CHAPTER 21

ROLE OF FINANCIAL EXPERTS IN ITC SECTION 337 INVESTIGATIONS

Ryan N. Herrington
Brendan P. Rogers

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21.1 INTRODUCTION

Federal law allows owners of U.S. intellectual property (IP) to enforce their rights against alleged foreign- and domestic-based infringers in two ways: (1) by bringing a lawsuit in U.S. district court or (2) by initiating an investigation at the U.S. International Trade Commission (ITC) based on Section 337 of the Tariff Act of 1930. This chapter discusses the financial expert's role in Section 337 investigations.[1]

The ITC is an independent, quasi-judicial federal agency that administers certain U.S. trade laws that provide U.S. industries with a means to prevent unfair competition from imported goods, including Section 337 violations. The ITC most commonly investigates claims of patent and trademark infringement but also investigates claims of copyright infringement and unfair competition, including misappropriation of trade secrets, false advertising, and gray market activity (i.e., distribution of branded products outside authorized distribution channels).[2]

Section 337 protects U.S. IP owners' rights against infringing imported products.[3] The ITC has statutory authority to investigate alleged Section 337 violations and exclude alleged infringing products from entry into the United States if a violation is found. Section 337 also prohibits unfair acts and unfair methods of competition involving imported products and provides that the importation or sale of infringing products in the United States is unlawful if such products destroy or substantially injure an industry in the United States.

The ITC has become a popular forum for adjudicating IP infringement claims for several reasons, which include the following:

1. The effective and powerful remedies available to IP owners
2. The expedited timeline for dispute resolution
3. Its broad jurisdiction
4. Its extensive knowledge of patent law

The number of Section 337 investigations has grown significantly in recent years. The ITC has instituted, on average, 52 Section 337 investigations per year from 2004 to 2014, compared with an average of 27 per year during the prior decade.[4] Technology companies with short product life cycles value the ITC's allure of relatively quick injunctive relief.

The ITC decides whether to begin a Section 337 investigation within 30 days of a complaint filing. In some cases, the ITC assigns an attorney from its Office of Unfair Import Investigations (OUII) to represent the "public interest" because remedies available in Section 337 investigations can affect non-parties to the investigation and U.S. consumers.[5] Within 45 days after the launch (or institution) of the investigation, the assigned Administrative Law Judge (ALJ), who presides over the formal evidentiary hearings, sets a target date for completion of the investigation. For decades, the ITC set target dates of less than 15 months to complete an investigation, but factors such as caseload and subject matter complexity have resulted in longer target dates in recent years.[6]

Once a Section 337 investigation begins, the complainant has the burden to prove with four elements that the respondent has violated Section 337:

1. The complainant had rights to the IP ownership.
2. An IP infringement or unfair competition occurred.
3. There was importation, or sale for importation, or sale after importation into the United States of accused products.
4. A domestic industry relating to the products or IP at issue exists or there is evidence that a domestic industry is in the process of forming.

After the hearing, the ALJ will deliver a decision on the merits of the case, called the Initial Determination (ID), and the ITC will review and adopt, modify, or reverse the ALJ's decision.[7] Parties can appeal all ITC opinions and determinations to the U.S. Court of Appeals for the Federal Circuit.[8] If the ITC finds a Section 337 violation, it can issue remedial orders that would exclude infringing articles from entry into the United States, order entities to cease and desist from certain actions, or impose both restrictions. The ITC weighs the benefit of the remedial orders, designed to protect and enforce the complainant's IP rights, against the costs that such orders impose on the public interest. The U.S. trade representative, as delegated by the president, has 60 days to review exclusion orders and can reverse them for public policy reasons, but such reversals are rare.[9]

Financial experts ("experts" herein) play a significant role in the outcome of a Section 337 investigation. They can inform the ITC on aspects related to whether a Section 337 violation exists and the appropriate remedial orders, given the need to protect and enforce the complainant's IP rights without harming the public interest. The rest of this chapter focuses on the expert's role in the following considerations:

1. Establishing certain criteria necessary for a Section 337 violation to exist
2. Recommending the appropriate remedial orders in the event of a violation
3. Assessing the impact of the remedial orders on the public interest

21.2 BASIS FOR A SECTION 337 VIOLATION

(a) Importation

Given the nature of Section 337 as a trade statute, the complainant must prove importation, typically defined by the ITC as the bringing of goods within the jurisdictional limits of the United States with the intention to unload.[10] Patent infringement investigations require proof of the "importation into the United States, the sale for importation, or the sale within the United States after importation."[11] An expert can help establish proof of importation by actually purchasing the alleged infringing products in the United States. Sales receipts, photographs of the product and its packaging, and evidence of locations that sell the product all document the product's importation. Markings such as "Made in Korea" or "Made in China" on product casings can demonstrate foreign origin. Evidence of products purchased from a physical store located in the United States provides the most compelling evidence, but an Internet purchase can be sufficient, especially if the expert can pick up the product from a store location as opposed to having the product shipped. Experts should generally document how they purchased the product, the location of the purchases, and the product markings and packaging in order to establish importation. If the product is purchased from a website, an expert can document the steps taken and pages clicked to complete the sale. Such evidence further demonstrates the ability for a purchase of the alleged infringing product to occur within the United States after importation. The complainant routinely submits importation evidence as exhibits to the initial complaint.

As Section 21.1 describes, Section 337 actions stem from alleged unfair methods of competition and unfair acts in the importation of articles into the United States. ITC investigations have provisions for affirmative defenses similar to those of district court litigation. For example, in a patent infringement matter, the respondent's available defenses include invalidity and unenforceability.[12] While the ITC lacks the authority to declare patents invalid or unenforceable, it can consider those defenses when weighing whether a violation has occurred.[13] The parties often retain technical experts (such as engineers) to offer opinions on the validity and enforceability of the patent-in-suit.

(b) Injury

The Omnibus Trade and Competitiveness Act of 1988 (the "Act") amended Section 337 to eliminate the economic injury requirement in statutory IP-based cases (i.e., cases that involve registered patents, registered trademarks, and registered copyrights). The Act makes it easier and less expensive for entities to prove a violation of Section 337. If the alleged unfair act does not infringe a U.S. patent or other federally registered IP rights, then a complainant also must prove injury from the alleged unfair act. In *Digital Multimeters*, the ITC stated that the complainant bears the burden of proving that the respondent's unfair act or acts have "caused substantial injury to the domestic industry or that the presence of the accused imported products demonstrate relevant conditions or circumstances from which probable future injury can be inferred."[14] Because the complainant must establish a causal nexus between an unfair act and substantial injury to the domestic industry, experts often assess the evidence of such an injury by analyzing factors such as market penetration, lost sales, lower prices, levels of production, and harm to goodwill and reputation.[15]

(c) Discovery

Experts also assist with identifying the information to request during the discovery process to ensure adequate evidence is available. The level of discovery and type of evidence needed in an ITC investigation often differs from that in district court litigation. In 2013, the ITC amended rules regarding discovery with the "intended effect" of reducing "expensive, inefficient, unjustified, or unnecessary discovery practices," but discovery requests often continue to prove onerous.[16] For example, demonstrating that a domestic industry exists for the complainant can require proof of certain expenditures and how those expenditures tie directly to products that practice the asserted IP or even the asserted IP itself.[17] This sort of evidence would be less relevant when calculating damages in a district court action. An expert's familiarity with financial, economic, and accounting terminology allows for targeted document requests that force a desired response.

Some complainants concurrently pursue district court cases seeking monetary damages. Since the complainant can transfer the record from a Section 337 investigation to the district courts, an expert who can fill both roles will reduce the additional cost associated with filing an action in district court.[18]

(d) Domestic Industry—Technical Prong

The ITC also requires a complainant to show that a domestic industry exists or is in the process of being established. In practice, the domestic industry requirement serves "as a gatekeeper to prevent the excessive use of the ITC under Section 337."[19] The domestic industry requirement essentially precludes holders of U.S. IP rights from using Section 337 as a trade statute to settle disputes without first demonstrating necessary investment in the United States other than owning such IP rights.[20] Therefore, in order to obtain relief, a complainant must meet the domestic industry requirement.

