

Litigation Alert:

Landmark Decision Limits the Authority of the International Trade Commission

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On Friday last week, the United States Court of Appeals for the Federal Circuit in *Suprema, Inc., et al. v. International Trade Commission*, Nos. 2012-1170, 2012-1026, -1124, Slip Op. December 13, 2013, issued a landmark decision limiting the statutory authority of the International Trade Commission (“ITC”) to remedy indirect infringement, holding “that an exclusion order based on a violation of 19 U.S.C. § 1337(a)(1)(B)(i) may not be predicated on a theory of induced infringement under 35 U.S.C. § 271(b) where direct infringement does not occur until *after* importation of the articles the exclusion order would bar.” Slip Op. at 4 (emphasis in original). The Court’s holding effectively renders patent infringement claims based purely on alleged inducement of infringement beyond the authority of the ITC.

The International Trade Commission, as an agency under the executive branch, derives its authority to ban unlawful importation from 19 U.S.C. § 1337 (often referred to as simply, “Section 337”), which authorizes the Commission to issue exclusion orders preventing “[t]he importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of **articles that... infringe** a valid and enforceable United States patent... .” 19 U.S.C. 1337(a)(1)(B) (emphasis added). The issue considered by the Federal Circuit, one that “ha[d] never [before] been presented to or decided by” the Court, was whether, in light of the Commission’s statutory authority being limited to importation of “articles... that infringe,” the Commission is authorized to issue an exclusion order preventing importation of a product on an inducement theory where the article being excluded does not infringe at the time of importation (*i.e.* where direct infringement does not occur until after the article crosses the border into the United States).

In the underlying ITC Investigation (*Certain Biometric Scanning Devices, Components Thereof, Associated Software, and Products Containing Same*, U.S.I.T.C. Inv. No. 337-TA-720), the Complainant, Florida-based Cross Match Technologies, Inc. (“Cross Match”), alleged that biometric (fingerprint) scanners sold

by Respondent Suprema, Inc. of South Korea (“Suprema”) infringed Cross Match’s ’344 patent related to fingerprint scanning technology when combined with software created by fellow Respondent Mentalix, Inc. of Plano, Texas (“Mentalix”). Suprema sold its fingerprint scanners in the United States through distributors such as Texas-based Mentalix, which packaged the scanners with a general purpose computer and fingerprint scanning software for sale to end-customers. Suprema did not provide the end-user software, but did provide a Software Development Kit (“SDK”) that allowed its customers and distributors to create their own software to operate the scanner. Suprema’s scanners, as well as its SDK—the only “articles” that were actually imported—were found not to infringe the ’344 patent when combined with software developed by other customers. Hence, the ITC concluded these items had substantial non-infringing uses, and did not contributorily or directly infringe. After a hearing and post-hearing briefing, the ITC found infringement of the ’344 patent as to Suprema, solely on the basis of inducement of infringement, where the claimed direct infringement took place only after importation into the U.S. Based on this finding, the ITC issued a limited exclusion order.

On appeal, Suprema argued, among other things, that the ITC had exceeded its statutory authority, as the “allegations of induced infringement d[id] not adequately connect the fact of importation to the ultimate infringement.” Slip Op. at 14. The Federal Circuit agreed.

In its discussion of Section 271(b) of the Patent Act governing inducement, and Federal Circuit case law interpreting the statute, the Court noted that “while the inducing act must of course precede the infringement it induces, it is not a completed inducement under § 217(b) until there has been a direct infringement.” Slip Op. at 21. The Court held that “[f]or inducement, the only pertinent articles are those which directly infringe—at the time of importation.” *Id.* at 25. The Court therefore found “that the Commission lacked the authority

to enter an exclusion order directed to Suprema's scanners premised on Suprema's purported induced infringement of the method claimed in the [Cross Match '344] patent." *Id.* The Court clarified that it was not divesting the ITC of authority to deal with indirect infringement by an "inducer"—but such authority would be limited to situations "where the article itself directly infringes when imported," rather than when the imported article may or may not later give rise to direct infringement. *Id.*

In a 15 page opinion concurring in part and dissenting in part from the three judge panel's majority opinion, Judge Reyna expressed concern that the majority's opinion was "enabling circumvention of the legitimate legislative objective of Section 337 to stop, at the border, articles involved in unfair trade." Judge Reyna noted that under the majority's opinion, an importer could avoid the reach of Section 337 by importing disassembled components of an infringing article, or an article practicing all but one step of a patented method, and reserving the final assembly of the last part or performance of the last step of the patented method, until after importation. Judge Reyna worried that such a holding would "create a fissure in the dam of the U.S. border through which circumvention of Section 337 will ensue... ."

The majority addressed Judge Reyna's concerns, writing that "virtually all of the mischief the dissent fears can be addressed by the ITC via resort to § 271(a) or § 271(c), or even to § 271(b) where the direct infringement occurs pre-importation."

While historically, the ITC was used by *domestic* companies to address infringement by *foreign* importers, given the practical realities of the cost of manufacturing high technology products, domestic companies now face exposure to potentially costly ITC proceedings based on their sale of devices manufactured abroad and imported into the United States. The ITC has become a popular forum for patent-holders, both because of the considerable expense of ITC proceedings and the speedy, statutorily-mandated time to resolution.

Makers of devices such as tablets, computers, and smartphones, are particularly vulnerable to claims that their general purpose devices infringe when combined with certain software or apps. Often this combination only occurs once the devices are put into use after importation into the U.S., such as when

an app is loaded onto a smartphone or tablet. The Court's holding in *Suprema* effectively removes the ITC as a forum for such disputes, where the only potential claim is for alleged inducement of infringement.

Fenwick & West LLP, through a trial and appellate team led by Litigation Group Chair Darryl M. Woo, and including team members Jae Won Song, Ilana Rubel, Bryan Kohm, David Lacy Kusters, Erin Simon, Lauren Whittemore and Ravi Ranganath, is pleased to have brought about this result for its clients, Suprema, Inc. and Mentalix, Inc.

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