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Latest Developments and Emerging Trends at the ITC

Greg Corbett and Libbie DiMarco

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Libbie (Elizabeth) DiMarco counsels clients in the areas of patent, trademark, trade secret and copyright litigation. She has significant patent litigation experience in a variety of technologies, including software data protection systems, pre-paid and stored value card processing, and pharmaceutical compositions. She has taken depositions, drafted infringement charts and claim construction briefings, and has experience analyzing invalidity positions and assessing prior art references. In addition to litigation, Libbie handles due diligence and clearance studies.

Despite a brief hiatus stemming from the government shutdown, 2019 has already been a very busy year in Section 337 practice at the International Trade Commission (ITC). Two administrative law judges (ALJs) considered whether the public interest weighed against remedial orders in two separate but related proceedings, and each ALJ reached a different conclusion. This year has also seen ITC developments related to the impact of Patent Trial and Appeal Board (PTAB) proceedings, the domestic industry requirement, and the Commission's authority to decline to institute an investigation. This two-part series will discuss meaningful ITC developments in 2019, spanning from ALJ rulings to Federal Circuit guidance.

In part one of this series, we will examine the latest ITC developments involving PTAB proceedings, the public interest, and importation. In part two, we will discuss the

latest ITC developments on domestic industry, as well as recent ITC decisions from the Federal Circuit.

Interaction of PTAB and ITC Proceedings

Impact on the Investigation

District courts routinely stay litigation in view of an *inter partes* review (IPR) proceeding pending before the PTAB. The ITC, however, applies a strict five-factor test to a motion to stay, and it is extremely rare for an ALJ to stay an investigation in view of pending IPR proceedings.¹

Recent ITC litigation confirms that staying an ITC investigation in view of PTAB proceedings remains rare, with one ALJ denying a stay even though the PTAB had already issued its final written decision.² Nevertheless, a stay of ITC litigation is possible in certain circumstances. For instance, one ALJ stayed ITC litigation last August where the complainant did not oppose, and the PTAB had issued a final written decision seven months prior to the scheduled ITC hearing.³

Impact of Estoppel

In the last twelve months, ALJs have addressed IPR estoppel under 35 U.S.C. § 315 (e)(2), clarifying that IPR estoppel does not apply against the Office of Unfair Import Investigations (OUII) Staff, but that IPR estoppel does apply against a respondent regardless of whether the respondent prevailed in the PTAB final written decision.

In *Magnetic Tapes*, the ALJ concluded that IPR estoppel does not apply against OUII Staff.⁴ There, the evidentiary hearing concluded five days before the PTAB issued a final written decision. As a result, the respondent presented all evidence relating to invalidity at the ITC hearing before IPR estoppel was in effect. The ALJ concluded that the question of whether the respondent was estopped from making invalidity arguments was essentially irrelevant because "the statute does not prevent

Staff from raising the [prior art] references in this investigation, which it did.”

Later in the year, another ALJ concluded that IPR estoppel applies to an IPR petitioner regardless of whether the petitioner is unsuccessful during the IPR proceedings, a question that has not yet been addressed by the Federal Circuit.⁵ Because the PTAB final written decision issued prior to the ITC hearing, the ALJ precluded the respondents from presenting any invalidity evidence. Staff acknowledged that the respondents were estopped from asserting the disputed invalidity theories, but nonetheless opposed precluding invalidity evidence in view of the fact that estoppel does not apply to Staff.⁶ The ALJ did not specifically address that point.

Impact on Remedy

Finally, on the issue of remedy, the Commission Opinion in *Magnetic Tapes* considered how the PTAB final written decision that issued days after the ITC hearing would impact the remedy entered. The Commission noted that it has “broad discretion in selecting the form, scope and extent of the remedy,” and determined that it was appropriate to partially suspend enforcement of its remedial orders pending the appeal of the PTAB final written decision.⁷ Notably, however, the Commission suspended the remedial orders only in part and expressly acknowledged that suspending them had “no practical effect since [the accused products] will still be subject to immediate exclusion” in view of other asserted claims.⁸ Commissioner Schmidlein agreed that the remedial orders should be suspended but did not support the “no practical effect” rationale for doing so.

