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Section 337 Proceedings

Part 1 of 3: From Initial Investigation to Institution by the International Trade Commission

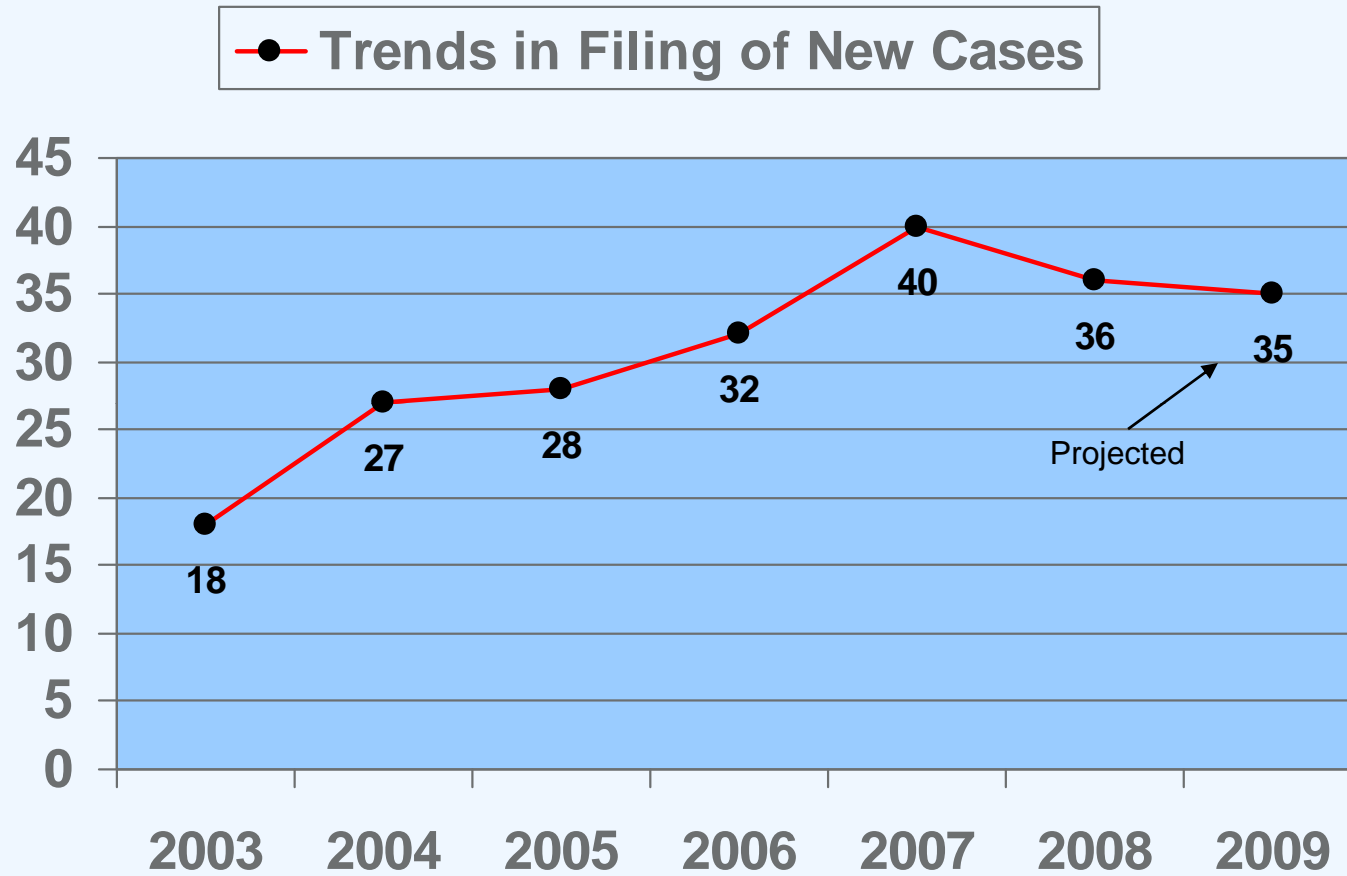
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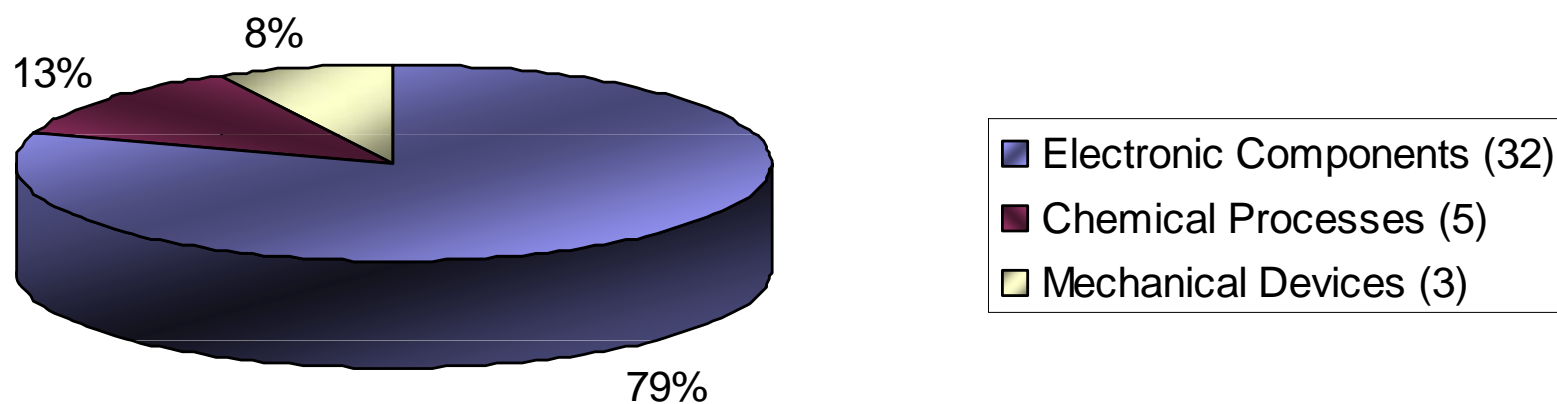
Increase in Section 337 Complaints Filed



