Client Alert

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En banc Federal Circuit Affirms ITC's Authority to Issue Exclusion Orders for Induced Infringement of Method Claims

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Reversing an earlier panel decision, the *en banc* Federal Circuit confirmed that the ITC has the authority to issue exclusion orders against imported products that ultimately are used to infringe method claims, even if those claims are not infringed until after the product has been imported into the U.S. In the matter of *Suprema, Inc. v. ITC*, the Federal Circuit held that "the Commission's interpretation that the phrase 'articles that infringe' covers goods that were used by an importer to directly infringe post-importation as a result of the seller's inducement is reasonable." This decision clarifies and confirms the ITC's ability to issue exclusion orders for infringement of method claims, a point that had been suddenly thrown into grave doubt by the earlier, now-vacated panel decision.

The products at issue in the case were fingerprint scanning devices manufactured in South Korea and imported into the U.S. by Suprema, Inc. The Suprema hardware did not infringe the asserted patent until software was added by another entity, Mentalix, Inc, in the U.S. after importation. The Commission had found that Suprema had induced infringement of method claims by encouraging Mentalix to add specific kinds of software to its hardware, and that Suprema knowingly blinded itself to the likelihood that it was inducing infringement of the asserted method claims. The Commission therefore determined that Suprema had induced infringement and issued an exclusion order preventing the importation of Suprema's hardware.

The earlier panel decision in this case – now vacated – had overturned the Commission's exclusion order. The divided panel had held that, because the claimed methods were not used until after the product was in the United States, there were no "articles that infringe" at the time of importation. Because the ITC's authority to issue exclusion orders is limited to "articles that infringe" U.S. patent claims, the panel decision had held that the ITC lacked the authority to issue an exclusion order against Suprema's hardware. Judge Reyna had vigorously dissented to the earlier panel decision, noting, among other things, that the panel's interpretation of the 337 statute would allow potential infringers to easily evade ITC jurisdiction. As the *en banc* decision notes, the panel decision would have "effectively eliminated trade relief under Section 337 for induced infringement and potentially for all types of infringement of method claims."

The *en banc* Federal Circuit framed the question presented as whether the importation of goods that are used to directly infringe a U.S. patent, at the inducement of the importer, qualifies as an unfair trade act under Section 337. That question turned on whether the Commission's interpretation of Section 337 – that such importation was prohibited by Section 337 – was owed any deference. As the *en banc* decision noted, under the *Chevron* doctrine, the Commission has the authority to interpret any ambiguous statutory language in Section 337, and the Federal

Circuit will defer to any reasonable interpretation of such ambiguous language. The question, then, was whether Section 337's reference to "articles that infringe" was ambiguous, and whether the ITC's interpretation of that Section was entitled to deference.

The Federal Circuit held that the phrase "articles that infringe" was indeed ambiguous. The court held that by not limiting the scope of Section 337 to "infringement," the language used in the Patent Act, and instead referring to "articles that infringe," Congress had "introduce[d] textual uncertainty." The Federal Circuit further held that the Commission's interpretation of Section 337 was consistent with the statutory text, policy, and legislative history.

The 6-4 decision was written by Judge Reyna and joined by Judges Newman, Wallach, Taranto, Chen, and Hughes. Judge O'Malley wrote a dissent that was joined by Judges Prost, Lourie, and Dyk, and Judge Dyk also separately dissented.

This decision eliminates substantial uncertainty for parties considering bringing complaints before the ITC. After the panel decision vacating the Commission's exclusion order in *Suprema*, parties had struggled to identify ways to enforce method claims before the ITC. In the 949 Investigation, for example, the Complainant had originally asked the Commission to institute an investigation based on the induced infringement of audio processing hardware and software, which it alleged was a violation of subsection (a)(1)(B) prohibition of articles that infringe – the standard, pre-*Suprema* theory of ITC complainants. In light of the *Suprema* panel decision, the Complainant withdrew its original complaint and filed a new complaint that advanced an additional, novel theory that the Respondents' induced infringement was a violation of subsection (a)(1)(A) of Section 337, which prohibits "unfair acts in the importation of articles…to destroy or substantially injure an industry in the United States [or] prevent the establishment of such an industry." The Commission did not accept this alternative approach, instituting the 949 investigation solely to determine if there had been a violation of subsection (a)(1)(B) without discussing the (a)(1)(A) theory. Numerous practitioners and patent holders had expressed concern that if the panel's decision were upheld, it would potentially limit the ITC's jurisdiction over certain types of patent cases, particularly cases involving electronic devices that have, in recent years, often involved method claims. However, based on the decision confirming that the ITC has the authority to issue exclusion orders if it finds that an importer is inducing infringement, there is no longer any need to identify these kinds of novel approaches; parties presumably can continue to rely on pre-Suprema standards and authorities.

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