Takeaways and Practice Tips: ITC respondents should carefully consider the expected timing of a final written decision when filing a petition for IPR. If the final written decision issues before the ITC hearing, the respondent may be precluded from presenting any evidence of invalidity at the hearing. Without supporting evidence in the record, Staff will not be able to support any invalidity arguments despite the fact that Staff is not formally estopped under 35 U.S.C. § 315(e)(2). The practical impact is significant. In *Magnetic Tapes*, the final written decision issued after the hearing, Staff’s post-hearing briefing repeatedly cited the respondent’s expert testimony, and the initial determination credited the arguments and evidence that the respondent was estopped from making.

At the same time, a respondent has the greatest likelihood of avoiding remedial relief in a patent infringement investigation if the PTAB issues a final written decision before the Commission issues its final determination. For a respondent balancing the impact of estoppel against the benefit of a final written decision before the Commission

opinion, the ideal timing for a final written decision to issue is after the ITC evidentiary hearing but before the Commission opinion.

In practice, however, it is extremely difficult to obtain a final written decision before the Commission opinion because a final written decision typically issues about 18 months after an IPR petition is filed, while the Commission opinion typically issues within 16-18 months of institution of the ITC investigation. Moreover, even if the final written decision issues during the respondent’s ideal time period, it remains uncertain whether the full Commission would entirely suspend remedial orders in a scenario in which the PTAB issues a final written decision finding that all claims at issue in the ITC investigation are unpatentable.

Diverging Rulings on Appropriate Weight of Public Interest Factors

In separate but related investigations, ALJ Pender and ALJ McNamara reached opposite conclusions on whether the public interest factors weighed against a remedy for Apple’s violation of Section 337 by importing iPhones that infringe Qualcomm’s patents.⁹ Both decisions garnered widespread attention, with dozens of interested third parties submitting public interest statements.

In both investigations, Apple argued that issuing an exclusion order to remedy its violation would lead to a cascading sequence of events that would be detrimental to the public interest. Namely, if Apple could not import infringing products, then Apple would stop purchasing chips from its supplier, Intel, which would cause Intel to exit the market, and Intel would then stop investing in R&D for 5G technology, which in turn would create U.S. national security concerns.

Despite being presented with nearly identical evidence, the two ALJs reached opposing conclusions. ALJ Pender concluded that Apple’s sequence of events was “nearly certain” to occur and would pose a significant risk to national security. He, therefore, recommended that the Commission issue no remedy. He was the first ALJ in history to make such a recommendation, and the Commission itself has declined to enter an exclusion order due to public interest concerns in only three cases.¹⁰

Six months after ALJ Pender’s decision, ALJ McNamara determined that the very same sequence of events was merely “predictive or speculative” rather than nearly certain or even likely. ALJ McNamara explained that a non-infringing redesign would resolve essentially all public interest concerns and was readily achievable according to

Apple employee testimony. ALJ McNamara determined that the public interest did not weigh against a remedy. She, however, did recommend that the exclusion order have carve-outs specifically designed to encourage Apple to develop a non-infringing redesign.

Takeaways and Practice Tips: ALJ Pender's conclusion that the public interest favored no remedy was highly unusual. The tailored exclusion order recommended by ALJ McNamara, on the other hand, was more in line with the existing state of public interest analysis. Nevertheless, her analysis strongly suggests that the mere possibility of a non-infringing redesign generally will be sufficient to resolve public interest concerns unless the patents at issue are "standard essential patents" or directly relate to the public's physical well-being, as in the case of hospital beds.¹¹

Both investigations have terminated, the Commission did not weigh in on which conclusion was correct, and ALJ Pender has retired.

Going forward, absent a concrete demonstration of certain harm to the public, even expert testimony is likely insufficient to establish that the public interest weighs against a remedy. Such evidence, however, may support a tailored remedial order. In some cases, respondents may even be in a position to argue that the public interest evidence supports delaying the date on which an exclusion order goes into effect.

For example, ALJ Cheney recently recommended that an exclusion order "not take immediate effect" in view of certain un rebutted comments from members of the public regarding the length of time it would take to switch from the infringing products to a replacement.¹² ALJ Cheney recommended that "the effect of any remedy be delayed by a period of at least 12 months."

Developments on Importation

Two recent investigations have addressed when it is appropriate for one entity to be considered an "importer" within the meaning of Section 337 based on the importation activities of another entity.

In *Certain Digital Video Receivers*,¹³ the Commission held that, although Comcast was not the importer of record, Comcast was an "importer" based on the activities of suppliers, who were not named in the investigation. The Commission determined that Comcast was "sufficiently involved with the design, manufacture, and importation of the accused product" via its relationship with suppliers. Comcast has appealed the decision to the Federal Circuit, which held oral argument on March 6, 2019. The Federal Circuit decision is still pending.

