Patent Litigation under Section 337

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Philip Graves represents companies involved in patent cases in a wide variety of technical fields, including computer systems, networks and network monitoring, secure systems design, cryptography, biotechnology and pharmaceuticals, lasers, medical devices, various applications of photopolymers and resins, and rapid prototyping, among others. He also has extensive experience with cases involving trademark infringement, copyright infringement, unfair competition and misappropriation of trade secrets. Phil is recognized by his peers as a preeminent intellectual property litigator, as demonstrated by his inclusion in Southern California Super Lawyers® every year since 2004, and by his inclusion in the Los Angeles Business Journal list of 40 Angelenos to Know in Intellectual Property Law.

About Snell & Wilmer

Founded: 1938

Geographic Reach: More than 400 attorneys in nine locations across the western United States and in Mexico. Locations include Phoenix and Tucson, Arizona; Los Angeles and Orange County, California; Denver, Colorado; Los Cabos, Mexico; Las Vegas and Reno, Nevada; and Salt Lake City, Utah.

Client Reach: Regional, national and international. Clients include major national and multinational corporations, educational and research institutions, municipalities and government agencies, nonprofits, charitable organizations, industry executives and high-net-worth individuals.

What Sets Us Apart

External Focus: At Snell & Wilmer, we recognize one straightforward fact - our clients care less about our internal workings and more about the degree to which we understand their business, their industry, and the trends and challenges that can affect their ability to minimize risk and maximize success. This strong external focus and the diverse experience of more than 400 attorneys enable us to help clients solve problems, achieve opportunities and deal efficiently and effectively with an ever-changing economic, business and legal landscape.

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Earned Client Trust: Central to any business is the desire to decrease expense and drive revenue. When dealing with legal matters that involve proprietary business information, trust between the client and our firm is paramount. Snell & Wilmer provides creative yet practical client-specific solutions. Professional integrity and fast response to client needs guide our interactions. In short, we work with clients in ways that are both personal and professional – ways that engender mutual trust and pave the way for successful outcomes.
Patent Litigation under Section 337

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Snell & Wilmer
U.S. Patent Litigation: Overview

• U.S. District Court
  – Traditional forum for patent litigation
  – In those cases that go to trial, a jury of 12 people decides infringement, validity, damages and most other important issues
  – In 2012, there were 5,189 patent cases filed in U.S. district courts

• International Trade Commission (ITC)
  – Resolves investigations of unfair trade practices, including patent infringement, under 19 U.S.C. § 1337 (“Section 337”)
  – In 2012, there were 40 investigations instituted by the ITC
U.S. Patent Litigation: Overview

• U.S. Patent and Trademark Office (USPTO) post-grant procedures
  – Increasingly used by defendants to attack patents asserted against them in litigation
  – Often effective in narrowing or invalidating a patent
  – Different procedures
    • Reexamination
    • Post Grant Review
    • Inter Partes Review
    • Covered Business Method Patents
U.S. Patent Litigation: Overview

• Appeals
  – U.S. Court of Appeals for the Federal Circuit
    • Specialized patent court
    • Hears appeals from decisions of district courts, the ITC and the USPTO
  – U.S. Supreme Court
    • Hears very few cases
    • Extremely high level of interest in patent cases in recent years
    • Six patent cases in the 2013-2014 term
U.S. Patent Litigation: Overview

- Claim construction
- Infringement
- Validity
- Enforceability
- Remedy
Claim Construction

- Often dispositive
- Judge makes the decision
  - Relatively high reversal rates (~30%)  
  - Federal Circuit gives no deference to district judge’s ruling
    - Lighting Ballast Control v. Philips Electronics North America, 744 F.3d 1272 (Fed. Cir. 2014) (en banc)
    - U.S. Supreme Court recently granted certiorari re standard of review. Teva Pharmaceuticals USA v. Sandoz, No. 13-854 (March 31, 2014)
      - Likely outcome: More deference to district judge
Claim Construction

• Interpret the claims as a person of ordinary skill in the art ("POSA") would understand them

• Intrinsic/extrinsic evidence
  – Intrinsic: Claim language, patent specification, prosecution file
  – Extrinsic: Everything else

• Procedure
  – Claim construction ("Markman") hearing
  – Negotiate limited set of claim terms for construction
  – Expert testimony
    • Typically by declaration; live testimony rarely admitted
  – "Tutorial" for judge regarding the technology at issue
Infringement

