



Suprema v. ITC: Induced Infringement of a Method Patent Supports a Section 337 Violation

On August 10, 2015, the *en banc* United States Court of Appeals for the Federal Circuit held that articles that do not directly infringe until after they have been imported into the United States may nonetheless qualify as “articles ... that infringe” that can be excluded from entry by the United States International Trade Commission pursuant to 19 U.S.C. § 1337. *Suprema, Inc. v. U.S. Int’l Trade Comm’n*, No. 2012-1170, slip op. (Fed. Cir. Aug. 10, 2015). Under the facts of this case, importation of a device that is programmed after importation is subject to ITC relief, as programmed, based on induced infringement of method claims.

The decision confirms that direct infringement of patented methods and indirect infringement based on active inducement remain viable theories for seeking relief under Section 337. And the decision reaffirms the rights of United States intellectual property rights holders, who can pursue aggressive unfair trade remedies against domestic acts of infringement that use imported articles, consistent with the Commission’s long standing practice and its mandate to protect intellectual property rights at United States borders. But, because Supreme Court review of the *Suprema*

decision remains possible, this may not be the last word on the subject.

Background

Section 337 is one of several United States trade laws directed to unfair import practices. Among other things, Section 337 defines certain unlawful acts relating to articles imported into the United States that infringe a United States patent, specifically “[t]he importation into the United States, the sale for importation, or the sale within the United States after importation ... of articles that ... infringe a valid and enforceable United States patent....” 19 U.S.C. § 1337(a)(1)(B)(i) (emphasis added). Patent holders seeking relief under Section 337 may file a complaint with the Commission, and the Commission then determines whether to institute an investigation based thereon. If the Commission finds a violation, it may issue prospective relief, including exclusion orders that direct United States Customs and Border Protection (“Customs”) to bar infringing articles from entry into the United States, as well as cease and desist orders that prohibit domestic distribution of infringing articles.

The *Suprema* investigation started as a typical Section 337 case, in which the patent holder sought relief against a foreign manufacturer and a domestic importer of infringing products. Complainant Cross Match Technologies, Inc. (“Cross Match”) owns the rights to several patents relating to fingerprint scanning technology, including United States Patent No. 7,203,344 (“’344 patent”). In its May 2010 complaint, Cross Match accused respondents Suprema, Inc. (“Suprema”) and Mentalix, Inc. (“Mentalix”) of violating Section 337 through their activities relating to certain fingerprint scanners imported into the United States, which cross match alleged to infringe its patent rights. Suprema, a Korean company, manufactured scanners and sold them to Mentalix, an American company. Suprema also supplied a software development kit (“SDK”) for creating customized operating software. Mentalix bought scanners from Suprema and imported them into the United States. Then, Mentalix programmed the scanners using the SDK, and resold them in the United States.

In June 2010, the Commission instituted a Section 337 investigation based on Cross Match’s complaint. The presiding Administrative Law Judge (“ALJ”) found that the accused fingerprint scanners, when programmed by Mentalix in the United States using Suprema’s software kit, practiced all of the limitations of one method claim recited in the ’344 patent. Based on that infringement finding, the ALJ issued an Initial Determination of a violation of Section 337, and recommended issuance of a limited exclusion order that barred Suprema’s accused scanners from entry into the United States. The ALJ also issued a cease and desist order preventing Mentalix from distributing the scanners in the United States.

In June 2011, the Commission reviewed the ALJ’s Initial Determination regarding direct and indirect infringement of the ’344 patent. The Commission found that Mentalix directly infringed the ’344 patent by programming Suprema’s scanners and then using them inside the United States. The Commission also found that Suprema knew of (or was willfully blind to) the existence of the ’344 patent, and actively induced Mentalix’s direct infringement when it collaborated “with Mentalix to import the scanners and to help adapt Mentalix’s [] software to work with Suprema’s imported scanners and SDK to practice ... the ’344 patent.” (Slip Op. at 10.) The Commission determined that the appropriate relief was a limited exclusion order covering the infringing scanners,

related software, and products containing the same that were made outside the United States by or on behalf of the respondents. Suprema and Mentalix appealed.

