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Gary M. Hnath of Mayer Brown LLP discusses how § 337 investigations at the US International Trade Commission can be used as a powerful alternative to litigation in the courts to protect a company's trade secrets. The author describes the basic elements of a trade secret claim under § 337, how the process works, and what remedies are available for misappropriation of trade secrets, and provides a detailed discussion of the Cast Steel Railway Wheels case as an illustration of how § 337 can be used in trade secret matters.

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Section 337 Investigations at the US International Trade Commission Provide a Powerful Remedy Against Misappropriation of Trade Secrets

By Gary M. Hnath

Consider the following scenario: You are in-house counsel for Widgets USA, a New Jersey corporation and the leading manufacturer of widgets in the United States. Widgets USA has developed special processes for manufacturing its widgets, all of which are carefully protected as trade secrets. Mr. Smith, a former manufacturing manager for Widgets USA, left the company after having a dispute with upper management.

Mr. Smith opened up a competing company in California, Widgets R. Us, and started selling widgets within a few months after he left Widgets USA. On inspection, they appear to be of comparable quality to your company’s products and are marked “Made in Korea.” You suspect that the products are being made using Widget USA’s trade secrets. In the meantime, Widgets USA is losing significant market share to Widgets R. Us.

Your management comes to you and indicates that something needs to be done quickly, or else Widgets USA will have to lower its prices drastically to maintain what market share is left and its business will be ruined. What remedies do you have to protect Widgets USA from misappropriation of its valuable trade secrets?

A traditional route is to file an action in state or federal court, alleging misappropriation of trade secrets and seeking an injunction and damages. It may take several years to obtain an injunction preventing the former employee from using the trade secrets. While a preliminary injunction might be possible, the company will need to show that it is being irreparably harmed by the loss of its trade secrets, that it is likely to prevail on the merits, that its harm outweighs the harm to the employee’s new company if an injunction is granted, and that the public interest favors a preliminary injunction. The employer may be forced to post a substantial bond even if successful in obtaining a preliminary injunction. Ultimately, if the case goes to trial, the employer may obtain an award of damages from the former employee, but those damages may not be easy to collect.

Section 337 of the Tariff Act of 1930 provides an alternative remedy, which in certain cases may be quicker and more effective than seeking relief through the courts. Section 337 investigations are administered by the US International Trade Commission (ITC) in Washington, DC. Section 337 of the Tariff Act of 1930 broadly prohibits unfair acts in the importation of articles into the United States. While more than 90 percent of the cases under § 337 involve allegations of patent infringement, the statute is not limited to patent cases and can be used as a remedy to prevent importations involving other unfair acts, such as trade secret misappropriation. In fact, Roger Milgrim, one of the leading authorities on trade secret law, has described the ITC’s ability to issue exclusion orders in trade secret cases as “formidable” and “powerful.”

On February 16, 2010, the ITC issued a § 337 exclusion order in a trade secret case, Cast Steel Railway Wheels, Processes for Manufacturing or Relating to Same and Certain Products Containing Same.1 The Cast Steel Railway Wheels decision demonstrates that the statute provides powerful remedies in

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trade secret matters and should be considered as an option in any case involving misappropriation of trade secrets. Discussed in this article are the basic elements of a trade secret claim under § 337, how the process works, and what remedies are available from the ITC for misappropriation of trade secrets, followed by a more detailed discussion of the Cast Steel Railway Wheels case as an illustration of how § 337 can be used in trade secret matters.

The Elements of a § 337 Trade Secret Case

Section 337 generally prohibits unfair acts or methods of competition in the importation of articles into the United States. In non-statutory intellectual property (IP) cases (cases not involving patents, registered trademarks, copyrights, or mask works), a complainant must show that the alleged unfair acts have the "threat or effect" of causing injury to the domestic industry.

Therefore, to establish a trade secret case under § 337, a complainant must show:

- That trade secret misappropriation has occurred;
- That there is a nexus between the trade secret misappropriation and importation of an article into the United States;
- That a domestic industry exists; and
- That the respondents' unfair acts have caused or threatened to cause injury to the domestic industry.

