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# Fundamentals of Patent Litigation 2021

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Gary M. Hnath, Jing Zhang, Bryan Nese and  
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between Section 337 Investigations and  
IPR Proceedings

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## 1. INTRODUCTION

Suppose that your company has just been named as a respondent in a Section 337 investigation at the United States International Trade Commission (ITC). You believe the patent asserted against your products is invalid, and you have heard about how *inter partes* review (IPR) proceedings at the United States Patent and Trademark Office can be a powerful tool to invalidate patents.

But can you (or, more importantly, should you) take advantage of that tool in an ITC matter? What are the advantages and disadvantages of IPR proceedings for a respondent in a Section 337 investigation? What considerations are at play? What pitfalls related to IPRs await patent owners taking advantage of the ITC, or accused infringers who file an IPR while simultaneously defending a case at the ITC?

This article will explore, for companies accused of patent infringement at the ITC, some of the benefits and risks of using IPR proceedings when faced with a Section 337 complaint. This article also provides some considerations for patent owners to bear in mind before filing a complaint at the ITC.

## 2. BASICS OF A SECTION 337 INVESTIGATION

Before considering the merits of IPR proceedings, it is important to understand the basic framework of a Section 337 investigation. Section 337 (now 19 U.S.C. §1337) was first enacted as Section 337 of the Tariff Act of 1922 (42 Stat. 943), and has undergone numerous revisions since that time. In its current form, the statute is used as a basis for the ITC to prevent “unfair methods of competition and unfair acts in the importation of articles [] into the United States, or in the sale of such articles by the owner, importer, or consignee.”<sup>2</sup> A complainant makes an allegation of unfair acts involving the importation of goods, and if an investigation is instituted and unfair acts are found, then importation of those goods are banned by the ITC and the ban is enforced by U.S. Customs and Border Protection. For the vast majority (approximately 90%) of Section 337 investigations, the alleged unfair act at issue involves patent infringement.<sup>3</sup>

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2. 19 U.S.C. §1337(a)(1)(A).

3. Steven F. Meyer, *The U.S. International Trade Commission’s Statutory “Domestic Industry Requirement” Would Need to be Amended by Congress in Order to Bar Patent Trolls*, 4 Intl. Law 177, 179 (2013).

One unique aspect of Section 337 investigations is the role of the ITC's Office of Unfair Import Investigations ("OUII"). Attorneys from OUII participate in ITC proceedings as a neutral third party representing the public interest, participating as other parties in the investigation and ultimately taking a position on the issues to be resolved by the Commission prior to trial. The Notice of Investigation issued at the beginning of the investigation indicates whether an attorney from OUII will be assigned to the case.

The primary remedy offered by the ITC—namely, exclusion of goods from importation into the United States—is a unique aspect of a Section 337 investigation.<sup>4</sup> Part of what makes this such a powerful (and dangerous) tool is an exclusion order's ability to apply not just to the accused products at issue in the investigation, but also to any other products that infringe.

If a violation of Section 337 is found, the ITC will enter either a general exclusion order or a limited exclusion order, subject to review by the President of the United States through the Office of the Trade Representative (although reversals of ITC remedies are exceedingly uncommon, occurring just once since 1987).<sup>5</sup> A general exclusion order prohibits the importation of all infringing goods, regardless of the manufacturer and whether the manufacturer was involved in the investigation. Such an order is generally only entered where there is a clear pattern of violation and it is difficult to identify the source of infringing products, or where such an order is necessary to prevent circumvention of a limited exclusion order, such as by entities operating under multiple names.<sup>6</sup>

A limited exclusion order applies to the particular named respondents only, though it is not limited to the models of products specifically accused by the patentee. Whether "general" or "limited," the remedy of the exclusion of goods can be used to cut off the United States market from an unsuccessful respondent and destroy market share and customer relationships, or else force a favorable settlement on behalf of the complainant.