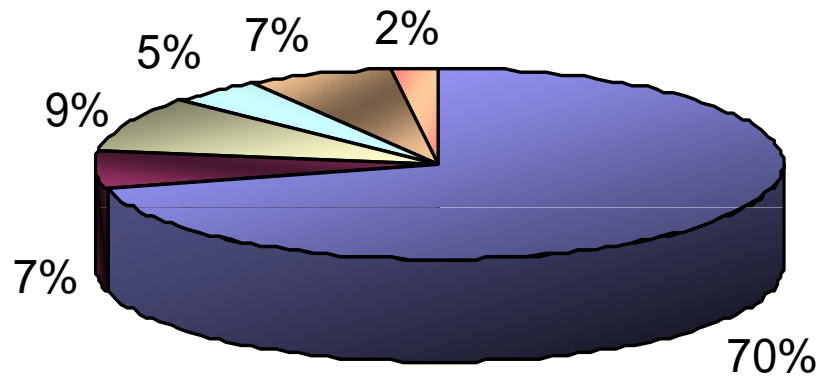
Why Are A Record Number of Section 337 Complaints Being Filed at the ITC?

- Foreign companies becoming more multinational and able to satisfy the “domestic industry” requirement
- U.S. manufacturing moving abroad means more goods are imported and subject to ITC's jurisdiction
- Supreme Court’s *eBay* decision raises uncertainty about the availability of permanent injunctions in district court cases
- Remedies not available in district court (including limited exclusion orders not limited to accused products and general exclusion orders)