Trade Secret Misappropriation

One of the issues frequently confronted in trade secret misappropriation litigation is determining what law should apply. In some cases, the choice-of-law issue will be largely academic because the potentially applicable rules of trade secret law will be substantially the same. In other situations, however, the decision on which law will apply could significantly affect the outcome of the case.

This issue is not fully settled at the ITC. Typically, the parties will agree to use the law of the state that has the closest connection to the relevant facts in the case. It is unclear what the ITC would do if forced to choose between different competing substantive laws. Indeed, it is even unclear as to what choice-of-law rules the ITC would apply in making that determination.

Once the applicable law is chosen, this will determine what the complainant needs to establish to prove a trade secret violation and what defenses will be available to the respondents.

The Importation Requirement

Because the ITC's jurisdiction is limited to unfair acts or methods of competition in the importation of articles into the United States, there must be some connection between the alleged trade secret misappropriation and an act of importation. In the example described above, this would likely be satisfied if Widgets R Us was making widgets outside of the United States using the misappropriated trade secrets and then importing those widgets into the United States. As the ITC noted in the Welded Stainless Steel Pipe and Tube investigation:

The use of the word "or" in section 337(a) indicates that we are not limited to proscribing only those acts which occur during the actual physical process of importation. We may also consider acts occurring in the sale by the owner, importer, consignee, or agent of either. This second part of section 337(a) would seem to broaden our jurisdiction considerably, unless limited in some way by the concept of importation.

In addition, it is well settled that the importation requirement can be satisfied through the importation of a small number of samples into the United States (for example, for demonstration purposes or display at a trade show). The ITC has even held that the importation requirement can be satisfied by a contract for sale of importation of the accused products.

A Domestic Industry Exists or Is in the Process of Being Established

A complainant must also establish that a domestic industry exists or is in the process of being established. The prevention-of-establishment provision applies, for example, when the alleged unfair acts prevent the stabilization of manufacturing operations that had just begun or frustrate attempts
to begin business operations when a readiness to commence production can be demonstrated.

In some past cases, the ITC has defined the domestic industry in a trade secret case as including those resources devoted in the United States to use of the technology that is the subject of the trade secrets at issue. As discussed later, however, the recent ITC decision in *Cast Steel Railway Wheels* establishes that a complainant does not need to use the specific trade secrets alleged to have been misappropriated. Rather, it is sufficient that the complainant can point to some business in the United States that is suffering injury as a result of the respondents’ trade secret misappropriation.

**Injury to the Domestic Industry**

A complainant in a trade secret case has to prove "injury" by showing that the importation and sale of the accused articles has the threat or effect of substantially injuring the domestic industry or preventing its establishment. Factors that the ITC has considered in determining whether the domestic industry has been injured include:

- Lost customers;
- Declining sales;
- Decreased production and profitability;
- The volume of imports;
- Level of market penetration by imports; and
- Foreign capacity to increase exports.

A threat of injury has been shown by the existence of relevant conditions or circumstances from which probable future injury can be inferred.

In addition, a causal nexus must exist between imports or sales after importation by the respondents and economic injury. This may present special issues in trade secret misappropriation cases, where the nexus between the importation and sale of accused products and the unfair acts alleged to be causing injury to the domestic industry may be less direct than in a typical patent-based § 337 case.

As a practical matter, if a company is concerned enough about trade secret misappropriation to bring a case under § 337, it is likely that the company is being injured, or threatened with injury, so as to satisfy the injury requirement under the statute.

**Procedures Under § 337**

The process under § 337 begins with the filing of a complaint alleging a violation of the statute. The ITC has its own Rules of Practice and Procedure that, among other things, describe in detail the type of information to be included in the complaint.

Within 30 days of the filing of the complaint, the ITC will decide whether to institute an investigation. The ITC does not decide at this stage whether it agrees with the complainant but simply whether the complaint complies with the ITC’s rules.

The case then proceeds before an Administrative Law Judge (ALJ). The ALJ will issue a protective order and set a target date for completion of the investigation. Typically, the target dates are set for 12 to 16 months from the institution of the investigation to the final ITC decision.

Each respondent is required to respond to the complaint and notice of investigation within 20 days after service. If a respondent fails to appear and answer the complaint, then it can be held in default.