Another notable feature of Section 337 investigations is their speed. Compared to district court litigation (the only alternative in the U.S. for a patent owner), Section 337 investigations offer a much faster resolution, as the target dates for the completion of an investigation are typically only

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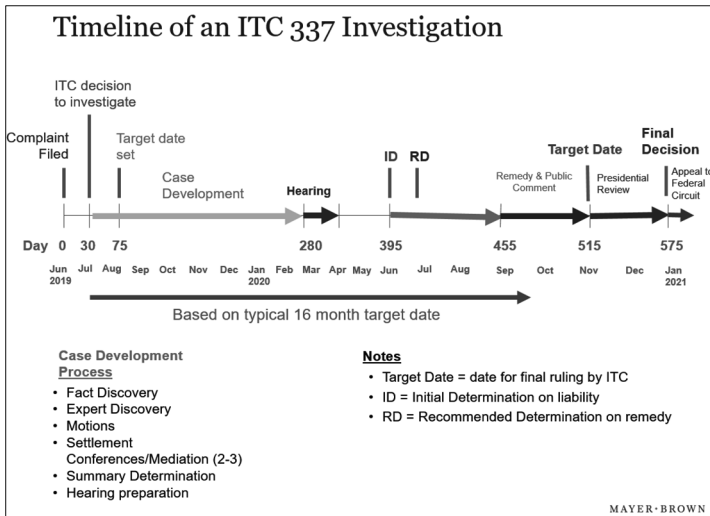
4. 19 U.S.C. §1337(d).

5. See Letter from Ambassador Michael B. G. Froman to Chairman Irving A. Williamson regarding Disapproval of the U.S. International Trade Commission's Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794 (August 3, 2013).

6. 19 U.S.C. §1337(d)(2).

12-16 months after the institution decision. Typically, in the first eight months alone, the parties will engage in fact and expert discovery, may conduct a claim construction hearing, and will hold a trial (referred to as an “evidentiary hearing”) before an Administrative Law Judge (ALJ). Following the evidentiary hearing, the ALJ will issue an initial determination (ID) deciding all of the issues in play. That initial determination will be reviewed by the Commission, and the Commission will then determine whether to review the decision and ultimately what remedy (if any) to issue.

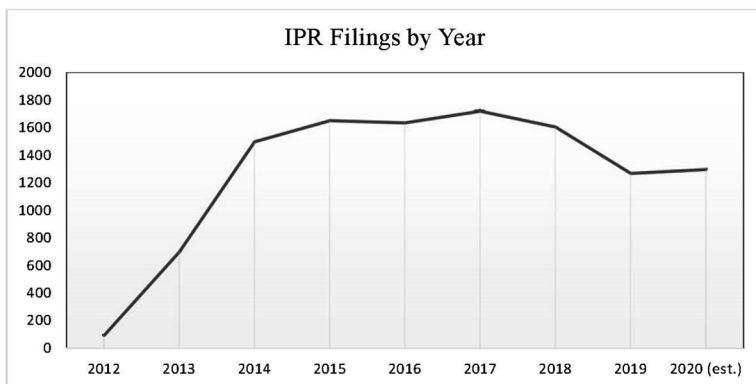
The following is a typical timeline for an ITC investigation:



As this timeline shows, ITC proceedings move quickly. Accordingly, a party faced with a Section 337 investigation should be prepared for the need to vigorously contest the allegations without delay, or else face the likelihood of exclusion of its products from the United States.

### 3. BASICS OF THE INTER PARTES REVIEW PROCESS

*Inter partes* review (IPR) proceedings before the Patent Trial and Appeal Board (PTAB) at the U.S. Patent and Trademark Office are one way that the validity of a patent can be challenged. As shown in the following graph, IPRs have been a popular tool for patent challengers since 2012, when the Leahy-Smith America Invents Act first created this procedure.



(Data sourced from Lex Machina (as of May 31, 2020)).

IPRs can be filed by any party other than the patent owner, typically a party accused of patent infringement.<sup>7</sup> But these proceedings are narrow in scope: they can examine only the validity of the patent, and only on the basis of prior art consisting of patents or printed publications.<sup>8</sup> Thus, an accused infringer cannot use IPR proceedings to challenge the validity of a patent on the basis of indefiniteness (35 U.S.C. § 112), ineligible subject matter (35 U.S.C. § 101), or based on prior art products, among other potential invalidity grounds.

Turning to the structure, IPR proceedings share some similarities with Section 337 investigations. Like a Section 337 investigation, an IPR proceeding is not conducted in front of a jury. Rather, IPR proceedings are adjudicated by a panel of three administrative patent judges (APJs).<sup>9</sup> These APJs, many of whom were former examiners or practicing patent attorneys, generally have a deep familiarity with patent law. The PTAB's APJs are often familiar with the underlying technology at issue in the IPR proceeding and usually have technical degrees or experience directly related to the field of the patent. Thus, while both IPRs and Section 337 investigations proceed in front of judges that are highly knowledgeable about patent law, a PTAB APJ panel is more likely to have the technical expertise some accused infringers might find favorable.