• Apply the claims to the accused product or process
  – Literal: Every limitation of the claim must be present for infringement
  – “Means plus function” claims
  – Indirect v. direct infringement
    - Contributory
    - Inducement
    - Joint infringement
  – Doctrine of Equivalents: “Insubstantial” differences between claim element, and structure or step of accused product or process, will not defeat infringement
  – Expert testimony nearly always used
Invalidity

• Patent is presumed valid
  – Must prove invalidity by “clear and convincing evidence”
  – Each claim of the patent stands on its own
• Patentable subject matter
  – Any “new and useful process, machine, manufacture, or composition of matter”
  – Courts are struggling to apply a workable standard
    • Business method patents
    • Medical diagnostics
    • U.S. Supreme Court soon to deliver its fourth opinion in four years. *Alice Corp. v. CLS Bank International*, No. 13-298 (Dec. 6, 2013)
• “Novel”
  – Was the claimed invention fully disclosed in a prior patent or publication?
• Statutory bars to patentability
  – On sale, public use
Invalidity

• “Non-obvious”
  – Would the claimed invention have been obvious to POSA as of the priority date?
    • *KSR v. Teleflex*, 550 S. Ct. 398 (2007): The U.S. Supreme Court loosened the standard
  – “Secondary considerations of non-obviousness”
    • Commercial success of patented products, industry recognition of patented invention, etc.

• Formalities
  – Is the language of the claim “indefinite?”
    • Very difficult to prove, except for some software patents
    • U.S. Supreme Court may re-write the standard. *Nautilus v. Biosig Instruments*, No. 13-369 (Jan. 10, 2014)
  – Does the patent specification “enable” the claimed invention?
  – Does the written description of the invention show that the inventor “possessed” the claimed invention?

• Expert testimony nearly always used
Enforceability

• Violation of duty of candor to USPTO may render patent unenforceable
• Difficult to prove
  – “Clear and convincing evidence”
  – Misrepresentation or omission
  – Material to patentability
  – Specific intent to deceive patent examiner
• Rarely successful
  – Federal Circuit has tightened standard
  – “But for” materiality required except where misconduct is egregious
  – Federal Circuit: Claims of inequitable conduct have “plagued not only the courts but also the entire patent system”
Remedy

• Damages
  – Reasonable royalty
  – Lost profits
  – Expert testimony typically used
    • Federal Circuit is tightening standards

• Injunction
  – Not always available
    • Practicing entities: Probably
    • Non-practicing entities: Probably not
Remedy

• Attorneys’ fees
  – Rarely awarded (~1% of patent cases)
  – Requires “exceptional case”
  – U.S. Supreme Court
    • Likely to loosen the standard. Octane Fitness v. Icon Health and Fitness, No. 12-1184 (Oct. 1, 2013)
Patent Litigation in the ITC

• International Trade Commission
  – Six Commissioners
  – Appointed for nine-year terms
• Administrative Law Judges
  – “Quasi-judicial” proceedings
  – Conduct hearings
  – Issue “initial determinations” regarding whether a violation has been proven, with findings of fact and conclusions of law
  – Issue “initial recommendations” regarding the appropriate remedy
Who is Targeted under Section 337?

- Asia: 66% of ITC patent cases 1995-2007
  - China/Hong Kong: 23%
  - Taiwan: 16%
  - Japan: 10%
  - Korea: 5%
- Europe: 23%
  - Germany: 4%
- North America: 9%
Rights Enforced under Section 337

- Patents
  - About 90% of section 337 cases involve disputes concerning patent infringement
- Trademarks
- Copyrights
- Mask works
- “Unfair methods of competition”
  - Misappropriation of trade secrets
  - Antitrust violations
- Non-U.S. intellectual property? No
Acts Constituting a Violation of Section 337

• Violation exists if infringing “articles” are:
  – Imported into the U.S.
  – Sold for importation into the U.S.
  – Sold within the U.S. after importation
  – “Articles” includes digital files that are transmitted into the U.S.
    • Certain Digital Models, Inv. No. 337-TA-833
    • Federal Circuit has not yet spoken on this issue
How is Section 337 Different from District Court?

