

ALERT

A Record Number of Section 337 Cases Filed at the ITC, as The Supreme Court's eBay Decision Makes Section 337 an Even More Attractive Alternative Than Ever to District Court Litigation

Section 337 of the
Tariff Act of
1930...was originally
enacted to protect
U.S. domestic
industries from unfair
competition in the
importation into the
United States of goods
made by foreign
companies.

Section 337 has long been one of the primary remedies available to U.S. patent holders for preventing the importation of infringing imports into the United States. The recent year has seen a dramatic increase in the filing of Section 337 complaints. The Supreme Court's recent decision in *eBay Inc. v. MercExchange L.L.C.* promises to make Section 337 cases at the ITC an even more attractive alternative to district court litigation for the protection of intellectual property rights at the border.

Background

Section 337 of the Tariff Act of 1930, 19 U.S.C. §1337, was originally enacted to protect U.S. domestic industries from unfair competition in the importation into the United States of goods made by foreign companies. Over the years, Section 337 has evolved into one of the primary means for companies to protect U.S. intellectual property rights in cases involving infringing imports.

Section 337 investigations are administered by the International Trade Commission ("ITC") and are initiated by the filing of a complaint by one or more complainants, alleging unfair acts in the importation of articles into the United States by one or more named respondents. Once an investigation is instituted, the Commission assigns an Administrative Law Judge to preside over the proceeding. After discovery and submissions of prehearing briefs and statements, the case proceeds to a hearing in which all parties have an opportunity to call witnesses to testify and to submit exhibits in support of their positions. After further post-hearing submissions, the Administrative Law Judge issues an initial determination, which is reviewed by the Commission. The Commission then issues its final determination on whether there has been a violation of Section 337 and, if so, the appropriate remedy. The Commission's final determinations are subject to Presidential review for policy reasons and ultimately can be appealed to the United States Court of Appeals for the Federal Circuit.

If the ITC finds that Section 337 has been violated, two different remedies are at its disposal. The first is an exclusion order barring infringing imports from entering into the United States. A limited exclusion order applies to goods manufactured, imported and sold by the parties named as respondents in the ITC proceeding. A general exclusion order is broader, and

ALERT

There are a number of distinct advantages to seeking relief under Section 337 as compared to merely filing a lawsuit in a district court.

prevents any infringing articles from entering the United States, regardless of the source. The exclusion orders are enforced by U.S. Customs and Border Protection, which has the power to inspect and deny entry of goods within the scope of the order. The second remedy is an order directing named respondents to “cease and desist from engaging in the unfair methods or acts involved.”

The ITC vs. District Court

There are a number of distinct advantages to seeking relief under Section 337 as compared to merely filing a lawsuit in a district court. The ITC affords a reasonably quick decision compared to the typical district court case. By statute, the ITC is required to set target dates for the completion of investigations and to conduct its investigations expeditiously. Typically, the target dates are set so that ITC investigations are completed in 15 months or less, from the institution of the investigation to the Commission’s final decision. In contrast, district court cases can drag on for years, allowing an infringing company to continue with the production and importation of its products.

In addition, the remedies at the ITC are unique. The primary remedy is an exclusion order which is enforced by U.S. Customs and which is designed to prevent infringing imports from entering the country at the U.S. borders. In contrast, in a district court case, even if an injunction is obtained against a foreign company, it may be difficult to police and enforce such a remedy. In certain circumstances, for example where there is a widespread pattern of infringement, or foreign companies could easily evade an order directed specifically to them, a general exclusion order may be available which prohibits the importation of all goods infringing a U.S. patent, regardless of source. This is a powerful remedy which has no counterpart in district court.

Section 337 also enables a U.S. patent owner to join, in one proceeding, all known companies involved in the sale for importation, importation, or sale after importation of the accused infringing products. In contrast, in district court, a U.S. patent holder may need to bring multiple lawsuits against parties in different jurisdictions in the United States in order to satisfy jurisdiction and venue requirements.