The initial determination in *Certain Subsea Telecommunications Systems and Components Thereof*¹⁴

confirmed that a parent corporation may be found to satisfy the importation requirement based on the actions of its subsidiaries. There, ALJ Cheney rejected the notion of a "context-agnostic" rule, explaining that the Commission applies a fact-intensive inquiry to determine whether a respondent's conduct satisfies the importation requirement.

Takeaways and Practice Tips: The importation requirement continues to be a low bar for subject matter jurisdiction, which most respondents are likely to stipulate to. By stipulating to importation, respondents can save costs and allocate hearing time to other defenses.

Developments on the Domestic Industry Requirement

Last month, the Commission declined to consider post-complaint domestic industry activities in an investigation where the complainant had asserted that a domestic industry was in the process of being established.¹⁵ The Commission determined that the "small number" of products—70 units in total—produced after the filing date did not constitute a significant and unusual development. It also rejected the complainant's reliance on "the alleged complexity" of the manufacturing process, noting that such an argument "could be made in any investigation." The Commission concluded that the circumstances did not warrant "departing from the general rule that the domestic industry is assessed at the time of the filing of the complaint."

In a different investigation, the Commission confirmed that a five-year-old investment was quantitatively significant for purposes of establishing the domestic industry requirement.¹⁶ There, the complainant submitted domestic industry evidence of current and ongoing investments into service and labor and five-plus-year-old evidence of multimillion-dollar investments in research and development. The ALJ found that the service labor revenue alone was "not quantitatively significant" and did not satisfy the economic industry requirement.¹⁷ The ALJ, however, found that R&D investments made five years earlier covered a product feature that embodied the claimed invention. The prior investments were relevant because the complainant continued to make "qualifying investments" into field service even though the very same service investments were not "significant enough to substantiate a domestic industry on their own." The Commission determined not to review any issues related to domestic industry and those findings became part of its final determination.

The Federal Circuit affirmed, explaining that “nothing in the statutory language” supports a “bright line rule for rejecting research expenditures that are made more than five years earlier.”¹⁸

Takeaways and Practice Tips: Even when demonstrating that a domestic industry is in the process of being established, the general rule remains that a complainant must rely on pre-filing evidence. For instance, in Inv. No. 337-TA-1059, ALJ McNamara relied on pre-filing development and investments in finding that the complainant proved that it was in the process of establishing a domestic industry. Without evidence of pre-filing activities, prototypes or samples manufactured after the ITC complaint is filed likely will not be enough to warrant considering post-complaint evidence.

On the other hand, a very modest ongoing investments may be sufficient to establish the domestic industry so long as a nexus to prior significant investments can be shown. Complainants asserting that a domestic industry is in the process of being established should consider relying on the reasoning in *Automated Teller Machines* to tie pre-filing research and development to post-complaint evidence.

Developments from the Federal Circuit

In *Amarin Pharma, Inc. v. International Trade Commission*, a Federal Circuit majority concluded that the Commission has discretion to deny institution where a complaint fails to state a legally cognizable claim.

As a threshold matter, with Judge Wallach dissenting, Chief Judge Prost and Judge Hughes concluded that the Federal Circuit had subject matter jurisdiction to review the Commission’s decision to not institute, because a decision on institution amounts to a “final determination” on the merits within the meaning of Section 337.

On the merits, the majority rejected the notion that Section 337 creates a mandatory duty to institute an investigation. Instead, the majority ruled that, although Section 337 states that “[t]he Commission shall investigate any alleged violation of this section,” the statutory scheme as a whole “contemplates certain scenarios in which the Commission need not institute an investigation,” including where a complaint fails to state a legally cognizable claim.

In the underlying proceedings, the Commission declined to institute Amarin’s complaint because all asserted claims required proving a violation of the Food, Drug, and Cosmetic Act (FDCA). The FDCA does not create a private right of enforcement, and the Commission determined that the FDCA precludes any claim that would

require the Commission, rather than the Food & Drug Administration (FDA), to apply the FDCA. The Federal Circuit majority affirmed, ruling that a private party cannot state a cognizable claim arising under the FDCA, at least when the FDA “has not taken the position that the articles at issue do, indeed, violate the FDCA.”

Then in the *Swagway* decision this year, the Federal Circuit issued and then later withdrew a decision declaring that ITC trademark rulings have no preclusive effect in district court.