The case proceeds with discovery and motions practice similar to a case in state or federal court, except that everything is accelerated. Typically, the parties will have 10 days rather than 30 days to respond to discovery requests, and responses to motions will also be due in 10 days. The parties have the same discovery tools as those available in state or federal court, including interrogatories, document requests, and requests for admissions. The parties can also seek plant inspections if relevant to the issues raised in the investigation. Respondents must cooperate with discovery or risk sanctions, which can include monetary sanctions, adverse inferences, or even default for failure to comply with discovery obligations.

After fact discovery is complete, the parties proceed with expert discovery, including the submission of initial and responsive expert reports and expert depositions. Parties at the ITC can also file the same types of motions that they would in a court case, including motions to compel discovery and motions for summary determination, the ITC equivalent of a motion for summary judgment.
Once discovery is complete, the parties then proceed to prepare for the trial, which is called a hearing at the ITC. The parties submit proposed exhibits and prehearing statements outlining in detail their positions. The case then proceeds with a hearing before the ALJ at which each side has an opportunity to submit exhibits and call witnesses, both fact and expert, on their behalf. Because of the fast pace of a § 337 investigation, the hearing or trial typically takes place within six to eight months of initiation of the investigation.

After the hearing is complete and the parties have submitted post hearing briefs and proposed findings of fact, the ALJ issues a decision, called an initial determination. This document, often lengthy (typically 100 pages or more), sets forth the ALJ's findings of fact and conclusions of law with respect to each issue relevant to the claims and defenses asserted by the parties.

In a trade secret case under § 337, a limited exclusion order is the usual remedy.

Any party can then file a petition with the ITC seeking review of all or part of the ALJ's initial determination. The ITC can adopt the ALJ's decision at that point or choose to review the decision and seek further briefing from the parties. At the end of that process, the ITC will issue its final determination as to whether § 337 has been violated and, if so, the appropriate remedy.

Any remedy to be issued by the ITC is subject to presidential review. While the president can disapprove of the ITC's remedial orders on policy grounds, that authority is rarely invoked, and only a small handful of cases have been disapproved by the president. The presidential review process must be completed within 60 days and is coordinated by the Office of the US Trade Representative. If a respondent wishes to import during the presidential review period, it must post a bond in an amount set by the ITC.

A party that is adversely affected by a final ITC determination under § 337 can file an appeal with the Federal Circuit. However, the ITC's exclusion order takes effect immediately after the presidential review process is complete, and the order remains in effect pending appeal, unless the respondent is able to obtain a stay of the order.

**Remedies in a § 337 Investigation**

If a violation of § 337 is found, the ITC can issue relief in the form of exclusion orders and cease-and-desist orders. Exclusion orders, unavailable in federal or state court litigation, prohibit the entry of goods into the United States and are enforced by US Customs and Border Enforcement. Cease-and-desist orders prohibit the sale of inventories of infringing goods in the possession of the named respondents in the United States and are intended to prevent stockpiling of the accused products.

There are two types of exclusion orders: limited and general. A limited exclusion order prohibits the importation of products made by or on behalf of the named respondents. A general exclusion order prohibits the importation of products from any source, whether or not made by or on behalf of the named respondents.

To date, the ITC has never issued a general exclusion order in a trade secret investigation, primarily because of the special nature of these cases. For example, a party that developed a product independently would not be liable for trade secret misappropriation, even if its products happen to use the complainant's trade secrets, and its products should not be excluded. Therefore, in a trade secret case under § 337, a limited exclusion order is the usual remedy.

Several interesting issues arise in considering what type of remedy should issue in a trade secret case under § 337. For example, should the exclusion order exclude a certain class of products made by the respondents generally, on the theory that it is highly likely that those products would use the complainant's trade secrets, or exclude only those products actually made using the complainant's trade secrets, therefore giving the respondents an opportunity to import products made without use of the trade secrets?

The ITC has, in the past, issued both types of exclusion orders. This is a very fact–specific issue. The ITC will consider, among other things, how easy or difficult it would be for the respondent to manufacture products independently without using the complainant's trade secrets. The ITC may also consider whether it would be easy or difficult for
Customs to determine, from an inspection of the products, whether or not they used the complainant’s trade secrets.