In December 2013, a divided panel of the Federal Circuit vacated the Commission’s findings of infringement. The majority decision, authored by Judge O’Malley, held that the statutory language of Section 337—specifically, “articles ... that infringe”—imposes “a temporal requirement and that infringement must be measured at the time of importation.” *Suprema, Inc. v. U.S. Int’l Trade Comm’n*, 742 F.3d 1350, 1363 (Fed. Cir. 2013). Because the accused scanners were not programmed with the infringing software at the time of importation, the majority held that they did not qualify as “articles ... that infringe” under Section 337 and the Commission had no power to issue an order excluding them from entry into the United States based on induced infringement. *Id.* at 1357. Cross Match and the Commission petitioned for rehearing *en banc*, which the Federal Circuit granted. The Federal Circuit received numerous supporting briefs, including briefs from the Department of Justice supporting the Commission’s interpretation of Section 337) as well as briefs from various amici supporting either party.

The Majority Decision

The *en banc* court focused on “whether goods qualify as ‘articles that infringe’ when the Commission has found that such goods were used, after importation, to directly infringe by the importer at the inducement of the goods’ seller.” (Slip op. at 13.) If so, then the Commission’s entry of a limited exclusion order directed to Suprema’s scanners was within its statutory authority under Section 337.

Six of the participating Federal Circuit judges (Judge Reyna, who authored the opinion, was joined by Judges Newman, Wallach, Taranto, Chen, and Hughes) sided with the Commission and its interpretation of Section 337. Four judges dissented, and two did not participate. The majority approached the question of statutory construction under the well-established framework of *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), which governs review of an agency’s interpretation of its statutory authority. Under *Chevron*, the first inquiry is “whether Congress has directly spoken to the precise question at issue.” 467 U.S. at 842. If so, then the analysis stops. *Id.* at 842-43. If not, the

next step is to ask “whether the agency’s answer [to the question presented] is based on a permissible construction of the statute.” *Id.* at 843. Under the second *Chevron* inquiry, the agency’s construction is given deference; its “interpretation governs in the absence of unambiguous statutory language to the contrary or unreasonable resolution of language that is ambiguous.” *United States v. Eurodif S.A.*, 555 U.S. 305, 316 (2009) (citation omitted).

The majority answered the first *Chevron* inquiry—whether Congress has expressly spoken on the issue at hand by drafting the statute in terms of “articles that infringe”—in the negative because “the shorthand phrase ... does not unambiguously exclude inducement of post-importation infringement.” (Slip op. at 15.) The phrase “articles that infringe” creates textual uncertainty, said the majority. On one hand, Section 337 provides that “articles,” i.e., things, are infringing subject matter. On the other hand, the statutes that define what constitutes patent infringement refer to a person’s actions with respect to a “patented invention” (which encompasses both articles and methods under 35 U.S.C. § 101). For example, the Patent Act defines direct infringement as follows: “[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a); see also § 271(b) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”); § 271(c) (“Whoever offers to sell or sells ... a component of a patented machine ... shall be liable as an infringer.”). The majority thus rejected the argument that the statutory reference to “articles” in Section 337 necessarily excludes induced infringement of a patented method under 35 U.S.C. § 271(b); to the contrary, “[t]he word ‘infringe’ does not narrow Section 337’s scope to any particular subsections of [35 U.S.C.] § 271.” (Slip op. at 15.)

The majority also held that the present-tense language of Section 337 (“articles that infringe”) does not suggest that Section 337 requires that direct or indirect infringement occur at the time of importation. Direct infringement is a necessary predicate for indirect infringement liability; however, direct infringement typically occurs after an act of contributory infringement, and there is no dispute that Section 337 encompasses at least contributory infringement. Thus, Section 337 could just as easily be read to reach activities

post-importation, including induced infringement. To hold otherwise would run afoul of the contemporaneous language of 35 U.S.C. § 271(a) when Section 337 was amended in 1988, which defined patent infringement only by reference to the acts of making, using, or selling a patented invention in the United States. None of those acts could possibly occur at the time of importation, which meant that “articles that infringe” necessarily referred to post-importation activities.