• Administrative agency, not a court
  – Administrative law judge (ALJ)
    • Expertise regarding patent law
  – No jury
• Expedited process
  – 12-18 months from start to finish
    • District court: Typically longer, 2-3 years
  – Fast, but expensive
• Broad jurisdiction: “In rem” = jurisdiction over the products
• Remedy
  – Exclusion order enforced by U.S. Customs and Border Protection (CBP)
    • Easier to get injunctive relief than in district court
  – Cease and desist order
  – No damages
Who Can Use Section 337?

- Any company with a U.S. “domestic industry”
  - Not limited to U.S.-domiciled companies
- What is a domestic industry?
  - Economic prong:
    - Complainant must have within the U.S.:
      - Significant investment in plant and equipment;
      - Significant employment of labor or capital; or
      - Substantial investment in the exploitation of the patent, including engineering, R&D and licensing
    - Design, assembly, service and repair, or installation and packaging in the U.S. of a product manufactured outside the U.S., may suffice
  - Technical prong: Activities must relate to the articles protected by the patents at issue
    - Must show that actual commercial products practice the asserted patents
    - Not required for ITC complaints based on “unfair methods of competition”
Advantages/Disadvantages for IP Owner

• Advantages
  – Complainant has time to prepare; respondents do not
    • Complainant already has infringement evidence
    • Complainant may already have experts
  – Fast pace, strict deadlines
  – General exclusion order: Enforceable against the world
  – Exclusion order enforced by CBP

• Disadvantages
  – Must prove domestic industry
    • However, usually easily satisfied
  – No damages
  – Typically more expensive than district court
    • Due to faster pace

• No jury: Advantage or disadvantage?
How is the Investigation Initiated?

• IP owner files a complaint
  – Facts showing infringement
    • Importation/sale of accused product
    • Claim charts
  – Facts showing domestic industry

• Statement of public interest
  – Addresses how issuance of the requested remedy could affect:
    • the public health and welfare in the United States
    • competitive conditions in the United States economy
    • the production of like or directly competitive articles in the United States, or
    • United States consumers
  – Rarely an issue
    • Exceptions: important medical device that cannot be manufactured in sufficient quantity within the U.S.
Institution of Investigation

• ITC publishes a notice in the Federal Register inviting comments from the public
  – This is often the first notice that a respondent gets that it may be subject to a section 337 proceeding
• The Commission “shall” determine within 30 days whether to institute an investigation
  – Commission rarely declines to institute an investigation
• Commission serves copies of the complaint on respondents
Response

• 20 days from date of service of the complaint and notice of investigation
• Contents
  – Respond to each material allegation of the complaint
    • Non-infringement: Explain the basis, and preferably provide a claim chart
    • Drawings, photographs or visual representations of the accused product
    • Invalidity: Explain the basis, and preferably provide claim charts
  – Facts constituting each ground of defense
  – Capacity to produce accused product, or identify suppliers
• Counterclaims
  – May be filed up to 10 days prior to the hearing
  – Immediately removed to U.S. District Court
  – Separate ITC proceeding?
• Failure to respond → default
• Intervention
• Motion to stay parallel district court litigation
Discovery

• Timeline
  – Domestic industry disclosures
  – Infringement disclosures
  – Invalidity disclosures

• Discovery of electronic documents
  – Disputes typically negotiated with counsel

• Depositions

• Subpoenas
  – Easy to get
  – Difficult to enforce
Experts

• Subjects of expert testimony in section 337 proceeding
  – Claim construction
  – Infringement
  – Invalidity
    • Help you find prior art
    • Consider an “industry expert” to help with secondary considerations of non-obviousness
  – Bond
• Engage experts early in the process
Hearing

• Very fast ramp to trial
• Most testimony put on through written witness statements
  – Witnesses cross-examined through live testimony
• Most evidence will be admitted
  – For example, hearsay is admissible
  – Exception: Gamesmanship may be punished
    • Try to exclude late-produced evidence
• Hearing
  – Short (typically a few days)
• Outcome
  – ALJ issues Initial Determination (ID) regarding violation of section 337
  – ALJ issues Initial Recommendation (IR) regarding the appropriate remedy
Remedy: Exclusion Order

• Types
  – Limited exclusion order: Bars importation of products of specific respondents that are covered by the complainant’s patent
  – General exclusion order: Bars importation of products from any source that are covered by the complainant’s patent
    • Requires showing of likely circumvention of a limited exclusion order, or pattern of violation of section 337
    • More often available for goods with many suppliers and low barriers to entry