2007: Section 337 Investigations



2008: Section 337 Investigations

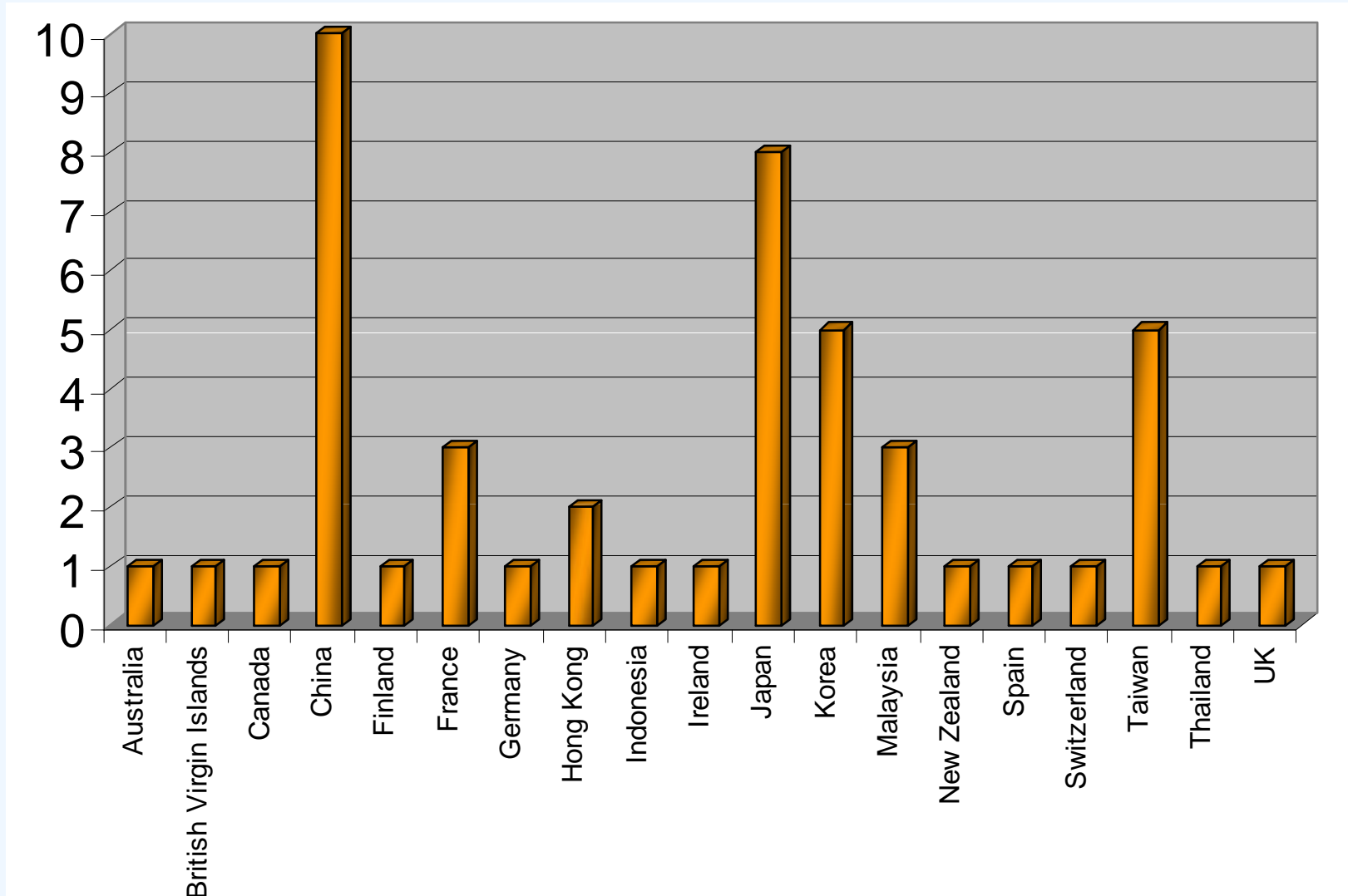


- Electronic Components (23)
- Chemical Process (3)
- Mechanical Devices (4)
- Medical Devices (2)
- Trademark-based cases (3)
- Trade Secrets (1)

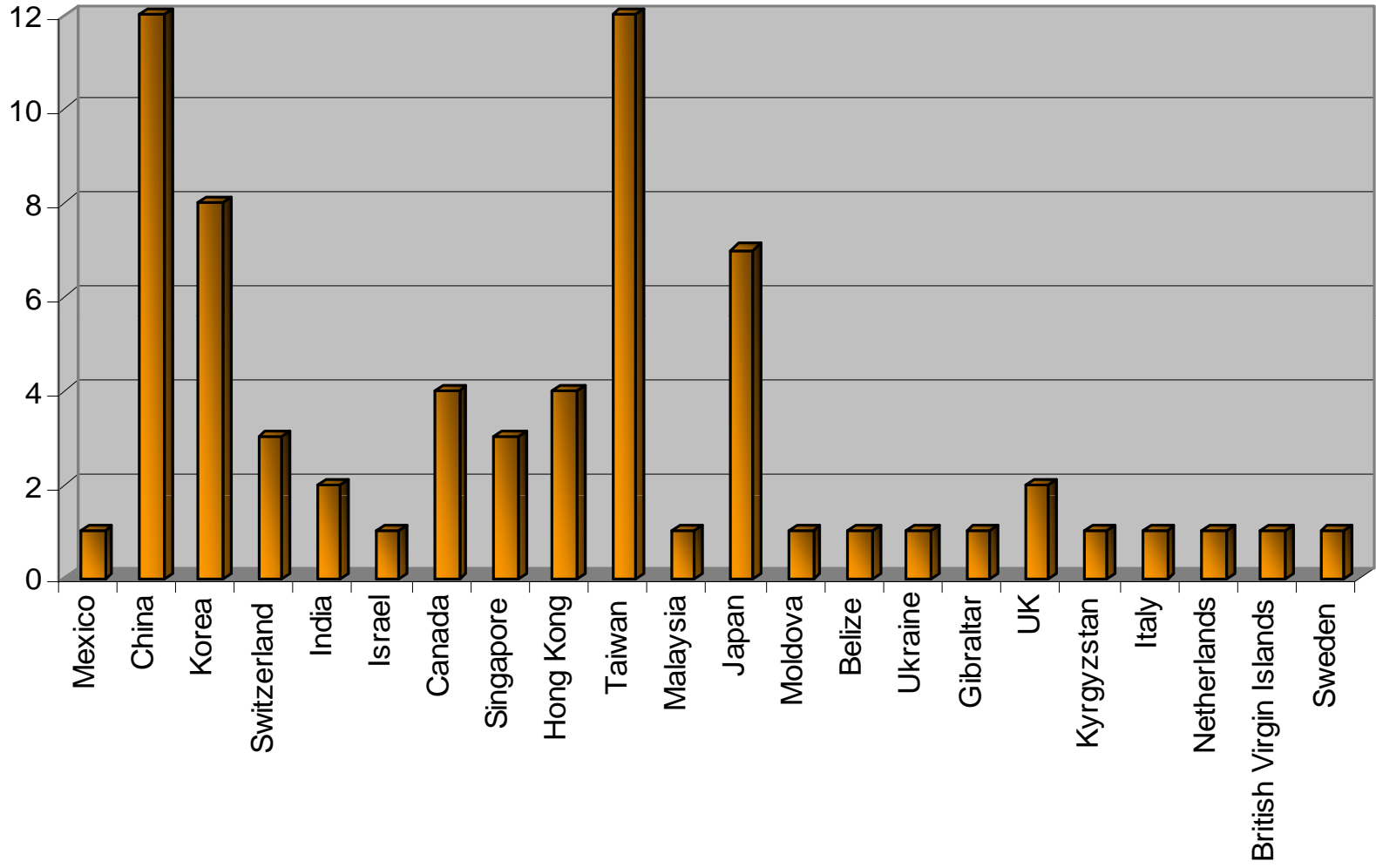
2009: Section 337 Investigations (through 10/25)