Finally, the majority reasoned that the Commission’s statutory authority to issue prospective relief as to “the articles concerned” under Section 337(d)(1) did not limit the scope of Section 337 to articles at the time of importation. Although the original panel found that the reference to “the articles concerned” referred to the same “articles that infringe” specified in Section 337(a), the majority held that “the ‘articles’ of subsections (a) and (d)(1) are not the same.” (*Id.* at 19.) Simply put, the “articles that infringe” under Section 337(a) have already been imported and establish the basis for a determination that Section 337 has been violated, while Section 337(d)(1) authorizes the Commission to fashion prospective relief against future imports of “the articles concerned.” (*Id.*)

The majority then turned to step two of the *Chevron* framework and held that the Commission’s interpretation of Section 337 to encompass acts of induced infringement of patented methods was reasonable. Starting with the statutory text, it was reasonable to read “articles that infringe” to reach post-importation acts of indirect infringement because “[i]n many cases, such acts cannot occur at the time of importation.” (*Id.* at 20.) This interpretation accords with the text of Section 337 as a whole, which expressly contemplates post-importation acts of infringement, such as the “sale ... after importation” specified in Section 337(a)(1)(B). See also 19 U.S.C. § 1337(f) (authorizing the Commission to issue cease and desist orders that apply to purely domestic acts).

The legislative and administrative history of Section 337 further supported the Commission’s interpretation, because Congress endowed the Commission with broad remedial authority and the Commission has consistently exercised such authority. When Congress enacted the predecessor to Section 337 in 1922, it explained that it was broadly directed to “unfair methods of competition” and was “broad enough to prevent every type and form of unfair practice....”

(slip op. 21-22 (citation omitted).) Then, when Congress enacted Section 337 in 1930, it reaffirmed the Commission's broad authority, noting that the language relating to unfair trade practices was "broad and inclusive and should not be limited to, or by, technical definitions of those types of acts." (*Id.* at 22 (citation omitted).) And even though Congress made significant substantive amendments to Section 337 in 1988, it did not narrow the scope of the Commission's authority. Quite the contrary, the 1988 amendments expanded the scope of Section 337 by eliminating the requirement that a complainant must show an injury to its domestic industry.

Pursuant to this broad authorization to remedy unfair trade acts, the Commission has consistently exercised its authority over post-importation acts, and the Federal Circuit has generally affirmed that practice. For almost 40 years the Commission has consistently found that inducement to infringe a patent under 35 U.S.C. § 271(b) qualified as a violation of Section 337. (*Id.* at 22 & n.6 (collecting cases).) And the Federal Circuit has affirmed a determination that induced infringement may form a basis for a Section 337 violation in several cases, such as *Young Eng'rs Inc. v. Int'l Trade Comm'n*, 721 F.2d 1305 (Fed. Cir. 1983), *Vizio, Inc. v. Int'l Trade Comm'n*, 605 F.3d 1330 (Fed. Cir. 2010), and *Emcore Corp. v. Int'l Trade Comm'n*, 449 F. App'x 918 (Fed. Cir. 2011). Moreover, carving out exceptions to Section 337 for method patents and induced infringement would not only run counter to long-standing Commission practice but also create obvious loopholes that could be exploited to avoid the reach of Section 337. (*Id.* at 25.)

Judge Dyk's Dissent

Although Judge Dyk joined in Judge O'Malley's separate dissent, he wrote a brief separate opinion distinguishing the facts of *Suprema* from prior cases involving Section 337 violations regarding induced infringement. The key difference, in Judge Dyk's view, was that *Suprema*'s scanners were non-infringing "staple" articles at the time of importation; some of them may be converted into infringing scanners while others may not, all depending on subsequent actions. Judge Dyk was troubled by the broad scope of the Commission's remedial order, which excluded *all* of *Suprema*'s scanners even though only some of them would result in direct infringement

in the United States when Mentalix programmed them in a particular way. In previous cases, however, the Commission had found Section 337 violations when inducing instructions accompanied an article during importation. According to Judge Dyk, "[i]t is a far different matter where, as here, any inducement is separate from the importation, and the articles as imported may or may not ultimately be used to directly infringe a method claim when combined with software post-importation." (Dyk Dissent at 3.) Accordingly, in his view, the Commission did not have the authority to exclude all of the scanners based on a theory that some of them may later be put to uses that directly infringe.