Another interesting issue is how long the exclusion order should last. In a patent case, the duration of the exclusion order is determined by the expiration date of the patent at issue. In a trademark case, the duration of the exclusion order can be without limit, as long as the trademark at issue is still being renewed.

In trade secret cases, the ITC has held that the duration of exclusionary relief should be the period of time it would have taken the respondents independently to develop the technology using lawful means. Needless to say, this can be a highly fact-specific issue and the subject of considerable disagreement between the parties.

What is clear, however, is that the ITC will not limit an exclusion order in a trade secret case to the specific products at issue. Therefore, if the respondent designs a new product, the product will be excluded if it is determined that it uses the complainant’s trade secrets. Interestingly, this decision will be made in the first instance by Customs, since Customs is responsible for enforcing the ITC’s exclusion order.

A respondent that disagrees with Customs’ decision to exclude a product can appeal the ruling to the Court of International Trade or alternatively can seek an advisory opinion from the ITC. Likewise, a complainant that disagrees with Customs’ decision to allow the importation of a product can go back to the ITC for enforcement of the exclusion order. Moreover, if a respondent is found to violate a cease-and-desist order prohibiting the sale in the United States of products using the complainant’s trade secrets, the respondent can be ordered to pay civil penalties of as much as $100,000 or twice the value of the goods, whichever is greater, for each day on which the accused products are imported into or sold in the United States.

Finally, although the ITC does not have the authority to award damages for trade secret misappropriation, a complainant can file a complaint for damages in federal or state court along with its complaint at the ITC. While ITC decisions are not res judicata or binding in later district court litigation in a patent case, there is a good argument that its decisions would be binding in a trade secret case, therefore making it unnecessary for the trade secret owner to prove its case on liability all over again in federal or state court.

The ITC vs. Litigation in State or Federal Court in a Trade Secret Case

Why would a company choose to go to the ITC to enforce its trade secrets? There are several reasons. First, the ITC is a very fast forum. A typical time for completion of the investigation, from the very beginning of the case to the final ITC decision, is 12 to 16 months. Moreover, in contrast to a court case in which a party must show irreparable harm to get a preliminary injunction, there is no such requirement at the ITC. A complainant merely needs to show that it has been injured by the trade secret misappropriation, a much easier showing to make than irreparable harm.

The ITC will not limit an exclusion order in a trade secret case to the specific products at issue.

Second, a complainant at the ITC can name all known companies involved in the unfair conduct in one proceeding. Therefore, a former employee, the foreign manufacturer and any US distributors can all be named as respondents in an investigation at the ITC. In addition, because exclusion orders are remedies that exclude imported goods, they can be obtained even if the ITC lacks personal jurisdiction over the foreign manufacturer.

Another advantage is that ITC investigations begin immediately upon service by certified mail of the complaint by the ITC, avoiding the need for sometimes lengthy methods of service of process on companies outside of the United States. Discovery then begins immediately. If a respondent fails to respond to the complaint or does not produce discovery in a timely manner, a default can issue, resulting in exclusion of its products.

As discussed, the remedies available at the ITC are also unique, including exclusion orders that are enforced by Customs and can be fashioned broadly to prevent any use of the complainant’s trade secrets, not only the products that were involved in the investigation but also any new products that a respondent may develop in order to try to avoid or “design around” the ITC’s order.
Some of the procedural aspects of a § 337 investigation may be particularly advantageous in a trade secret case. For example, the ITC has very strict protective orders, issued immediately at the start of the case by the ALJs, which permit access to a company’s confidential business information only by outside counsel and independent experts. Therefore, a complainant can produce discovery regarding its trade secrets without the respondents themselves having access to that information, in contrast to litigation in federal or state court, where a protective order needs to be negotiated by the parties before approval by the court and often gives in-house counsel or a limited number of employees for the defendant access to confidential documents and testimony.