- 25/27 are patent-based (others are unfair competition and gray market goods)
- Ceramic Capacitors, Inkjet Supplies, Printing and Imaging Devices, Dual Access Locks, Hybrid Electric Vehicles, Video Displays, Bulk Welding Wire Containers, Flash Memory, Articulated Coordinate Measuring Arms, MLC Flash Memory Devices, Collaborative System Products, Lighting Control Devices (2), Machine Vision Software, Products Advertised as Containing Creatine Ethyl Ester, Energy Drink Products, Pet Feeders with Non-Skid Lower Surface, Course Management System Software Products, Wireless Communications Devices, Light Emitting Diode Chips, Portable Navigation Computing Devices, Electronic Devices, Including Handheld, Wireless Communications Devices, Electronic Devices Having Image Capture or Display Functionality, Digital Cameras, Adjustable Keyboard Support Systems, Optoelectronic Devices, and Non-Shellfish Derived Glucosamine

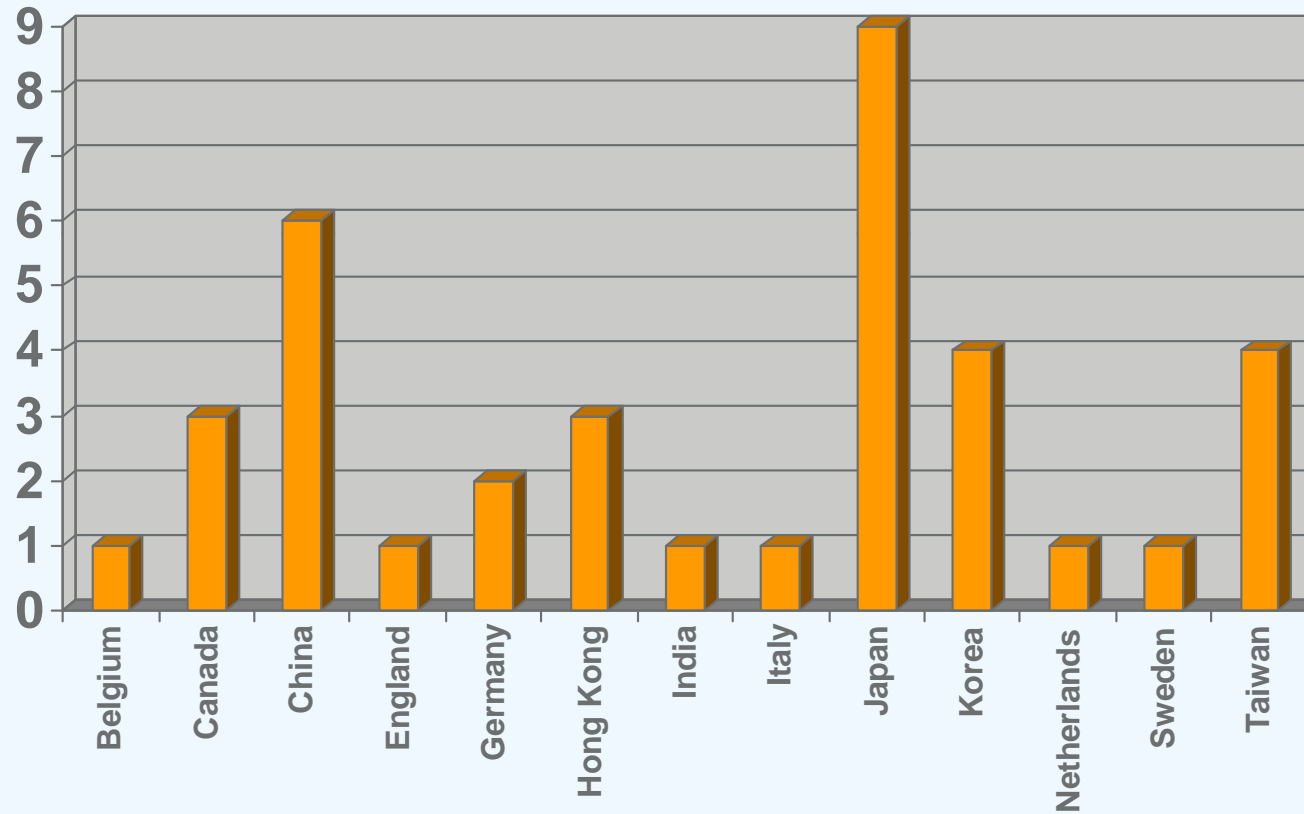
2007: Foreign Respondents



2008: Foreign Respondents



2009: Foreign Respondents (through 10/23/09)



Why Complainants Like Section 337

- Quick decision — target dates of 12-16 mos. typical
- Ability to name all known companies importing infringing products in one proceeding
- Availability of Customs-enforced exclusion orders
- Possibility of general exclusion order
- Easier to serve process
- Respondents must produce discovery or default
- Administrative Law Judges with experience in patent cases
- Much less likely to be stayed in case of reexamination