During the underlying Commission proceedings, the ALJ found a violation had occurred based on trademark infringement but denied respondent Swagway’s motion for a consent order. The Commission, therefore, entered an exclusion order.

A consent order has the same practical effect as an exclusion order in that the respondent agrees not to import the accused products and can be subjected to penalties for violating the consent order. A consent order, however, does not have a preclusive effect, whereas a Commission exclusion order in a trademark case does have a preclusive effect in district court litigation, at least in the Fourth and Sixth Circuits. Swagway appealed the denial of its motion for a consent order on that basis.

On May 9, 2019, the Federal Circuit ruled that the Commission did not err in upholding the ALJ’s denial of the motion for the entry of a consent order on the ground that an exclusion order in a trademark action does not have a preclusive effect. This finding created a Circuit split with potentially broad ramifications on Section 337 trademark practice.

Three months later, on August 14, 2019, the Federal Circuit granted a petition for rehearing and vacated its “original decision on the issue of the preclusive effect of the Commission’s trademark decisions under 19 U.S.C. § 1337.” In its August 14, 2019 decision, the Federal Circuit did not address the issue of preclusive effect, instead finding that the Commission did not err in declining to review the ALJ’s decision to deny Swagway’s motion for a consent order because, “[i]n doing so, the Commission found no error in the ALJ’s disposition of the proposed consent order motion.”

Takeaways and Practice Tips: On the issue of discretion to deny institution, the majority explicitly declined to address the broader question of whether “the Commission has discretion generally not to institute an investigation.” The Federal Circuit, therefore, left the door open for respondents to avoid institution by attacking the sufficiency of a complaint for failure to state a legally cognizable claim. As a practical matter, Commission practice, however, is unlikely to change significantly. Historically, Commission decisions to not institute an investigation are very rare.¹⁹ In *Amarin*, the asserted claims were precluded by federal statute as a

matter of law. In view of the Commission's historical practices, although the Federal Circuit confirmed in *Amarin* that the Commission does not have a mandatory duty to institute every investigation, there is unlikely to be a significant increase in the number of investigations that are not instituted.

And at least for the immediate term, a finding of trademark infringement in a Section 337 investigation continues to have a preclusive effect in the Fourth and Sixth Circuits. The original May 9, 2019, ruling, however, may signal a future change in that interpretation of Section 337.

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1. Certain Memory Modules, Inv. No. 337-TA-1089, Order No. 49 (Apr. 11, 2019).
 2. Memory Modules, Inv. No. 337-TA-1089, Order No. 49.
 3. Certain Integrated Circuits, Inv. No. 337-TA-1024, Order 55 (Aug. 31, 2018).
 4. Inv. No. 337-TA-1058, Init. Det. (August 18, 2018).
 5. Memory Modules, Inv. No. 337-TA-1089, Order No. 51 (June 26, 2019).
 6. Inv. No. 337-TA-1089, Staff's Response to Complainant's Motion (June 3, 2019).
 7. Magnetic Tape Cartridges, Inv. No. 337-TA-1058, Comm'n Op. (Apr. 9, 2019).
 8. *Id.*
 9. Certain Mobile Electronic Devices, Inv. No. 337-TA-1065, Init. Det., (Sept. 28, 2018); Certain Mobile Electronic Devices (II), Inv. No. 337-TA-1093, Findings on Public Interest, (April 16, 2019).
 10. Inv. Nos. 337-TA-60, 337-TA-67, 337-TA-182/188.
 11. Certain Fluidized Supporting Apparatus, Inv. No. 337-TA-182/188 (Oct. 5, 1984).
 12. Certain Strontium-Rubidium Radioisotope Infusion Sys., Inv. No. 337-TA-1110 (August 1, 2019).
 13. Inv. No. 337-TA-1001.
 14. Inv. No. 337-TA-1098.
 15. Thermoplastic-Encapsulated Electric Motors (II), Inv. No. 337-TA-1073, Comm'n Op. (Aug. 12, 2019).
 16. Certain Automated Teller Machines, Inv. No. 337-TA-972.
 17. Inv. No. 337-TA-972, Initial Determination, (Nov. 30, 2016).
 18. Hyosung TNS, Inc. v. Int'l Trade Comm'n, 926 F.3d 1353 (Fed Cir. 2019).
 19. See U.S. Int'l Trade Comm'n, Section 337 FAQs.