An examination of a firm's domestic industry, as defined by the statute, requires a tremendous amount of due diligence and specific analysis of certain issues. The ITC applies a two-part test, consisting of a technical prong and an economic prong in determining whether the complainant has met the domestic industry requirement. Technical experts demonstrate how certain activities in the United States relate to the asserted IP rights and thereby meet the technical prong. Specifically, a complainant must prove that a domestic product practices a valid claim of each asserted patent.[21] The patent claims used to satisfy the technical prong can differ from those claims asserted against the respondent.[22] For example, a complainant's domestic product may practice certain patent claims that are different from those patent claims that are alleged to be infringed by the respondent.

When attempting to satisfy the technical prong, financial experts often evaluate objective indicia of nonobviousness, such as long-felt need, failure of others, copying by others, praise by others in the industry, licensing of the claimed invention, departure from accepted principles, widespread recognition by those in the art of the invention, and commercial success.[23] For example, experts can review licensing history to establish widespread adoption or implied value of the patented technology or they can examine trade press touting the benefits of the asserted technology in an attempt to demonstrate praise within the industry.

Additionally, experts can evaluate the commercial success of products alleged to practice the asserted patents and whether the inventions claimed in each of the asserted patents, and the resulting features, contributed to the commercial success of those products. In other words, experts evaluate whether a nexus exists between the features that practice the inventions claimed in each of the asserted patents and the commercial success of the products. Experts can rely on evidence from deposition testimony, internal communications, marketing documents, third-party articles and reviews, and industry reports, among other sources, to establish the necessary nexus. Through these types of analyses, experts can help establish the technical prong of the domestic industry requirement.

(e) Domestic Industry—Economic Prong

A domestic industry's economic prong "shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work or design concerned—(a) significant investment in plant and equipment; (b) significant employment of labor or capital; *or* (c) substantial investment in its exploitation, including engineering, research and development, or licensing."[24] In support of satisfying the economic prong, experts opine on how certain activities meet the threshold of economic significance. To establish a domestic industry, the complainant needs to meet only one of the criteria.[25]

One ALJ recently noted in an initial determination that a "qualified, reasonably objective expert on the subject of domestic industry could have enhanced [the complainant's] presentation."[26] In establishing the economic prong of the domestic industry, an expert fills an important role. Specifically, experts analyze the record for evidence of significant investment in plant and equipment, significant employment of labor or capital, or substantial investment in the exploitation of articles protected by the asserted IP. For example, an expert can analyze the sufficiency and significance of the complainant's investment in plant and equipment, employment of labor or capital, or the substantiality of a complainant's research and development expenditures or licensing activity. The ITC will consider an industry in the United States to exist if any of these criteria prove significant or substantial.

Although the domestic industry is to be analyzed as of the filing date of the complaint, past expenditures can be considered.[27] Further, the statute allows for a domestic industry to either exist or be "in the process of being established."[28] The ITC has explained that a domestic industry is in the process of being established if the patent owner "can demonstrate that he is taking the necessary tangible steps to establish such an industry in the United States . . . and there is a significant likelihood that the industry requirement will be satisfied in the future."[29] When attempting to prove a domestic industry in the process of being established, experts can consider investments made both before and after the complaint filing date by reviewing the complainant's plans, commitments, and actual expenses incurred with respect to the products that practice the patent. Planning documents, business plans, forecasts, and press releases can provide evidence of efforts to establish a domestic industry. Contracts with third parties and purchase orders express a complainant's commitments. An expert could also consider and appropriately analyze any perceived "sunset" issues, whereby a complainant's product that practices the asserted patent is either severely declining in sales or no longer offered for sale at the time of the complaint filing. In such cases, the ALJ or ITC reviews all relevant facts before deciding each instance of allegedly sunset products and their alleged domestic industries. Experts can address this issue in their analyses.