Comparison Between a District Court Case and an Investigation Under Section 337

District Court

- Damages and injunctive relief
- Private lawsuit
- Plaintiff responsible for service; complaint may require translation under Hague Convention
- Show jurisdiction for each party
- Jury trials available

ITC

- Exclusion and Cease & Desist orders
- Public investigation
- ITC serves complaint; nothing is translated
- *In rem* – name all parties at once
- No jury trials

Comparison Between a District Court Case and an Investigation Under Section 337 (cont'd)

District Court

- Counterclaims available
- No time limits
- Results are binding on parties
- Full discovery available
- Appeal to Federal Circuit

ITC

- Counterclaims can be asserted but removed to district court
- Target dates of 12-16 months
- No binding (“res judicata”) effect
- Full discovery available
- Appeal to Federal Circuit

Types of Section 337 Cases

- May be based on any unfair act in the importation of articles into the United States
- Are most frequently used in patent cases involving imports that are alleged to infringe a US patent (over 95%)
- Have also been based on Trademarks, Copyrights, Trade Secrets, Gray Market Goods, Unfair Competition, and Anti-Trust Violations, among others

Use of Section 337 in Registered Trademark and Copyright Cases

- Injury does not need to be proven for registered trademarks and copyrights (same as patents)
- For simple cases, registered trademarks and copyrights can be recorded with Customs
- In case of recordation, the importer cannot raise defenses and Customs will decide infringement
- Using Section 337, however, permits discovery and submission of evidence on likelihood of confusion, etc., but also allows respondents to raise defenses
- ITC decisions in a trademark or copyright case may be *res judicata*

Use of Section 337 in Gray Market Goods Cases

- Customs will not enforce trademarks through recordation in a gray markets good case, leaving Section 337 as the only means to obtain border enforcement
- On May 15, 2009, Red Bull filed a complaint alleging that “gray market” versions of its energy drink were being imported into and sold in the US
- Allegation was that the foreign-made Red Bull was materially different from the product as sold in the US (different labeling, composition, etc.)
- Cases are very fact-specific

Use of Section 337 in Unfair Competition Cases

- Section 337 is broad enough to cover all forms of unfair competition
- Injury needs to be proven in such cases
- Unfair competition claim could be made where, for example, misleading claims were being made about imported articles but there was no actual trademark or patent infringement
- Example: *Certain Products Advertised as Containing Creatine Ethyl Ester*, filed May 20, 2009

Use of Section 337 in Antitrust Cases

- Section 337 makes it unlawful to import or sell “articles” in the United States when the ensuing effect is to (i) “destroy or substantially injure an industry in the United States,” (ii) “prevent the establishment” of such an industry, **or** (iii) “restrain or monopolize trade and commerce in the United States.”
- Because Section 337 does not require a showing of injury to competition and does not appear to restrict the standing of potential claimants, Section 337 may have a much broader reach than antitrust laws
- The speed of Section 337 and availability of exclusion orders may make it a powerful remedy in antitrust cases
- Care must be taken in fashioning remedies, since exclusion orders may restrict competition

Use of Section 337 in Trade Secret Cases

- Section 337 could be used in a trade secret case where:
 - Employee leaves US company and sets up competing business in US, but products are made outside US using trade secrets
 - Employee sets up business outside US and imports products made using trade secrets into US
 - Employee sets up competing business across the street and uses confidential information (customer lists, etc.) to sell imported products (unfair act in “sale of products after importation”)
 - Employee leaves foreign company, comes to US, and sells products made outside the US using trade secrets
- Milgrim has described the ITC’s ability to issue exclusion orders in trade secret cases as “formidable” and “powerful”
- Injury must be shown
- ITC’s strict protective orders may benefit complainants

Use of Section 337 in Products Liability Cases

- Section 337 generally prohibits any unfair methods of competition or unfair acts in the importation of articles into the United States
- Section 337 could be used, for example, if a competitor were importing products (toys, electrical goods, etc.) that violate federal or state product safety requirements
- More difficult to argue a violation if the standards in question are not mandatory (such as UL requirements); false statements of compliance with such standards, however, may constitute unfair competition and violate Section 337

Use of Section 337 in Environmental Cases

- One scenario: product itself is made outside US, imported into US, and violates US environmental laws (for example, auto engine is imported that fails to comply with US emissions standards)
- Another scenario: conduct would violate the host country's own laws or even international treaties, thereby giving the company an unfair advantage (for example, tuna is imported and was harvested in violation of international standards or treaties)
- More difficult to argue a violation if foreign company is involved in conduct that would violate US environmental laws, but not host country's own laws

Use of Section 337 to Address Child Labor and other Human Rights Violations

- Competitor makes products overseas using unfair labor practices (such as violation of work week standards, child labor, etc.) which are then imported into the US. Can Section 337 afford relief?
- If foreign company complies with its own laws, then it would be difficult to argue that Section 337 should apply; otherwise, statute could be used to impose our own labor laws (such as minimum wages) on another country
- However, if conduct would violate the foreign company's own domestic laws, or perhaps even international laws, treaties or standards, then Section 337 might apply
- Standing not limited to competitors, but injury needs to be shown

