

When Section 337 Makes Sense

Wednesday, Sep 26, 2007 --- Patent owners whose IP rights are being infringed by imported goods have a choice of filing a patent infringement complaint in a district court or an unfair trade practice complaint, pursuant to section 337 of the Tariff Act, with the U.S. International Trade Commission (“ITC”).

The overwhelming majority of cases are filed in the district courts: in 2006 there were 2846 patent cases filed in the district courts but only 27 patent-based (out of a total of 30) section 337 complaints filed. Many of these district court plaintiffs would likely be better served by filing a section 337 complaint.

Section 337 has several advantages: it has a higher plaintiff win rate than district courts; it moves fast (a final judgment is entered in fifteen (15) months or less); and injunctive-style relief is automatic. Apart from these advantages applicable to all section 337 investigations, there are four specific scenarios where a patent owner should give particular consideration to the ITC.

1. Early in the Product Cycle

Where the patent owner is filing suit early in the product cycle of the infringing good, it makes sense to file at the ITC. The ITC does not award money damages for infringement, but this is of little importance early in the product cycle as there is a small royalty base.

Moreover, a section 337 action is the fastest way to obtain injunctive-style relief. Upon finding for a complainant, the ITC will issue either a limited exclusion order (good against the accused party’s goods) or a general exclusion order (good against all the world) to be enforced by United States Customs.

2. In Response to a Declaratory Judgment Action

One source reports that 14% of patent cases are declaratory judgment (DJ) actions brought by the accused infringer. The Supreme Court’s ruling in *MedImmune* and the Federal Circuit’s extension thereof in *SanDisk Corp. v. STMicroelectronics* make it easier than ever for an infringer to DJ a patent owner.

The number of DJ suits is likely to increase as a result. This may put the patent owner in an inconvenient and unfavorable forum. Further, the patentee is no longer the plaintiff; research has shown that a plaintiff-patentee has a significant statistical edge in jury trials relative to a DJ

defendant-patentee. Filing in the ITC will move the case to a fast-moving, patent-friendly venue and restore the patentee's role as the complaining party.

Further, after the ITC case is filed, the DJ plaintiff may opt to invoke the statutory stay of the district court action provided by 28 U.S.C. § 1659 rather than fight an expensive two-front war. If the DJ is stayed and the 337 action is successful, the infringing goods would be excluded while the DJ action is resumed. A section 337 complaint will, thus, effectively counter a DJ action.

3. Where the Patent Claims a Method of Manufacture

Making a product overseas by a method that would infringe if practiced in the United States is actionable both in the district courts and at the ITC. In the district courts, however, the defendant may avail itself of the "271(g) defenses."

Under subsection 271(g), an imported product, despite being made by a patented process, will not be considered infringing if "it is materially changed by subsequent processes," or "it becomes a trivial and nonessential component of another product." These defenses are not available at the ITC.

This arose as the legislation that established subsection 271(g) provided that "the amendments made by this subtitle shall not deprive a patent owner of any remedies available . . . under section 337 of the Tariff Act of 1930, or under any other provision of law." (Pub. L. 100-418, §9006(c).)

Both the ITC and the Federal Circuit (in dicta) held that this shows a congressional intent not to limit the scope of section 337. Thus, where a patent has method of manufacture claims, the ITC may be a favorable forum.

4. The Litigation Target Makes Only a "Sale for Importation"

Section 337 jurisdiction is slightly broader than the general infringement statute that provides jurisdiction in the district courts. In the district courts "importation" of an infringing article is actionable. ITC jurisdiction, however, reaches one step farther to a "sale for importation." This increases the number of potential respondents.

Often, the intended target of litigation is a direct competitor that makes a component part in Asia, then ships it to an Asian manufacturer for assembly into a finished good that is imported into the United States.

You can't reach the component maker in district court as it is not the importer, but you can reach it in at the ITC on the basis of their "sale for importation." This can be critical where the actual importer is a customer or potential customer that you don't want to name as a defendant.

Counsel should weigh the costs and benefits of a district court action versus a section 337 investigation in every case involving imported goods. Less than

one percent of patent actions were brought to the ITC last year.

In view of its speed and pro-patent orientation, as well as the ubiquity of the several scenarios described above, it appears that patent plaintiffs are underutilizing the forum.

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