Moreover, Section 337 complaints are served directly by the ITC on the companies named as respondents, thus avoiding what can be expensive and lengthy delays in serving process on companies in foreign countries. Companies named as respondents in Section 337 investigations must appear and provide discovery, or else risk a finding of default and exclusion of their products.

Last, but certainly not least, the ITC’s Administrative Law Judges have extensive experience in adjudicating patent cases. Over 90% of the cases brought under Section 337 are based on alleged infringement of a U.S. patent, and the Administrative Law Judges at the ITC are very experienced in dealing with the types of discovery and evidentiary issues that arise in patent

ALERT

The Supreme Court's recent eBay decision promises to make Section 337 an even more attractive forum for the protection of U.S. intellectual property rights.

cases, and are very familiar with the substantive requirements under the U.S. patent laws. In contrast, district court judges may or may not have familiarity with patent cases.

Another difference is that damages are not available under Section 337. However, by statute, Section 337 remedies are "in addition to" other remedies available under the law, including a district court action for damages. A parallel action for damages in district court can therefore be brought in conjunction with a Section 337 investigation. Respondents in such a case have the right to have the district court action stayed while the Section 337 investigation proceeds. However, the discovery record in the Section 337 investigation can be used in district court.

The Dramatic Rise in Section 337 Investigations

Recent years have shown a dramatic increase in the number of Section 337 complaints filed. The number of complaints rose from 18 to 27 to 28 in 2003, 2004, and 2005, respectively. New filings for 2006 are at a record pace. In the first half of 2006, 21 complaints have already been filed.

The dramatic increase in Section 337 complaints may be attributed to a number of factors. One is certainly the growing importance to companies of protecting their intellectual property rights, coupled with the speed and effectiveness of Section 337 proceedings. In addition, global competitiveness is leading more and more companies to move their manufacturing operations outside of the United States, which means products sold by U.S. companies are now being imported into the United States and subject to the ITC's jurisdiction. Conversely, foreign companies are themselves becoming increasingly global and setting up operations in the United States, making it more and more likely that they will qualify as a "domestic industry" and have standing to seek relief from the ITC under Section 337.

In addition to all of the advantages discussed above relating to Section 337 investigations vs. district court, the Supreme Court's recent eBay decision promises to make Section 337 an even more attractive forum for the protection of U.S. intellectual property rights.

The Impact of the Supreme Court's Ruling in eBay

On May 15, 2006, the Supreme Court decided the much anticipated case of eBay, Inc. v. MercExchange L.L.C., the subject of another Bingham alert. In eBay, the Supreme Court criticized the Federal Circuit's "general rule" that injunctions should issue except in "rare" or "unusual" cases and under "exceptional circumstances." Instead, the Court held that the traditional four-factor equitable test applicable in other contexts also applies in patent cases. Under this test, a plaintiff must show (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The Supreme Court held that applying this test was within the equitable discretion of the district courts and reviewable on appeal for abuse of discretion.

ALERT

The Supreme Court's recent eBay decision makes Section 337 investigations, already a powerful tool in the arsenal of U.S. intellectual property holders, an even more attractive alternative to district court litigation.

As a result of the Supreme Court's ruling, it is clear that patent owners can no longer assume that an injunction will automatically issue if infringement is found. Indeed, in *z4 Technologies, Inc. v. Microsoft Corp.*, ___ F.Supp.2d ___ (E.D.Texas 2006), an early application of the Court's recent eBay decision, the district court denied z4's request for a permanent injunction, even though the jury found that Microsoft had willfully infringed z4's patents for methods limiting the unauthorized use of computer software. In denying the injunction, the district court noted that under the Supreme Court's eBay decision, there is no presumption of irreparable harm merely because infringement has been proven.