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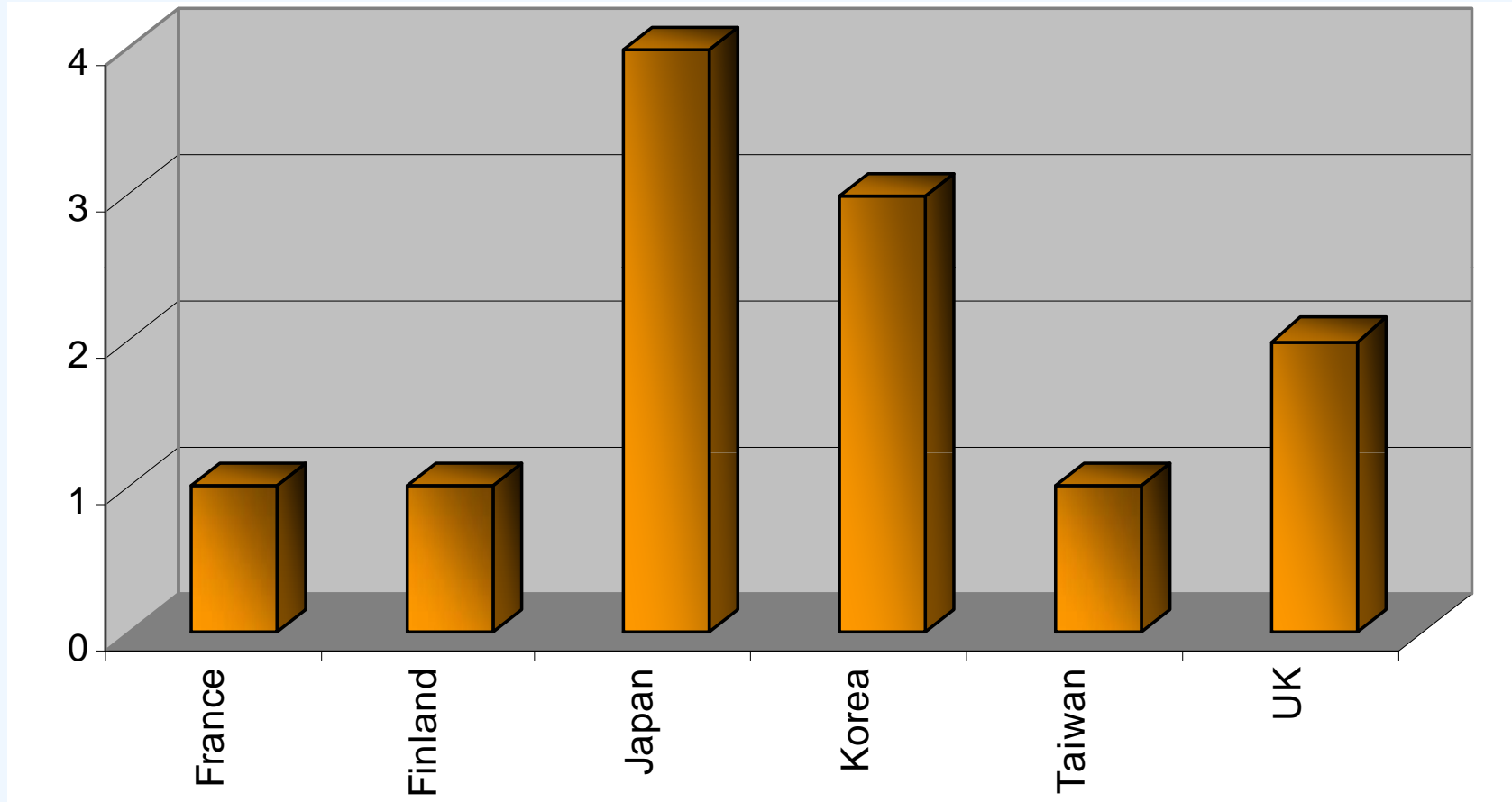
Foreign Companies at the ITC: Satisfying the Domestic Industry Requirement

- Requirements for the existence of a domestic industry:
 - The technical prong - examines whether an industry relates to the patent at issue or articles protected by the patent
 - The economic prong - examines whether those activities are “significant” or “substantial”
 - The existence of the domestic industry is assessed as of the discovery cutoff date prior to the evidentiary hearing