Additionally, a domestic industry can exist even if only a portion of a complainant's manufacturing activity occurs within the United States. The ITC considers whether a domestic industry exists based on the value added by the domestic activities as compared to the manufactured product's total value.[30] An expert can undertake this comparative analysis.

In order to establish a domestic industry, experts should first identify those expenditures that they can characterize as domestic industry expenditures. For instance, sales and marketing expenses (activities associated with importers) generally do not reflect investment in a complainant's domestic industry, whereas investments such as equipment costs and labor expenses can.[31] Labor expenses can include employees participating in technical support, distribution and logistics, engineering, research and development, and licensing.

Second, the expert must allocate those expenses to the asserted IP typically by allocating portions of those investments to the products that practice the IP. In many cases, the expert employs a sales-based allocation. However, an expert needs to establish as strong of a nexus as possible between qualified domestic industry investments and the asserted IP. For example, allocation methods based on time records detailing employee time spent researching and developing products that practice the asserted IP generally present a stronger nexus than sales-based allocations. In other words, employee time records offer a more precise allocation of domestic industry investments than sales of the practicing products. Headcount allocation methods also generally create a stronger nexus than sales-based allocations by tying expenses to employees who work on products that practice the asserted IP. In 2014, the ITC clarified that a complainant relying on exploitation of the asserted patents in order to establish a domestic industry must demonstrate a nexus between such investments and the asserted patents as opposed to only the products that practice the asserted patents.[32] The ITC often modifies and clarifies its opinions and case law, especially as it relates to domestic industry; therefore, experts need to remain well-versed and current in the ITC's opinions and case precedent.

If a complainant relies on licensing activities to establish a domestic industry, the ITC has stated that the complainant must show all of the following:

1. The investment exploits the asserted patent.
2. The investment relates to licensing.
3. Any alleged investment is domestic (i.e., it must occur in the United States).[33]

When attempting to establish a nexus to patents in a portfolio, an expert can consider the number of patents in the portfolio; the relative value the asserted patent contributes to the portfolio; the prominence of the asserted patent in licensing discussions, negotiations, and any resulting license agreement; and the scope of technology covered by the portfolio compared to the scope of the asserted patent.[34] Evidence to strengthen the nexus includes the following:

1. Discussions that refer to the asserted patent during the licensing negotiation process
2. Previous successful litigation of the patent by the complainant
3. A technology industry standard related to the patent
4. Patent's status as a base patent or a pioneering patent
5. The patent is infringed or practiced in the United States
6. Any other recognition of the asserted patent's value by the market[35]

In some instances, a complainant attempts to rely on its licensee's domestic industry to establish its own domestic industry.[36] In such cases, an expert can assume that the same burden to establish a domestic industry for a complainant would apply to establishing a licensee's domestic industry and therefore undertake a similar analysis.

After examining investments for relevance and establishing a sufficient nexus, experts must discuss the relative significance or substantiality of the domestic industry investments. While a bright-line test does not exist, an expert can quantitatively compare the domestic industry investments to sales or costs such as the complainant's total sales, cost of sales, or total licensing or research and development expenses, among others. An expert can also compare domestic investment to foreign expenditures. In fact, a Federal Circuit decision requires a complainant to present quantitative evidence if seeking to establish a domestic industry under plant and equipment or labor or capital.[37] The Federal Circuit stated that significant and substantial "refer to an increase in quantity, or to a benchmark in numbers."[38] The ITC has further emphasized that "the magnitude of the investment cannot be assessed without consideration of the nature and importance of the complainant's activities to the patented products in the context of the marketplace or industry in question."[39] Experts can identify benchmarks or context for declaring investments significant or substantial. This type of analysis can be especially relevant to relatively small entities or sole inventors who bring their complaint to the ITC. As applicable, experts can qualitatively discuss the creation of a new product category that consumers found valuable as a result of certain domestic industry expenditures or market commentary that illustrates the revolutionary nature and value of the IP. For example, domestic industry investments may have directly led to the introduction of a new and novel product line that consumers demanded. Further, experts might highlight the commercial success of the products as reflected in profits. In addition, the IP might have benefited third parties, including other competitors. For example, other participants in the marketplace might have adopted the IP (or some form of the IP) into their products. In some instances, the ALJ or ITC might declare investments as significant or substantial in an absolute sense.