• Scope: Typically broad
  – Example: “Personal data and mobile communications devices and related software covered by” the claims at issue are excluded from entry
  – Very rarely, Commission will provide an exemption for specified non-infringing products
Remedy: Exclusion Order

• Certification provision: Importer may certify that, “to the best of its knowledge and belief,” based on “appropriate inquiry,” its goods are not subject to exclusion
  – Often used where exclusion order is difficult to implement, or might otherwise create a cloud over large volume of non-infringing product
  – CBP is not required to accept the certification, may exclude goods anyway

• Penalties for violation of an exclusion order
  – No monetary penalty under section 337
  – Imposition of a cease and desist order
  – Possible monetary penalties for fraudulent, grossly negligent or negligent statement on Customs forms (e.g., false certification of compliance with exclusion order)
  – Possible criminal prosecution for violations of U.S. Customs laws
Remedy: Cease and Desist Order

- Covers conduct within and outside the U.S., e.g., sales and marketing of infringing goods within the U.S.
- Directed to specific respondents (and those acting in concert with them) that:
  - Have “commercially significant inventory” of accused product in the U.S. at the conclusion of the Investigation, or
  - Have defaulted, or
  - In an enforcement proceeding, have previously violated an exclusion order
- From 2002 – 2011, issued in about 50% of cases with an exclusion order
- Penalties for violation
  - Greater of $100,000 or twice the value of the goods sold per day of violation
    - *Ink Cartridges*, Inv. No. 337-TA-565: Over $20 million in penalties
  - Possible criminal prosecution for providing false information in response to reporting requirements
  - Commission may penalize officers and agents of the respondent who played a role in the violation
Remedy: Consent order

- Agreed to as part of a settlement
- Terms similar to a cease and desist order
- Penalties for violation: Same as cease and desist order
Public Interest

• Commission may decline to issue a remedy, or issue a tailored remedy, if the public interest outweighs interest in protecting IP rights
• In practice, rarely invoked
  – *Fluidized Supporting Apparatus*, Inv. No. 337-TA-182/188: Commission denied remedy where the product was hospital beds for burn patients and there was insufficient ability to supply in the U.S.
  – *Baseband Processor Chips*, Inv. No. 337-TA-543: Commission issued exclusion order but exempted models of devices imported into the U.S. prior to June 7, 2007, to lessen impact on public safety and competitive conditions
  – *Personal Data and Mobile Communications Devices*, Inv. No. 337-TA-710: Commission issued exclusion order but delayed exclusion of infringing HTC Android handsets by four months and permitted importation of refurbished warranty-replacement handsets for two years
• Commission may authorize ALJ to take evidence and make recommendation regarding public interest
• Interested parties may comment on public interest before investigation is initiated as well as at remedies phase
**Bond**

- Parties may continue to import product covered by an exclusion order during the 60-day Presidential review period if they post a bond.
- Set at level “sufficient to protect the complainant from any injury” during the Presidential review period:
  - Often based on average of amount by which infringing imports undersell complainant’s product, as percentage of value upon entry.
  - Reasonable royalty.
  - If insufficient evidence to calculate amount: 100% of value upon entry.
- If the exclusion order survives Presidential review (highly likely), the ALJ or Commission will determine whether the bond should be forfeited in whole or in part:
  - Complainant may recover damages for injury resulting from importation of covered products during the review period.
Commission Review and Opinion

• Commission issues an opinion containing its findings and conclusions
• Commission review of the ALJ’s Initial Determination regarding violation of section 337
  – Any party to the Investigation may request Commission review of the ALJ’s ID
    • But not defaulted parties
  – If Commission declines to review, the findings of the ALJ become the findings of the Commission
• Commission review of the ALJ’s Initial Recommendation regarding remedy and bonding, and determination regarding public interest
  – Parties to the Investigation, U.S. agencies and “interested parties” may file written submissions regarding remedy, public interest and bonding after the ALJ issues an IR re remedy and bonding
    • Opportunity for non-parties to the investigation to explain why they should be exempted from a general exclusion order
    • Cannot challenge the ALJ’s recommendations on violation
Presidential Review

• President may disapprove the Commission’s decision for “policy reasons”
  – 60 day review period
  – Authority delegated to the U.S. Trade Representative
  – Disapproved Commission determinations “have no force and effect”

• Opportunity for lobbying and political mobilization that would be inappropriate during the investigation
Presidential Review

