Certain Products Containing Same, Inv. No. 337-TA-933, Commission Opinion (USITC June 9, 2016)*
Sanctions For Spoliation of Evidence

• Key takeaways
  – Spoliation of evidence in ITC investigations can result in imposition of severe sanctions, including entry of default judgment
  – Practitioners need to ensure that all relevant evidence is properly preserved throughout investigation
  – Evidence of spoliation can be discovered through court-ordered forensic inspection of computers and other electronic devices, as well as through discovery tools such as depositions
  – Parties confronted with spoliation of evidence by an opposing party should seek appropriate sanctions for such misconduct
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