

Litigation Before The International Trade Commission: The Pace Picks Up

The Editor interviews Michael G. McManus and Rodney R. Sweetland, III, McKool Smith, Washington, DC.

Editor: Would each of you gentlemen tell our readers something about your background and professional experience?

Sweetland: I am a graduate of Western Michigan University and George Washington University Law School. I would describe myself as a classic trial lawyer with considerable first-chair jury trial and appellate experience. I began my career in the federal district courts, and with the rise of Northern Virginia as an Internet business hub in the late 1990s, my practice moved into the area of high technology. A transition to patent litigation was a natural development, and today my practice is limited to intellectual property and commercial litigation.

McManus: I began my career with United States Customs, which was then part of the Treasury Department. From there, I moved to a small firm that specialized in international trade, primarily §337 patent litigation before the International Trade Commission. I hold a Master's degree in chemistry and am a registered patent attorney.

Editor: Would you tell us something about McKool Smith's new presence in Washington, DC? What is the firm's strategy here?

Sweetland: The opening of McKool Smith's Washington, DC office is a reflection of the firm's geographic reach. Since its founding 16 years ago, the firm has always had a nationwide practice. Our new presence in Washington is meant to enhance the firm's existing capacity to provide the highest caliber of representation at trial and, if necessary, on appeal in the forums in the metropolitan DC area and on behalf of Washington, DC clients. The strategy behind the firm's Washington, DC office reflects the strategy the firm has in place everywhere it resides: to win cases at trial. Our business model is very straightforward. We seek to attract new clients, and to take on repeat engagements for existing clients, by winning cases. To that end, we are not distracted by practice areas outside of litigation. Clients come to us because our lawyers live inside the courtroom, and they quickly come to appreciate a brand of litigation that extends far beyond discovery and motions practice.

McKool Smith's Washington, DC office will be the lens for a firm-wide focus on the ITC, the Federal Circuit and the federal district courts in the DC area.

Editor: You have both been engaged in proceedings before the U.S. International Trade Commission for a considerable time. You have mentioned §337 of the Tariff Act of 1930. What is this statute meant to accomplish?

McManus: The purpose of §337 is to protect U.S. business from unfair trade practices. Unfair trade practices can come in many forms, including theft of trade secrets, copyright infringement, trade-



Michael G. McManus



Rodney R. Sweetland, III

mark infringement, and so on. The most common allegation, however, is patent infringement. In recent years about 90 percent of §337 investigations have concerned patent infringement.

Editor: Why have §337 proceedings become so popular?

Sweetland: The increasing popularity of §337 reflects a widespread recognition of the speed and efficiency of the ITC as a venue for patent litigation. Even the most efficient district courts are experiencing slower dockets as a result of the dramatic increase in patent cases.

In addition, there is also an increasing interest in §337 proceedings as a consequence of the U.S. Supreme Court's decision in *eBay v. Merc Exchange LLC*. In *eBay* the Court determined that an injunction should not automatically issue based on a finding of patent infringement, effectively making it more difficult for patent holders to gain injunctions against infringers. The ITC, however, has found that *eBay* does not apply to §337 investigations. As a result, the ITC should see an acceleration in the number of complaints from companies confronted with the adverse effects of *eBay* in federal district courts.

Editor: Speaking of which, how do §337 proceedings differ from conventional district court patent litigation?

McManus: There are a number of differences. First, the procedural rules that govern §337 are designed to enhance the speed of the investigation. For example, a complainant does not have to worry about achieving service on a foreign respondent. Once the Commission has instituted an investigation, it mails a copy of the complaint to the respondent's address and discovery begins. Typically, a respondent has 10 days to respond to a discovery request. About eight months after the investigation is launched, the Administrative Law Judge assigned to the case will convene a full-blown evidentiary hearing. About three months thereafter the ALJ will issue his decision, which then leads to a review by the ITC. The entire process takes about 14 months, which compares favorably to the two years or so that litigation in a district court entails.

A second difference is that the ITC will assign two neutral parties to the investigation. The first is the ALJ, and the second a Commission investigative attorney who has the right to serve discovery, examine witnesses and file pleadings. The substantive law that the Commission applies, however, is the same as that applied by the federal district courts, and §337 can be appealed to the Federal Circuit just as a district court patent case.