In contrast to the uncertain availability of permanent injunctions in district court, in Section 337 investigations exclusion orders are and will continue to be the standard remedy for a violation of the statute. This is likely to make Section 337 an even more attractive alternative to district court litigation, either by itself or in conjunction with a parallel district court action. The availability of a remedy under Section 337 may also significantly impact the leverage a party has in licensing or settlement negotiations, either before or after a complaint is filed with the ITC. In sum, the Supreme Court's recent eBay decision makes Section 337 investigations, already a powerful tool in the arsenal of U.S. intellectual property holders, an even more attractive alternative to district court litigation.

BINGHAM'S CAPABILITIES IN SECTION 337 CASES

BINGHAM'S INTELLECTUAL PROPERTY GROUP HAS MORE THAN 70 LITIGATORS AND PROSECUTORS. WITH 25 LAWYERS ADMITTED TO THE PTO, AND 40 LAWYERS WITH SCIENTIFIC AND TECHNICAL DEGREES (12 WITH ADVANCED TECHNICAL DEGREES, AND 8 WITH PH.DS), WE HANDLE A BROAD RANGE OF IP MATTERS, INCLUDING EXTENSIVE EXPERIENCE IN SECTION 337 INVESTIGATIONS. GARY HNATH, A PARTNER IN OUR WASHINGTON, D.C. OFFICE, IS A FORMER STAFF ATTORNEY WITH THE ITC'S OFFICE OF UNFAIR IMPORT INVESTIGATIONS AND HAS HANDLED OVER 20 INVESTIGATIONS UNDER SECTION 337. GARY IS ALSO A FORMER PRESIDENT OF THE ITC TRIAL LAWYERS ASSOCIATION AND CHAIR OF THE AIPLA'S INTERNATIONAL TRADE COMMISSION COMMITTEE, AND HAS LECTURED AND WRITTEN WIDELY ON ISSUES RELATING TO SECTION 337 INVESTIGATIONS. A NUMBER OF OTHER ATTORNEYS IN BINGHAM'S INTELLECTUAL PROPERTY GROUP ALSO HAVE EXPERIENCE IN SECTION 337 INVESTIGATIONS. BINGHAM'S ATTORNEYS HAVE DEVELOPED EFFECTIVE STRATEGIES FOR DEALING WITH THE UNIQUE ASPECTS OF SECTION 337 CASES, AND WORKING WITH OUR CLIENTS TO MANAGE THESE FAST-PACED, COMPLEX CASES IN ORDER TO MAXIMIZE THE PROSPECTS FOR WINNING RESULTS, WHETHER REPRESENTING COMPLAINANTS OR RESPONDENTS.

Boston
Hartford
London
Los Angeles
New York
Orange County
San Francisco
Silicon Valley
Tokyo
Walnut Creek
Washington

THIS ALERT WAS WRITTEN BY [GARY HNATH](#) AND [MONTY AGARWAL](#). FOR ASSISTANCE, PLEASE CONTACT THE FOLLOWING ATTORNEYS AND INTELLECTUAL PROPERTY LITIGATION PRACTICE GROUP LEADERS:

Monty Agarwal	monty.agarwal@bingham.com	415.393.2376
Gary Hnath	gary.hnath@bingham.com	202.373.6066
Mary Huser	mary.huser@bingham.com	650.849.4914
Richard Taffet	richard.taffet@bingham.com	212.705.7729

BINGHAM McCUTCHEN Legal insight. Business instinct.

To communicate with us regarding protection of your personal information or if you would like to subscribe or unsubscribe to some or all of Bingham McCutchen LLP's electronic and mail communications, please notify our Privacy Administrator at privacyUS@bingham.com or privacyUK@bingham.com. Our privacy policy is available at www.bingham.com. We can also be reached by mail in the U.S. at 150 Federal Street, Boston, MA 02110-1726, ATT: Privacy Administrator, or in the U.K. at 41 Lothbury, London, England EC2R 7HF, ATT: Privacy Administrator.

This communication is being circulated to Bingham McCutchen LLP's clients and friends and may be considered advertising. It is not intended to provide legal advice addressed to a particular situation.

©2006 Bingham McCutchen LLP.