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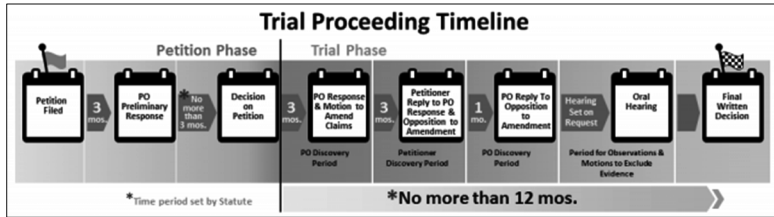
7. 35 U.S.C. § 311(a).

8. 35 U.S.C. § 311(b).

9. The United States Supreme Court in *Arthrex Inc. v. Smith & Nephew Inc.* recently granted *certiorari* to consider the constitutionality of the appointment of Patent Law Judges, although the resolution of the question is unlikely to affect future IPRs.

Also, like Section 337 investigations, IPR proceedings are relatively fast. In fact, IPRs were designed to provide a speedy determination of a patent’s validity, as an alternative to traditional litigation. As such, most IPRs resolve within one year of institution, or about 18 months after the filing of the petition that kicks off the proceeding. The PTAB does not conduct separate claim construction hearings, but rather will determine the meaning of claim terms in the final written decision issued at the conclusion of the proceeding.

The following is a timeline for a typical IPR proceeding:



(Source: uspto.gov).

#### 4. **CONSIDERATIONS FOR *INTER PARTES* REVIEW PROCEEDINGS FOR PARTIES FACED WITH A SECTION 337 INVESTIGATION**

As just explained, IPRs provide a path to a speedy resolution of patent validity, and are presided over by knowledgeable legal and technical experts. Though fewer issues can be raised in IPRs, they operate on a similar timeframe as Section 337 proceedings, and thus at first glance appear to offer an attractive option to companies who find themselves accused of patent infringement at the ITC. Perhaps, one might assume, the Section 337 investigation can be put on hold (stayed) while the PTAB considers the validity of the patent in the IPR, similar to what sometimes happens in district court proceedings.

But a stay at the ITC is far from assured and in fact very rare. Moreover, as discussed below, there are other strategic considerations that a respondent in a Section 337 proceeding should take into account if considering filing a request for an IPR proceeding.

The ITC considers whether to stay an investigation in view of an IPR by examining up to six factors:

- (1) the state of discovery and the hearing date;
- (2) whether a stay will simplify the issues and hearing of the case;
- (3) the undue prejudice or clear tactical disadvantage to any party;
- (4) the stage of the PTO proceedings;
- (5) the



efficient use of Commission resources; [and (6)] the alternatives available in Federal Court.<sup>10</sup>

As a practical matter, the ITC is very unlikely to find that these factors favor a stay of a Section 337 investigation pending an IPR. Notably, the ITC has found that patents are entitled to a presumption of validity regardless of whether the PTAB institutes an IPR, that a stay may provide an unfair tactical advantage for respondents, that issues beyond patent validity are adjudicated in a Section 337 investigation, and that IPR decisions can simply be “integrated” into ongoing investigations rather than requiring them to be stayed.<sup>11</sup>

*Certain Laser-Driven Light Sources* illustrates the ITC’s general reluctance to stay its proceedings based on pending IPRs. There, the ALJ denied a stay even though the IPR was scheduled to conclude by November 16, 2016, the ALJ’s initial determination was not due until January 17, 2017, and the target date for the investigation was May 17, 2017. Similarly, in *Memory Modules*, the ALJ denied a stay even though the PTAB had already issued its final decision.<sup>12</sup>

In *Integrated Circuits*, however, there emerged a seldom-seen exception to this disfavor for delaying Section 337 investigations. Here, the motion was unopposed by the patentee, and the final written decision of the IPR invalidating all claims had already been issued and was being appealed to the Federal Circuit. The ITC noted that, while it disfavored staying an investigation as a matter of policy, stays are not categorically prohibited, and a stay was appropriate in this instance when all parties agreed that a stay would be the best use of resources.<sup>13</sup>

The facts in *Integrated Circuits* are unlikely to repeat themselves very often: unless an IPR has already been resolved with a final written decision, a Section 337 respondent should not count on the investigation being put on hold while the PTAB determines a patent’s validity.