The third difference is the specializa-

tion of the ALJs. Since 90 percent of the cases they handle concern patent infringement, they have developed substantial expertise in this area. All in all, it is considered a very favorable venue.

Editor: What remedies are available in a §337 proceeding?

Sweetland: There are two remedies available from a §337 proceeding: exclusion orders and cease and desist orders. The former come in two types, a general exclusion order provides for the exclusion of *all* infringing merchandise, regardless of source, and a limited exclusion order excludes infringing merchandise originating from a specified respondent in the investigation. A cease and desist order directs a respondent to cease selling infringing products from its U.S. inventory.

Editor: What types of cases should be brought before the ITC under §337?

McManus: Cases involving imported goods, essentially. There are four specific scenarios where a §337 makes particular sense. The first is early in the product cycle of an infringing item. This permits the patent owner to nip unfair competition at an early point, and the fact that the ITC does not award monetary damages is less important where the damages base has not had much time to accumulate.

A second scenario is in response to a declaratory judgment action. A patentee who responds to a DJ action with a §337 complaint will move the proceeding to a more convenient and favorable forum.

A third is where the patentee claims a method of manufacturing constitutes patent infringement. Under 35 USC 271(g), importation of a product made abroad made by a process that would infringe a U.S. patent is considered infringement. There are exceptions: where an infringing item is materially altered by a subsequent process or where it becomes a nonessential component of another product. These exceptions apply in federal district court, but they do *not* apply in §337 proceedings because §337 predates §271(g), the enabling statute for which specifically provided that it would not limit any remedy under §337.

A fourth scenario is where the true litigation target makes only a sale for importation. The general infringement statute applicable in district court provides that the importation of an infringing good is patent infringement; §337 goes one step further and provides that the sale for importation of an infringing good is actionable. This won't create a new cause of action, but it does provide more latitude to the patent holder.

Editor: Are there instances when it makes more sense to go to federal district court?

McManus: One instance when you'd rather go to district court rather than the ITC is when the amount of money that you can collect in damages is substantial. A second is when the product accused of infringement is made here in the U.S., since §337 is limited to unfair trade practices that involve imported goods.

Editor: What are some practical considerations for companies contemplating bringing a §337 proceeding or for companies who have been named in a §337 proceeding?

Sweetland: The pace of §337 proceedings is less forgiving than the fastest district court. That means, for the company bringing the complaint, there is no time to get things in order once the investigation has been instituted. In addition to the due diligence on infringement, the complainant also needs to have its domestic industry case well established, and this needs to be accomplished before the filing of the complaint. Discovery with §337 begins the day after the notice of investigation is published in the *Federal Register*, and prepared attorneys will file the first round of discovery immediately. Clients need to be sensitive to the front loading of resources.

Companies that have been named as the respondent of a §337 are truly star-crossed and must retain experienced ITC counsel immediately. They should note that the respondent has a mere 30 days between the filing of a complaint and the Commission's institution of the investigation to catch up with an already prepared complainant.

Editor: Please tell us something about appeals from a §337 proceeding.

McManus: Following the issuance of the ALJ's decision, the Commission has three months to review it. The Commission's determination can be appealed to the Federal Circuit, where the ITC has traditionally done very well. One study puts the long-term rate of affirmance of §337 cases at 65%.

Editor: Please tell us about the future of this practice. Where do you hope to be in, say, five years?

McManus: The big patent cases can involve a variety of technologies. The most prevalent, however, tends to be information technology. A typical laptop computer may embody many inventions, as contrasted with a new drug, which might constitute a single invention and patent. For this reason, I think much of what we are going to be doing in this practice will increasingly derive from IT.

Sweetland: Just as intellectual property continues to represent an increasingly large component of the book value of publicly-traded companies, we expect that intellectual property litigation will continue its growth. Over the next five years, for example, we expect a doubling of the number of §337 investigations instituted by the ITC. The implications for McKool Smith's Washington, D.C. office? At the moment this practice consists of two attorneys. We fully intend to build this practice to accommodate 20 attorneys over the next five years.

Intellectual property litigation is to the 21st century what antitrust litigation was to the 20th. Having established the firm's presence in Washington, DC, we look forward to adding to its reputation for excellence in this city and beyond.

Please email the interviewees at mmcmanus@mckoolsmith.com or rsweetland@mckoolsmith.com with questions about this interview.