The ITC’s Investigation in Cast Steel Railway Wheels

The ITC’s recent investigation in the Cast Steel Railway Wheels case illustrates many of the powerful advantages of using the ITC in a trade secret case. There, the complainant, Amsted Industries Incorporated, filed its complaint with the ITC on August 14, 2008, alleging that two Chinese companies and two US companies were involved in misappropriation of trade secrets relating to the manufacture of cast steel railway wheels. Amsted alleged that the respondents deliberately poached nine employees from one of its licensees and used its trade secrets to manufacture competing cast steel railway wheels in China. Amsted also alleged the use of its trade secrets by the respondents in seeking US certification for their products and in selling, marketing, and distributing their products in the United States. Amsted sought an exclusion order preventing entry into the United States of wheels made by the respondents using Amsted’s trade secrets, as well as cease-and-desist orders preventing the respondents from advertising, selling, or marketing the accused products in the United States.

After a two week trial in August 2009, the ALJ issued his final initial determination (ID), finding a violation of § 337 by the respondents. He concluded that Amsted owned the asserted “ABC” trade secrets and therefore satisfied the “domestic industry” requirement. Notably, the ALJ found that Amsted had a domestic industry based on its domestic manufacture of cast steel railway wheels, even though it did not use the specific trade secrets that it claimed were misappropriated.

The ALJ further held that the respondents misappropriated 128 different Amsted trade secrets through disclosure by former employees of Amsted’s predecessors and that “the record contains evidence of a broader attempt by TianRui [one of the Chinese respondents] to conceal its misappropriation of the AMC technology obtained through former DACC [Amsted’s predecessor] employees.” He rejected the respondents’ claim that they had independently developed their technology, finding that there was “no competent evidence” to support the claim.

In the course of his opinion, the ALJ found that there were “serious” issues as to whether a document produced in discovery had been “fabricated, i.e., substantially and materially altered” because the date and origin of the document had been obscured, although the ALJ declined to issue sanctions because ultimately the document received no weight.

The ALJ also held that the respondents’ trade secret misappropriation had harmed the complainant’s business. He found that “the evidence demonstrates that Amsted’s domestic industry has experienced actual injury in the form of sales lost to respondents, underselling by respondents, and Amsted’s declining sales and profitability” and that the “inescapable conclusion” was that the respondents’ sales “were made directly at the expense of Amsted, and thus directly injured Amsted.” He also found that, in seeking certification and through its marketing activities, the respondents had directly targeted the US market for railway wheels and in fact had “targeted, contacted, and marketed TianRui wheels to almost all of Amsted’s customers.” Thus, the ALJ found that the injury requirement under § 337 was satisfied.

The respondents petitioned for review of the ALJ’s initial determination. On December 17, 2009, the ITC determined not to review the ID, therefore upholding the ALJ’s decision that the respondents had misappropriated Amsted’s trade secrets, and requested briefing on issues relating to remedy, the public interest, and bonding.

On February 16, 2010, the ITC issued notice of its final determination, as well as a limited exclusion order and cease-and-desist orders against the respondents and subsequently released a public
version of its opinion. The ITC's exclusion order lasts for a period of 10 years and prohibits the importation into the United States of cast steel railway wheels, and products containing same, manufactured using any of the asserted ABC trade secrets by or on behalf of the respondents or any of their affiliated business entities. The ITC rejected the respondents' arguments that their products should be excluded for no more than one year and instead imposed a 10-year ban based on the amount of time that it would take to independently develop a commercially viable cast steel railway wheel manufacturing process and corresponding facility layout. The ITC's cease-and-desist orders prohibit the respondents from importing, selling, marketing, advertising, distributing, offering for sale, transferring, or soliciting US agents or distributors in the distribution of cast steel railway wheels and products containing the same manufactured using any of the asserted ABC trade secrets.

As a result of the ITC's decision, the respondents are prohibited from importing any products made using the asserted trade secrets, not only those at issue in the ITC investigation. The ITC's exclusion order will be enforced by US Customs. The case is a good illustration of some of the advantages of bringing trade secret cases at the ITC and the powerful and unique remedies that § 337 provides to trade secret owners. Any company faced with the possible misappropriation of its trade secrets should consider § 337 as one of the weapons in its arsenal to protect its trade secrets.

Note