However, the unlikelihood of a stay should not end the inquiry—other advantages of the IPR process remain. The adjudication of invalidity by a panel of APJs with technical experience and a lower burden of proof to

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10. *Certain Laser-Driven Light Sources, Subsystems Containing Laser-Driven Light Sources, and Products Containing Same*, Inv. No. 337-TA-983, Order No. 8 (U.S.I.T.C. March 3, 2016).

11. *Id.*; see also *Certain Memory Modules and Components Thereof*, Inv. No. 337-TA-1089, Order No. 49 (U.S.I.T.C. April 11, 2019).

12. *Certain Memory Modules and Components Thereof*, Inv. No. 337-TA-1089, Order No. 49 (U.S.I.T.C. April 11, 2019).

13. *Certain Integrated Circuits with Voltage Regulators and Products Containing Same*, Inv. No. 337-TA-1024, Order No. 55 (U.S.I.T.C. Aug. 31, 2018).

prove invalidity at the PTAB are both attractive reasons to pursue an IPR. Add to that the possibility that the ITC will afford an IPR final written decision significant weight,<sup>14</sup> and respondents should surely at least consider an IPR as an option. An added benefit may be forcing the patentee to take a position on the merits of certain prior art arguments or claim interpretation issues (via the preliminary patent owner response) sooner than it otherwise would need to do in an ITC investigation. Early filed IPR petitions in particular may force the patentee to go on the defense much earlier in the investigation.

There are, of course, potential drawbacks. For example, if the IPR proceeds to a final written decision and one or more patent claims are deemed patentable, a respondent may be estopped from presenting any invalidity ground to the ITC that it presented, or even *could have* presented, during the IPR.<sup>15</sup> Thus, if a Section 337 respondent decides to proceed with an IPR petition, it should be aware that it may be prevented from asserting certain invalidity arguments based on patents or printed publications to the ITC during the investigation.

As a general matter, estoppel attaches at the time of a final Board decision.<sup>16</sup> Therefore, for example, if the Board issues a final decision finding the claims of the patent to be patentable, the petitioner would be precluded at that point from continuing to assert in another proceeding any prior art that was or could have been asserted in the IPR proceeding.

In this regard, the timing of the IPR decision in relation to the trial (hearing) at the ITC can be important. Thus, for example, in *Memory Modules*, the ALJ held that estoppel applied to the respondent/petitioner where the IPR ruling issued just before trial at the ITC. In *Certain Magnetic Tapes*, however, the ALJ held that estoppel did not apply to OUII (the Office of Unfair Import Investigations), where the final written decision of the Board in the IPR proceeding came five days after the ITC trial concluded.<sup>17</sup> Thus, from the respondent's point of view, it may be desirable for the Board's decision in the IPR to occur after the submission of evidence during the trial before the ITC. This would be the case if both proceedings were following standard timetables.

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14. *Certain Three-Dimensional Cinema Systems and Components Thereof*, Inv. No. 337-TA-939, Comm'n Op. (U.S.I.T.C. Aug. 23, 2016).

15. *Certain Memory Modules and Components Thereof*, Inv. No. 337-TA-1089, Initial Det. (U.S.I.T.C. Oct. 21, 2019).

16. 35 U.S.C. §315(e).

17. *Certain Magnetic Tapes*, Inv. No. 337-TA-1058, Initial Det. (Aug. 17, 2018).

It is also not clear whether the ITC will refrain from issuing remedial orders based on a Board decision, still subject to appeal, finding the patent to be invalid. In *Three-Dimensional Cinema Systems*, for example, the PTAB issued a decision canceling the claims at issue after the ALJ's final ID but before the Commission's decision on review.<sup>18</sup> The Commission declined to apply issue preclusion based on the IPR decision, finding that the issues were not identical, including different legal standards for claim construction, even though the ITC and PTAB essentially applied the same constructions. The Commission also cited the different standards of proof (clear and convincing evidence to show invalidity at the ITC vs. preponderance of the evidence at the PTAB). Since the Board's decision was still subject to appeal, the Commission considered the issue of validity on the merits.<sup>19</sup>

On the other hand, in *Magnetic Tapes*, the Commission exercised its "broad discretion" in partially suspending enforcement of remedial orders pending appeal of a PTAB decision issued days after the hearing before the ALJ.<sup>20</sup> The Commission noted, however, that its order had limited effect since the accused products were effectively excluded based on other patents not involved in the IPR proceeding. It therefore appears that the Commission will likely vacate a remedial order only after an IPR decision finding a patent invalid is final and no longer subject to appeal, and may or may not stay the investigation based on a Board decision of invalidity prior to appeal.

