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A Brief Synopsis of the Issues Confronting the Federal Circuit in the En Banc Rehearing of *Suprema, Inc. v. ITC*

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On February 5, 2015 the en banc Federal Circuit will hear oral argument in the matter of *Suprema, Inc. v. ITC*.[1] This rehearing reviews the controversial Federal Circuit opinion 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 where no direct infringement occurs until post-importation,"[2] and thus precluding the International Trade Commission from finding induced infringement of method claims in most cases. The disposition of the en banc court will have significant repercussions for how litigants in the ITC frame future complaints of patent infringement, because it will largely determine the viability of claims of inducement of infringement at the ITC.

Below is a brief synopsis of the Federal Circuit panel's opinion, and the parties' en banc briefs. The en banc decision is likely to turn on (1) the interpretation of the phrase "articles that — infringe" in § 337(a)(1)(B)(i) and specifically whether that language refers to only the article itself or should be interpreted to include accompanying conduct, and (2) the importance of the ITC's longstanding tradition of exclusion under § 337 based on inducement by imported articles. We will provide additional updates summarizing oral argument and reporting on the en banc opinion once it issues.

Federal Circuit Panel Opinion

On May 11, 2010, Cross Match Technologies, Inc. filed a complaint at the ITC accusing Mentalix, a domestic importer of fingerprint scanners, of infringing claim 19 of its U.S. Patent No. 7,203,344 ("the '344 patent"), and accusing Suprema, the Korean developer of the imported scanners, of inducing Mentalix's infringement. Claim 19 of the '344 patent is directed to "[a] method for capturing and processing a fingerprint image." Mentalix imports Suprema fingerprint scanners and incorporates them with certain Mentalix developed software post-importation. Cross Match contended that method claim 19 is infringed when Suprema's scanners are used in combination with Mentalix software after importation into the United States.[3] The Commission found that Mentalix's operation of its software on the scanners after importation directly infringes claim 19, and that Suprema induced Mentalix's direct infringement by actively encouraging incorporation of Mentalix's software with its scanners. Based on this finding, the Commission issued an exclusion order preventing importation of the accused scanners into the United States. Mentalix and Suprema appealed to the Federal Circuit the Commission decision finding them in violation of § 337 and the accompanying exclusion order.

On December 13, 2013, a Federal Circuit panel overturned the ITC's decision and vacated the exclusion orders against Suprema and Mentalix. The Federal Circuit panel concluded that a violation of § 337 "may not be predicated on a claim of induced infringement where the attendant direct infringement of the claimed method does not occur until post-importation."[4] Construing § 337 under the *Chevron* framework, the Federal Circuit panel found that the Commission's authority to remediate matters of patent infringement extends to "articles that — infringe" a U.S. patent, and that "[t]he focus is on the infringing nature of the articles at the time of importation, not on the intent of the parties with respect to the imported goods."[5] Thus, the Federal Circuit analyzed infringement based on the state of the scanners as they crossed the border into the United States, which was before Mentalix loaded its software onto the scanners. The Federal Circuit found that the necessary direct infringement of the method claim did not occur until after importation, and, consequently, the articles were not infringing at the time of importation, putting the scanners outside the reach of § 337. This holding was both at variance with established ITC law and greatly curtailed the Commission's authority to find induced infringement in cases involving method claims, as such claims are generally infringed post-importation.

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In dissent, Judge Reyna criticized the majority's opinion, saying that it "ignores that Section 337 is a trade statute designed to provide relief from specific acts of unfair trade," and "overlooks [] the long established agency practice by the Commission of conducting unfair trade investigations based on induced patent infringement, and related [Federal Circuit] precedent."[6]

On May 13, 2014, the Federal Circuit granted the ITC's and Cross Match's petitions for rehearing en banc.

Appellants Suprema's and Mentalix's En Banc Brief

Appellants Suprema's and Mentalix's en banc brief focuses on a textual interpretation of the statute and references the legislative history of § 337 to argue that the salient consideration is the status of the article itself at the time of importation and not conduct relating to the article. Appellants argue that the scope of § 337(a)(1)(B)(i) is explicitly *in rem* and the text of the statute requires that there be an infringing article at the time of importation, not merely conduct that induces another's infringement.[7] Because inducement of infringement under § 271(b) is fundamentally *in personam*, it is only redressable by § 337, according to Appellants, where the inducement relates to importation of an article that directly or contributorily infringes at the time of importation.[8]

Appellants also argue that the scanners' status as staple articles of commerce prevents a finding of inducement: "[W]hile the seller of a staple article may be liable under section 271(b) if it engages in knowing conduct to induce another party's infringement, even in such cases, the patent holder is not entitled to any relief that would prohibit the sale of the staple article itself," because allowing exclusion of staple articles based on inducement of post-importation infringement would expand a complainant's substantive rights to control staple articles beyond those given in the Patent Act.[9]

Appellee International Trade Commission's En Banc Brief

In response, in its en banc brief, the ITC argues that inducement of infringement may be tied to an article, citing the legislative history for the Patent Act, and Supreme Court and Federal Circuit precedent. For instance, the ITC points to House and Senate reports stating that 271(b) "enjoins those who seek 'to cause *infringement by supplying someone else with the means* and directions for infringing a patent,"[10] and to the Supreme Court's decision in *Grockster*, which states:

[T]he distribution of a product can itself give rise to liability [for induced infringement] where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use.[11]

The ITC also defends the Commission's determination by recounting the long history of construing § 337 "as establishing liability for inducing patent infringement via imported articles," and arguing that this "longstanding interpretation is entitled to deference."[12] In *Frischer & Co. v. Bakelite Corp.*, 39 F.2d 247 (C.C.P.A. 1930) the U.S Court of Customs and Patent Appeals "sustained the Commission's determination that the inducement of infringement via imported articles was a violation of patent rights and a violation of the Tariff Act."[13] According to the ITC, the reasoning in *Bakelite* matched the motivations behind enactment of § 271(b), and when Congress amended the Tariff Act to add the language at issue ("importation … of articles that — infringe"), Congress endorsed the Commission's interpretation of section 337 as including liability for inducing infringement via imported articles.[14]

Intervenor Cross Match Technologies, Inc.'s Brief

In its en banc brief, Intervenor Cross Match argues that under *Chevron*, the Commission's interpretation of § 337 is appropriate. Under the *Chevron* two-step framework for statutory interpretation, the court first determines "'whether Congress has directly spoken to the precise question at issue.'"[15] If it has, the inquiry is complete. But, if "the statute is 'silent or ambiguous with respect to the specific issue,'" the court must determine "'whether the agency's answer is based on a permissible construction of the statute.'"[16] Cross Match's brief defends the Commission's interpretation of § 337 as consistent with the statutory text and prosecution history, which show that "Section 337 on its face permits the Commission to find a violation of the Tariff Act where the importation of articles is tied to any type of infringement—direct, inducement, or contributory."[17] Cross Match further explains that "the Commission and courts have long recognized that Section 337 violations can depend on more than the

imported articles' characteristics at the time of importation,"[18] and that "the Commission's interpretation is the only one consistent with the overriding purpose of the Tariff Act as a trade remedy," which is to "prevent *every type of unfair act or prejudice in connection with imported articles*."[19] Additionally, Cross Match contends that "the Commission has frequently found a violation based on inducement of a method claim, which, by definition, can only be infringed post-importation."[20]

Brief for the United States as Amicus Curiae

On June 11, 2014, the Federal Circuit invited the Attorney General to present the views of the United States as amicus curiae. In the United States' brief, the Attorney General argues that the ITC's interpretation of § 337 is appropriate in light of the history and purpose of the Tariff Act and is entitled to deference. The Attorney General describes the Commission's longstanding practice of interpreting § 337 to encompass indirect infringement, and explains how the legislative history of § 337 supports the Commission's interpretation of the statute.[21]
The Attorney General further explains that "[u]nder the Patent Act *person*s infringe, not *things*," and, as such, when it enacted § 337, Congress would have expected the Commission to interpret the term "articles that — infringe" to allow *in personam* liability under the Patent Act to be redressable under § 337.[22] The Attorney General also emphasized that "[t]he Commission construes Section 337 *in pari materi*a to provide remedies against the same forms of infringement at the border that district courts are empowered to redress through infringement actions within the United States."[23] According to the Attorney General this interpretation, which ties infringing conduct to imported articles, is reasonable and entitled to deference.
Oral argument is currently scheduled for Thursday, February 5, 2015. Check back for a summary of the oral argument and an analysis of the en banc opinion once it issues.

If you have any questions about this topic, please contact the author(s) or your principal Mintz Levin attorney.

Endnotes

[1] Case No. 2012-1170 (Fed. Cir.).
[2] *Suprema, Inc. v. ITC*, 742 F.3d 1350, 1353 (Fed. Cir. 2013).
[3] *Id.* at 1355.
[4] *Id.* at 1353.
[5] *Id.* at 1358.
[6] *Id.* at 1372.
[7] Brief for Appellants at 28-29, *Suprema, Inc. v. ITC*, No. 2012-1170 (Fed. Cir.).
[8] *Id.* at 31.
[9] *Id.* at 49-50.
[10] Brief for Appellee at 23, *Suprema, Inc. v. ITC*, No. 2012-1170 (Fed. Cir.) (emphasis original).
[11] *Id.* at 24 (quoting *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 940 n.13 (2005)).
[12] *Id.* at 33.
[13] *Id.* at 30.
[14] *Id.* at 31-32.
[15] *Enercon GmbH v. ITC*, 151 F.3d 1376, 1381 (Fed. Cir. 1998) (quoting *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-43 (1984)).
[16] *Id.* (citing *Chevron*, 467 U.S. at 842-43).
[17] Brief for Intervenor at 20, *Suprema, Inc. v. ITC*, No. 2012-1170 (Fed. Cir.) (emphasis original).
[18] *Id.* at 23.
[19] *Id.* at 32 (emphasis original).
[20] *Id.* at 35.
[21] Brief for United States as amicus curiae at 7-11, *Suprema, Inc. v. ITC*, No. 2012-1170 (Fed. Cir.).
[22] *Id.* at 11-17 (emphasis original).
[23] *Id.* at 11.

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