Judge O'Malley's Dissent

Judge O'Malley wrote the principal dissent, which was joined by all of the other dissenters (Chief Judge Prost and Judges Lourie and Dyk). She focused on the uncertainty of the ultimate direct infringement post-importation, and the tenuous authority to exclude imports "based only on the putative intent of the importer." (O'Malley Dissent at 1.) And she rejected the broad arguments regarding unfair trade policy as a basis for expanding Commission authority that, in her view, does not extend to post-importation acts. She read Section 337 as limited to articles that infringe at the time of importation; patent holders seeking remedies for post-importation infringement may avail themselves of district court actions under 35 U.S.C. § 271(a).

Judge O'Malley disagreed with the majority's analysis of Section 337 under *Chevron*. She believed that under the first *Chevron* inquiry, the language of Section 337 clearly reflected Congressional intent to "exclude liability ... for induced infringement of a method claim that is not directly infringed, if at all, until after importation." (*Id.* at 3.) The plain language of the statute, "articles that infringe," refers to physical objects. She later noted that "[t]he patented invention" of § 271(a) is the equivalent to the "article" in § 1337(a)(1)(B)(i)" and conceded that the analogy breaks down for patented methods, but pointed to the Commission's finding that Section 337 does not apply to post-importation conduct that [directly] infringes method claims." (*Id.* at 11, citing *In the Matter of Certain Electronic Devices with Image Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-724, 2012 WL 3246515, at *12 (Dec. 21, 2011).)

Judge O'Malley also relied on the surrounding statutory context, which defined Section 337 violations in terms of importation, sale for importation, or sale after importation, suggesting that "[i]t is objects which are imported or sold, not methods." (*Id.* at 5.) The point of importation was "the cornerstone of liability," a fact reaffirmed by the use of the present tense throughout Section 337. (*Id.*) Thus, in her opinion, actionable Section 337 "infringement is tied, not just to a physical object, but to the date of importation." (*Id.* at 6.) Exceptions to this rule were set forth expressly in the statute, and were limited to "sale[s]" of infringing imported articles in the United States, as opposed to methods, which can only be "used." Moreover, uses of patented processes prior to importation were called out in Section 337(a)(1)(B)(ii); the very existence of that provision indicates that Congress did not intend for Section 337 to encompass intangible patented methods. She further rejected the majority's reliance on the language of 35 U.S.C. § 271 in 1988 (when Section 337 underwent substantial amendment) because Section 337 explicitly covers sale of an article within the United States after importation.

Limiting Section 337 to physical articles that infringe at the time of importation makes practical sense, according to Judge O'Malley. The patent holder is not harmed by the importation of noninfringing products, and if and when any domestic infringement arises, the patent holder may seek relief in the district courts. But allowing patent holders to seek relief under Section 337 for induced infringement was problematic because, at the time of importation, the "articles ... that infringe" do not yet exist. Such an interpretation, according to Judge O'Malley, would allow the Commission to exclude noninfringing articles based solely on the intent of the importer to cause infringement at a later time. This also created practical issues for Customs agents, who are charged with determining which of Suprema's imported scanners "may later be used by some Suprema customers in an infringing manner and, as to those, for which customers Suprema has acted with an improper intent to induce that infringement." (*Id.* at 9.)