Adding yet another layer of complexity are recent cases in which the Board has considered the status of pending litigation in other venues when making its initial institution decision, which typically occurs six months after the petition is filed. Those cases have involved parallel district court cases, and in some instances have resulted in discretionary denial of institution of the IPR.<sup>21</sup> Based on a recent decision, it appears that the Board is also willing to consider co-pending ITC cases in deciding whether or not to institute an IPR proceeding.<sup>22</sup> As a result, there is some chance

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18. *Certain Three-Dimensional Cinema Systems and Components Thereof*, Inv. No. 337-TA-939, Comm'n Op. (U.S.I.T.C. Aug. 23, 2016).

19. However, because the standards for claim construction are now the same at the ITC and in an IPR; it is uncertain whether this would have caused the ITC in *Three-Dimensional Cinema Systems* to reach a different result.

20. *Certain Magnetic Tapes*, Inv. No. 337-TA-1058, Comm'n Op. (U.S.I.T.C. April 9, 2019).

21. See, e.g., *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 (PTAB Mar. 20, 2020).

22. See *Garmin International, Inc. v. Koninklijke Philips N.V.*, IPR2020-00754, Paper 11 (PTAB Oct. 27, 2020). On December 1, 2020, the Precedential Opinion Panel of the USPTO began a review of this decision. *Id.* at Paper 13.

that waiting too long after the ITC investigation begins to file the IPR petition could increase the chances of institution being denied.

Another consideration is the effect of a positive or negative decision in the IPR on a respondent's invalidity arguments at the ITC. For example, if institution is denied, the complainant will likely argue that an experienced panel of patent judges at the PTAB considered the same arguments made by the respondent before the ITC and found that they did not even warrant instituting the IPR proceeding. While not binding on the ITC, it is certainly a factor that could be considered by the ALJ and Commission. Conversely, a decision to institute the IPR proceeding could be touted by the respondent as evidence that its invalidity arguments have merit.

But these considerations do not eliminate any advantages that an IPR may have for a Section 337 respondent. Even if faced with an "either/or" choice between proceeding with an invalidity case based upon a patent or printed publication in the Section 337 investigation or in an IPR proceeding, the lack of a claim construction hearing, coupled with the prospect of arguing before judges with technical degrees, may be attractive for a respondent facing a limited litigation budget.

Indeed, in certain circumstances, it may even make sense for a respondent to default in the ITC investigation and only challenge a patent with an IPR, as an exclusion order will be rescinded if the patent is subsequently determined to be invalid in a final IPR decision after all appeals have been exhausted, and ITC proceedings are much more expensive than an IPR.<sup>23</sup> But such a strategy must be carefully evaluated in view of the timing considerations discussed above, since if there is an appeal of the IPR decision, it could be two years or even more after the ITC issues its remedial orders in a default situation before the IPR decision becomes final.

The bottom line is that since ITC investigations and IPRs both move relatively quickly, a respondent in an ITC investigation must carefully consider the timeline in both proceedings, as well as other considerations such as the role of OUII, the likelihood that the ITC would take account of the IPR result in issuing its orders, and the potential impact of estoppel, in weighing the pros and cons of whether to pursue an IPR and, if so, the best time to file a petition.

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23. 19 U.S.C. § 1337(k)(1); *see also Mayborn Grp., Ltd. v. ITC*, 965 F.3d 1350, 1356 (Fed. Cir. 2020).

## **5. CONCLUSION**

Ultimately, while likely not a process that every Section 337 respondent may choose to take advantage of, *inter partes* review proceedings offer unique advantages, but whether they are suitable in a particular case must be carefully evaluated because of the fast pace of ITC investigations and the ITC's reluctance to stay those proceedings. Counsel experienced with ITC investigations and IPR proceedings should be able to help Section 337 respondents navigate the advantages and pitfalls that they face with the choice of an *inter partes* review, or help Section 337 complainants best capitalize on whichever choice is made by respondents.

## NOTES

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