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New Hurdle to Limiting Foreign Infringement

■ By Jeffrey Thomas and Joshua Jessen - Gibson Dunn's Orange County office

Imagine you are responsible for an Orange County-based technology firm. You learn that a competitor is infringing one of your company's patents, and thus unfairly capturing market share. The competitor is manufacturing the infringing products overseas and importing them into the United States. Sometimes the products are being imported directly into the United States. Other times, they are being sold to other companies abroad, incorporated into larger products (e.g., an infringing microprocessor incorporated into a laptop computer), and then imported into the United States. You must stop the infringement as soon as possible.

In such a scenario, one option you should consider is filing a complaint with the International Trade Commission ("ITC"). An administrative agency located in Washington, D.C., the ITC has the power to initiate an investigation into your company's infringement allegations and to issue an exclusion order banning the importation of infringing devices into the United States. This is a very powerful remedy, especially in the wake of the United States Supreme Court's decision in eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006) – which made it more difficult for patent-holders to obtain permanent injunctive relief against infringers. The ITC has become increasingly popular over the past several years as a forum in which to litigate patent-infringement disputes.

In many respects, an ITC proceeding is similar to patent litigation in federal district court. But there are important differences between an ITC investigation and a traditional patent-infringement action, many of which derive from the ITC's mission to protect U.S. trade and industry. First, to prevail in the ITC, it is not sufficient for a company merely to own the patent-in-suit; rather, the company must prove that it has established a "domestic industry" that exploits the patent. Second, the patent-holder must establish that infringing goods are actually being imported into the United States; if all of the infringing goods are being manufactured within the United States, the ITC is not the appropriate forum. Third, ITC actions are tried to an administrative law judge; there is no right to a jury trial. Fourth, the ITC Staff is a party to the ITC proceeding; representing the interests of the government, the Staff is involved in all aspects of the investigation. Fifth, actions in the ITC typically move much more quickly than patent cases in federal district court; the parties may receive an "initial determination" on the merits of the case within as little as 12-15 months from the date the investigation is launched. Finally, money damages are not a remedy available through the ITC; rather, the chief remedy in the ITC is an exclusion order banning the importation of infringing products into the United States.

The ITC can issue two kinds of exclusion orders. The first and more common type is a "limited exclusion order" ("LEO").

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LEOs forbid the party accused of infringement from importing infringing products into the United States. The second and less common type is a "general exclusion order" ("GEO"). GEOs ban all parties (i.e., companies not named as parties to the investigation) from importing infringing products. GEOs are only available where (i) "necessary to prevent circumvention of an exclusion order limited to products of named persons," or (ii) "there is a pattern of violation . . . and it is difficult to identify the source of infringing products." 19 U.S.C. § 1337(d).

Historically, regardless of whether an ITC complainant was seeking an LEO or a GEO, the ITC could extend the exclusion order not just to infringing products but also to larger products into which the infringing products were incorporated prior to importation – so-called "downstream products." For example, an exclusion order could ban the importation of a microprocessor, as well as the importation of all computers into which the microprocessors were incorporated.

Companies considering an ITC action should be aware that this "downstream relief" is no longer available with respect to LEOs, unless the manufacturers of the downstream products are named as respondents in the investigation. Stated differently, if a complainant wants an exclusion order to extend to downstream products, it will need to either (i) name the manufacturers of those products as respondents, or (ii) seek a general exclusion order. This is the holding of Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1340 (Fed. Cir. 2008), which the Federal Circuit handed down last fall. The Kyocera court held that the law does not permit the ITC to issue an exclusion order banning the importation of goods manufactured by non-respondents, unless the complainant is entitled to a GEO.

In the post-Kyocera world, companies faced with foreign infringement must carefully consider their options. Naming additional manufacturers of downstream products as respondents is one option, but in some cases those companies may be customers of the complainant. This may present difficult business decisions. The alternative is to seek a general exclusion order; if this path is chosen, the complainant must develop a clear strategy from the beginning of the investigation regarding how to convince the ITC that a GEO is appropriate.

Mr. Thomas is a litigation partner and Mr. Jessen is a litigation associate in the Orange County office of Gibson, Dunn & Crutcher.