Judge O'Malley also disagreed with the majority's review of the legislative and administrative history of Section 337. The focus of Section 337 and its predecessors has always been on unfair methods of competition or unfair acts, including importation of "articles ... that infringe." The 1988 amendments to Section 337 were unrelated to whether Section 337 reaches

induced infringement; they merely removed the requirement that a complainant must show a substantial injury to its domestic injury to make out a claim of a Section 337 violation. Broad statements about strengthening the Commission's authority to investigate and remedy unfair trade practices do not shed light on the issue of whether Congress specifically intended that the Commission exclude noninfringing articles based on the importer's intent.

Nor did the Commission's historical practice support the majority's opinion. The pre-1988 cases cited as precedent for exclusion orders based on induced infringement did not involve orders that were exclusively based on inducement. Rather, those cases involved articles that were not staple articles suitable for noninfringing uses. And more modern cases all involved fact patterns meaningfully different from the case at bar, in which inducing instructions accompanied the imported articles and were present at the time of importation. According to Judge O'Malley, "the only consistent agency practice was the agency's *failure* to assert § 337 against importers of staple goods based solely on the intent to induce infringement of method claims post-importation." (*Id.* at 21.)

Judge O'Malley noted the majority's concern about "a porous border hospitable to infringers[]" that might be created under a narrow interpretation of Section 337. (*Id.* at 25.) The majority, she argued, overlooked the fact that a patent holder can seek relief for domestic acts of direct infringement in the district courts. Accordingly, the fact that the Commission might lack the power to address some particular forms of infringement did not deprive patent holders of effective relief and "would not open a porous border for all kinds of nefarious actors." (26.) By deferring to the expansive views of the Commission (an executive agency), the majority threatened the balance of power between Congress, the courts, and the executive. The courts should not disturb the limits Congress placed on the Commission's authority; to the extent the industry felt that Section 337 was too narrowly crafted, the appropriate place to expand it is Congress, not the courts.

Finally, Judge O'Malley pointed out that the majority's opinion had problematic implications because it "grant[ed] the Commission the power to hold up staple goods." (*Id.* at 28.) That is, noninfringing articles that could be used in infringing or noninfringing ways may be indiscriminately barred from

entry into the United States. To the extent that the articles are never used for infringing purposes, their exclusion, in Judge O'Malley's view, exceeds the scope of the Commission's authority.

Potential Impact

The immediate impact of *Suprema* is clear: Section 337 covers all forms of patent infringement specified by 35 U.S.C. § 271(a)-(c). The *Suprema* decision reduces potential uncertainty over the viability of method patents and induced infringement claims in Section 337 investigations. It also makes it more difficult for infringers to dodge Section 337 by importing noninfringing products with the intention of providing separate inducement instructions later.

By confirming the Commission's authority to investigate and remedy potential Section 337 violations, the *Suprema* decision provides a significant boost for United States intellectual property rights holders. The Commission offers many advantages compared to district court litigation, including a statutory mandate to complete investigations at the earliest practicable time, the availability of exclusive relief that is enforced by Customs, and broad, *in rem* jurisdiction. For rights holders who can demonstrate a domestic industry utilizing the affected IP, and who are seeking to stop unfair competition from infringing imports, the Commission provides an important forum that is complementary in nature to the district courts, which move at a slower pace, have different remedial powers, and more restricted jurisdictional authority. The Commission also presents unique practical advantages in the post-AIA era of *inter partes* review proceedings before the Patent Trial and Appeal Board. The Commission rarely stays investigations pending United States Patent and Trademark Office review proceedings, while district courts often issue such stays.

The *Suprema* decision is also noteworthy because of the sharp split among the Federal Circuit judges, with only a slight majority of judges participating (constituting only half of the court's active judges) endorsing the Commission's interpretation of Section 337. Many of the newest Federal Circuit appointees sided with the Commission, while several of the court's veterans dissented. And two judges—Judges Moore and Stoll (the latter the newest addition to the Federal Circuit) did not participate in the decision. Perhaps this is a sign that the Federal Circuit may show increased deference to the Commission in the coming years. In any event, this may not be the last word on the subject: The diverging views set forth in the lengthy majority and dissent opinions could signal that another Federal Circuit decision is ripe for a petition for a writ of certiorari to the Supreme Court.

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