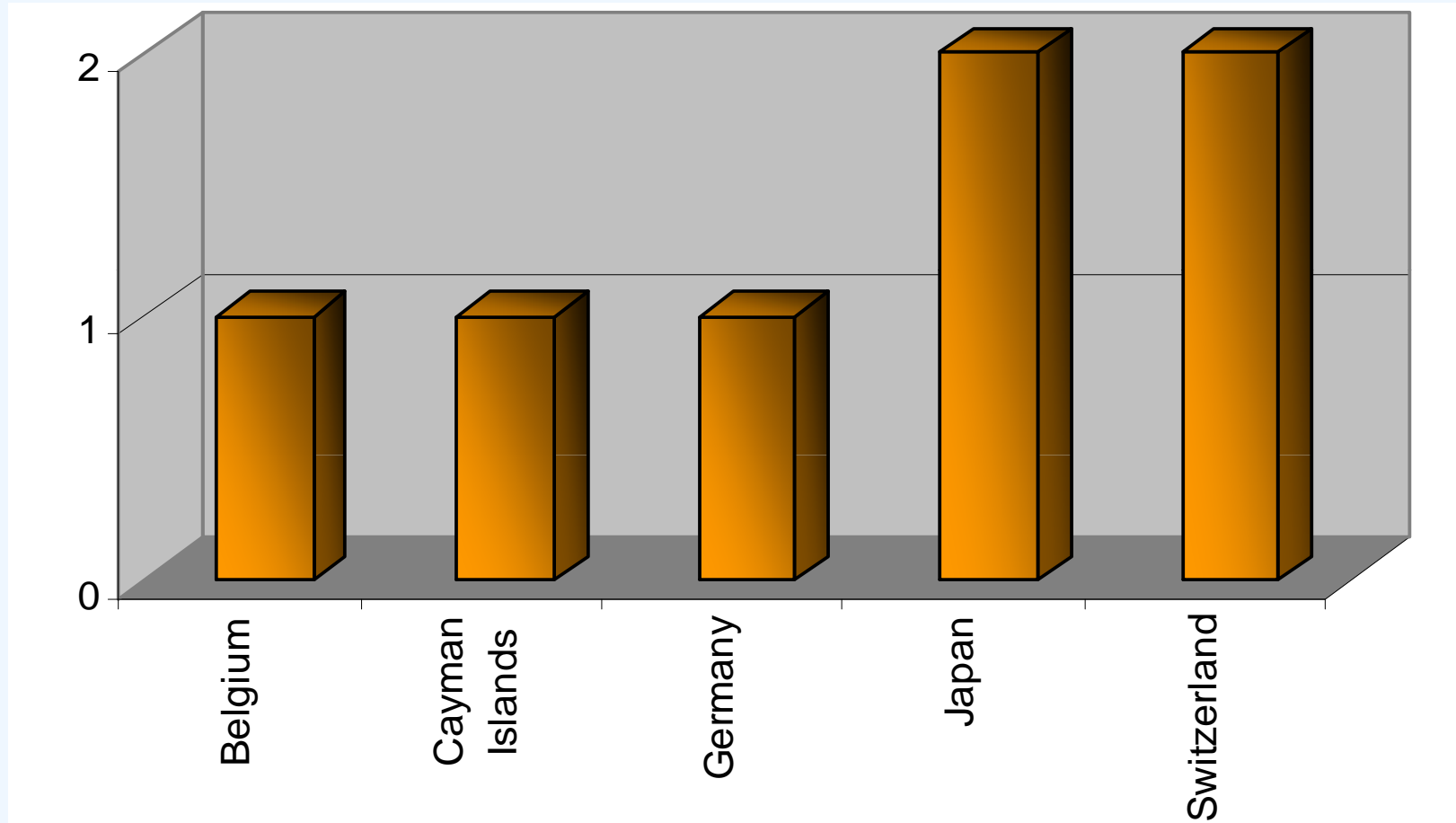
Test for Economic Prong

- A domestic industry exists in the US if, with respect to the articles protected by the patent, there is in the US either:
 - A significant investment in plant and equipment
 - A significant employment of labor or capital, or with respect to the asserted patent
 - A substantial investment in its exploitation; including engineering, research and development, or licensing
- Manufacturing activity not required to occur in the US
- Almost any activities other than mere marketing and sales in the US can qualify