- Rarely invoked
  - Five times, 1978 - 1986
  - None, 1987 - 2012
    - President disapproved Commission’s exclusion order and cease and desist order against Apple because Samsung’s patent was a standards-essential patent (SEP)
    - Applied U.S. Dept. of Justice/USPTO Policy Statement
      - Exclusion orders available for a SEP only if respondent fails to pay a “fair, reasonable and non-discriminatory” (FRAND) royalty, or is not subject to the jurisdiction of a court that could award damages
      - Encouraged Commission to evaluate public interest factors with more vigor
      - Non-practicing entities (“patent trolls”) next?
- If President disapproves on the ground that the remedy is too broad, Commission may modify the remedy
  - E.g., if the President disapproves because a general exclusion order is inappropriate, Commission may issue a limited exclusion order
Enforcement

- Commission determination enforceable upon publication in Federal Register
  - Exception: Not enforceable against parties that post a bond until expiration of Presidential review
- U.S. Customs and Border Patrol (CBP)
  - Products covered by an exclusion order are blocked or seized at U.S. ports of entry
  - Intellectual Property Rights Branch (IPRB)
    - IPRB sends instructions to U.S. ports of entry regarding enforcement
    - Any interested party may meet with IPRB to present its position regarding implementation of the order
- Effectiveness of CBP enforcement
  - Complainants believe that substantial quantities of infringing goods still enter the U.S.
    - 2010: 65% of prevailing ITC complainants believed that infringing product had been imported despite exclusion order
  - Abuse of certification provisions
  - No notice to patent owner of seizures, certifications
  - Enhanced if complainant participates in enforcement process
Enforcement

- ITC
  - Informal enforcement
  - Formal enforcement proceeding
    - Available for violation of exclusion order, cease and desist order or consent order
    - Initiated by complainant, Commission or OUII
    - Parties to original Investigation may not re-litigate old issues
      - Non-parties to original Investigation, i.e., importers subject to a general exclusion order, may raise any available defenses
    - Procedure similar to Investigation
    - Commission may assess monetary penalties for violation of a cease and desist order or consent order
    - May appeal to Federal Circuit
      - Commission may impose monetary penalties for violation of a cease and desist order or consent order without any enforcement proceeding or prior notice
- U.S. district court
  - Commission may file a civil action to recover penalties assessed against a respondent
Challenging Exclusion

- Challenge exclusion with CBP
  - CBP “Ruling Letter”
    - Used to determine how CBP will treat goods before they are imported
      - Only available to importer, not to patent owner
    - Approved procedure for determining exclusion of design-around product
    - Importer submits information to IPRB; complainant may or may not be permitted to respond
      - Favorable procedure for importer
    - May be lengthy proceeding
      - CBP attempts to resolve within a few months; not always successful
    - May appeal adverse decision to the U.S. Court of International Trade
  - Protest
    - Used to challenge an exclusion after the goods have been detained by CBP
    - Otherwise, similar to request for Ruling Letter
  - Successful challenge with CBP may not prevent later civil penalties assessed by Commission
Challenging Exclusion

- Challenge exclusion with ITC
  - Advisory opinion
    - May be paired with an enforcement proceeding
    - Not appealable
  - Request to modify the exclusion order
- File declaratory judgment suit in U.S. district court
- Import and see what happens
  - If goods are seized, protest to CBP
  - ITC seizure and forfeiture order
    - Authorizes CBP to confiscate excluded goods if importer attempts further importation
    - ITC will issue after notified by CBP of initial exclusion of goods
  - Significant penalties if found to violate a cease and desist or consent order
    - *Ink Cartridges*, Inv. No. 337-TA-565: $11,000,000 penalty against Ninestar Technology and its parent, Ninestar China, for willful violation of cease and desist order
  - Possible criminal prosecution
Appellate Review of ITC Decisions

• U.S. Court of Appeals for the Federal Circuit
  – Hears all appeals from ITC Opinions issued in section 337 proceedings
    • Including appeals from enforcement proceedings
  – Any person adversely affected may appeal
    • Includes non-parties that are adversely affected by a general exclusion order
  – Failure to exhaust administrative remedies
    • Party’s failure to petition for review of ID constitutes abandonment of all issues decided adversely to that party
    • Precludes subsequent appeal to the Federal Circuit
• Reversal rates for ITC appeals similar to reversal rates for appeals from district courts
Questions?

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