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Suprema v. ITC: En Banc Federal Circuit Overturns Panel Decision, Finds ITC Has Jurisdiction Over Induced Infringement of Method Claims

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Yesterday morning, the full Federal Circuit issued its ***en banc* opinion** in *Suprema, Inc. v. ITC* and reversed the controversial Federal Circuit opinion that had effectively precluded the International Trade Commission from finding induced infringement in most cases involving method claims. No. 12-1170, slip op. at 4 (Fed. Cir. Aug. 10, 2015). In a 6-4 opinion, the *en banc* Federal Circuit disagreed with the panel opinion and confirmed that the ITC has jurisdiction over allegations of induced infringement of method claims. This decision is particularly important for cases involving the software and high tech industries, which often rely heavily on induced infringement allegations.

The underlying case in this appeal was an investigation before the U.S. International Trade Commission in which Cross Match Technologies, Inc. accused Mentalix, a domestic importer of fingerprint scanners, of infringing its **U.S. Patent No. 7,203,344** ("the '344 patent"). Cross Match also accused Suprema, the Korean developer of the imported scanners, of inducing Mentalix's infringement. Cross Match contended that its '344 patent was infringed when Suprema's scanners were used in combination with Mentalix software after importation into the United States. The Commission agreed, finding that Mentalix's operation of its software on the scanners after importation directly infringed Cross Match's patent 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.

A Federal Circuit panel **overturned** the ITC's decision. Construing §337 under the *Chevron* framework, the panel found that the Commission's authority to adjudicate matters of patent infringement only 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." *Suprema, Inc. v. ITC*, 742 F.3d 1350, 1358 (Fed. Cir. 2013). The 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." *Id.* at 1353. This holding greatly curtailed the Commission's authority to find induced infringement in cases involving method claims as such claims are generally infringed post-importation. The panel decision was **controversial** and, though it only explicitly applied to induced infringement, caused uncertainty regarding whether or not any allegations of indirect infringement of method claims would be successful at the ITC.

Yesterday, the *en banc* Federal Circuit overturned the panel decision. The Court conducted an analysis under the *Chevron* framework and determined that the Commission was correct in determining that goods qualify as "articles that infringe" where they are used, after importation, to directly infringe at the inducement of the sellers of the goods. The *Chevron* framework, used to determine what deference a reviewing court should give to an agency's construction of a statue it administers, has two steps. *Suprema, Inc. v. ITC*, No. 2012-1170, Slip Op. at 14 (Fed. Cir. Aug. 10, 2015). First, the reviewing court must determine "whether Congress has directly spoken to the precise question at issue." *Id.* If Congress has spoken to the issue, the inquiry ends and Congress' guidance is followed. But, if Congress has not addressed the issue, the court must determine "whether the agency's answer [to the precise question at issue] is based on a permissible construction of the statute." *Id*.

Under step one of the *Chevron* framework, the Federal Circuit stated that the term "articles that infringe" does not narrow the term to exclude inducement or post-importation infringement, but instead introduces textual uncertainty. *Id*. at 15. Because Congress has not provided "unambiguous resolution" of the issue at hand, the Court proceeded to the second *Chevron* step.

Under *Chevron* step two, the Federal Circuit found that the Commission's interpretation of Section 337 was reasonable because it was "consistent with the statutory text, policy, and legislative history of Section 337." *Id.* at 20. Specifically, the Court found that "Section 337 contemplates that infringement may occur *after* importation." *Id*. The Court also found the Commission's interpretation consistent with the legislative history of Section 337, noting that Section 337 was meant, like its precursor Section 316, to be "broad enough to prevent *every type and form* of unfair practice," (*Id*. at 21-22) and that for decades the Federal Circuit has "affirmed the Commission's determination that a violation of Section 337 may arise from an act of induced infringement." *Id*. at 25. For these reasons, the full Federal Circuit reversed the panel's decision and reinstated the ITC's decision.

The panel decision was controversial and caused public uncertainty regarding whether or not any allegations of indirect infringement of method claims would be successful at the ITC. It was also believed to offer infringers a significant loophole by allowing them to evade findings of infringement by doing the majority of a patented method overseas and then doing one small step post-importation. This decision strongly affirmed that the ITC has jurisdiction over the indirect infringement of method claims, and puts potential infringers on notice that they cannot evade ITC jurisdiction by performing the majority of the patented steps outside of the United States and having the final step performed either inside the United States or by the end user.

In addition, the opinion contains a number of statements implying that the Federal Circuit views the ITC's jurisdiction broadly, which may have important ramifications for both upcoming cases and proposed causes of actions before the ITC, including the upcoming decision regarding whether the ITC has importation over digital imports, and thus could address subjects such as pirated movies, books, and software.

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