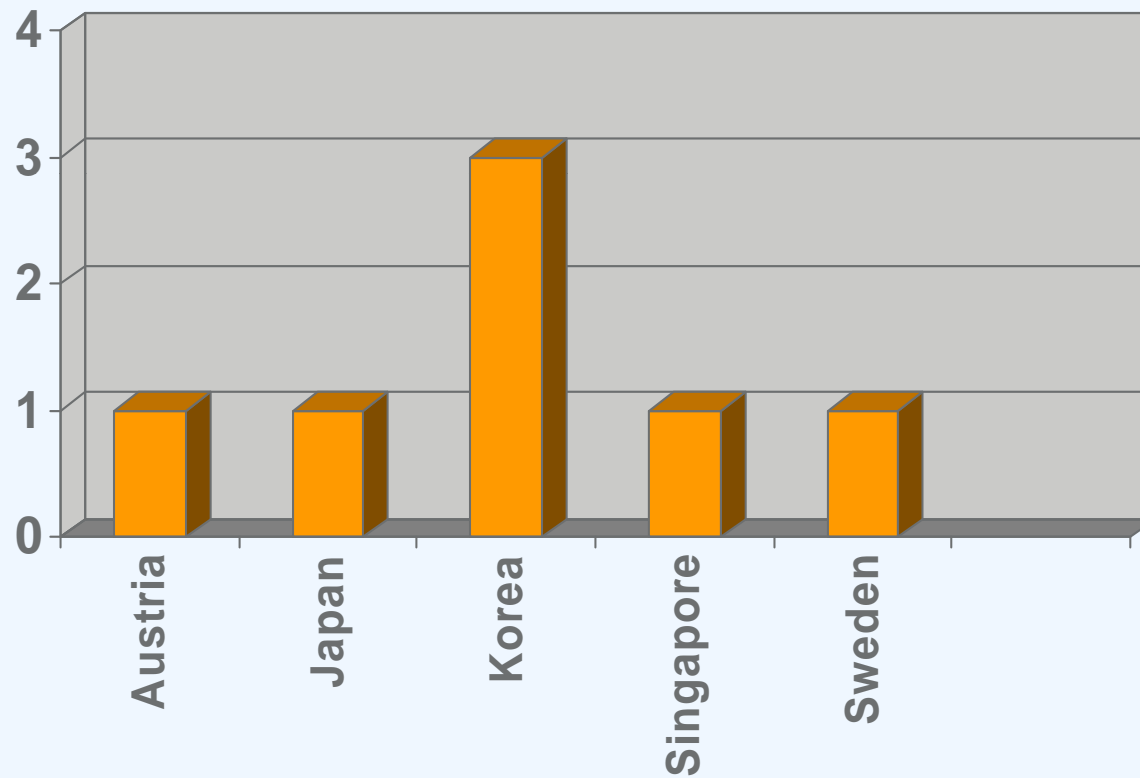
2007: Foreign Complainants



2008: Foreign Complainants



2009: Foreign Complainants (through 10/23/09)



Recent Cases Involving Foreign Complainants

- Murata Manufacturing (Japan) vs. Samsung Micro-Mechanics (Korea), *Ceramic Capacitors*
- LG Electronics (Korea) vs. Funai Electric Company (Japan), *Video Displays*
- Samsung Electronics (Korea) vs. numerous respondents (Japan, Taiwan and China), *Flash Memory*
- Hexagon Metrology AB (Sweden) vs. numerous respondents (Belgium and Japan), *Measuring Arms*
- Red Bull GmbH (Austria) vs. numerous respondents from U.S., *Energy Drink Products*
- LG Electronics (Korea) vs. Eastman Kodak (U.S.), *Electronic Devices Having Image Capture Functionality*

Use of Section 337 by Non-Practicing Entities or “Trolls”

- A complainant does not need to make a product covered by a patent in order to qualify as a domestic industry
- Non-practicing entities or “trolls” can bring cases at the ITC by arguing that they are involved in “substantial investment” in exploitation of a patent through licensing
- Why would an NPE/troll come to the ITC when their primary objective is to seek money for licensing their patent? Because the threat of an exclusion order gives them greater bargaining leverage
- Under the Supreme Court’s decision in *E-bay*, permanent injunctions are not automatic; patent owner needs to show irreparable harm, etc. A Section 337 complainant need not show injury to get an exclusion order

Notable Recent Cases Involving NPEs or “Trolls”

- Prof. Gertrude Newmark Rothschild (*Light Emitting Diode Chips*) (Inv. Nos. 337-TA-640 and 674), filed Feb. 2008 and March 2009
 - Complaints rely on Rothschild’s licensing activities through litigation, and R&D activities of licensee Philips/Lumileds
 - Cases consolidated, hearing begins on Nov. 16, 2009
- Saxon Innovations LLC (*Electronic Devices*), filed Dec. 19, 2008 (follow up case vs. Samsung in 2009, consolidated)
 - Saxon “acquir[es], licens[es] and enforc[es] patented technology in the consumer, electronics and communications industry”
 - Original complaint based domestic industry on licensing activities alone (4 employees, 2 of them part time); later amended to include activities of licensees (AMD and Motorola)
 - 10/15: ID granted Saxon’s motion for summary determination the economic prong was satisfied; case goes to hearing on 10/26

Practical Tips on Preparing the Complaint

- Do as thorough an investigation as possible up front
- Think through issues such as claim construction, infringement, validity
- Get the input of experts on claim charts, etc. where possible
- Review ITC's Rules carefully
- Order certified copies of patents and file histories early
- Resolve confidentiality issues relating to licenses
- Take advantage of consultations with OUII
- Avoid need for supplementation if possible
- Have your team work with ITC to ensure smooth filing

Using the Time Before the Investigation Begins Most Effectively: The Complainant's Perspective

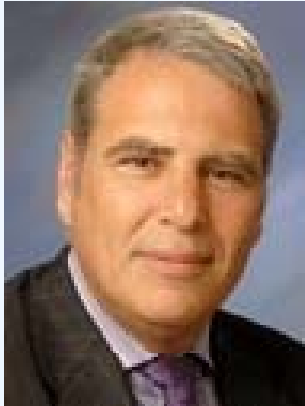
- As complainant, you need to have your case lined up as completely as possible by the time the investigation is instituted
- Have discovery requests prepared and ready to serve
- Have documents organized and ready to produce, to the extent requests can be anticipated
- Have the internal team organized at the firm and client level
- Have experts identified and retained
- Have a press/public relations strategy in place

Using the Time Before the Investigation Begins Most Effectively: The Respondent's Perspective

- The respondent is behind from the start and has to play catch-up quickly
- Use the 30 days before institution to select counsel and begin the defense as soon as possible
- Do a thorough non-infringement analysis
- Formulate position on claim interpretation
- Commission a prior art search
- Locate experts
- Prepare discovery requests, ready to serve as soon as the case begins

Q&A Session

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