Failing to meet the domestic industry requirement will deal a fatal blow to a complainant's hope for relief in a Section 337 investigation. Therefore, proper economic analysis of the domestic industry requirement plays a critical role to the investigation's ultimate outcome.

21.3 TYPES OF REMEDIES AVAILABLE

Unlike other forums, Section 337 investigations offer no monetary relief.[40] The two primary forms of remedial orders authorized for use by the ITC include exclusion orders and cease and desist orders. The ITC can issue both types of orders concurrently and in the same matter.[41] Exclusion orders can take two forms: general exclusion orders or limited exclusion orders. A general exclusion order excludes all infringing articles "without regard to source," while a limited exclusion order excludes infringing articles only if they "originate from a specified firm that was a respondent" in the investigation.[42] General exclusion orders, while more difficult to obtain, offer a broad form of protection that bars the named respondent and unnamed respondents from importing whole groups of finished products into the United States.[43] As a result, the ITC can impose general exclusion orders when identifying the specific infringing article proves difficult. Limited exclusion orders lost some effectiveness due to an October 2008 ruling whereby the Federal Circuit determined that the ITC has no authority to issue limited exclusion orders for "downstream" products of companies that are not parties to the investigation.[44] In spite of this ruling, the ITC continues to issue more limited exclusion orders than general exclusion orders.[45] U.S. Customs and Border Protection enforces both types of exclusion orders. A discussion of the analyses used to determine the form, scope, and extent of an exclusion order follows in Section 21.4.

Cease and desist orders, while enforced by the ITC, serve a similar purpose to exclusion orders. The ITC generally issues cease and desist orders if a respondent to an investigation maintains a commercially significant inventory of infringing products in the United States. These orders prohibit said respondent from selling the "infringing imported articles out of U.S inventory."[46] However, cease and desist orders can also require a cessation of specific marketing practices, other anticompetitive behavior, or both.[47]

The ITC sometimes issues cease and desist orders in conjunction with exclusion orders to protect the complainant from further harm by the selling of respondent's inventory that is already within the United States. An expert can opine on the commercial significance of a respondent's U.S. inventory. Some respondents claim to maintain no commercially significant inventories of the allegedly infringing products in the United States by relying on just-in-time inventory systems, foreign trade zones, and third-party distributors. However, a thorough review of documentary evidence, including deposition testimony, will often enable experts to trace the allegedly infringing products from entry point to storage in the United States. For example, a respondent could control products in transit, products in modification or packaging, products awaiting delivery to customers, or all three stages. In addition to establishing whether the respondent maintains control of U.S. inventory for some defined period of time, experts can also calculate various financial ratios, such as days in inventory, in an effort to demonstrate commercially significant inventory. Finally, experts can compare inventory levels in the United States to overall sales or other inventory measures to demonstrate significance.

A third remedy is the amount of bond a respondent must post during the presidential review period to "protect the complainant from any injury."[48] The ITC can base a bond on a rate sufficient to "offset any competitive advantage resulting from the unfair method of competition or unfair act enjoyed by persons benefitting from the importation."[49] When determining the appropriate bond amount, the ITC often considers the differential in sales prices between the product(s) that practice(s) the asserted patent(s) and the imported infringing product. The ITC can also consider licensed royalty rates for the asserted patents.[50] When such reliable information is not available, the ITC has often used a bond amount of 100 percent of the value of any imported infringing products.[51]

When opining on the appropriate bond amount, an expert can examine whether the respondent's allegedly infringing product undercuts the price of the complainant's competing product through an average price comparison. While some price comparisons are relatively obvious to execute, others introduce numerous complexities. For example, the analysis needs to compare only products that compete against each other. Further, the calculation of an average price can require some additional unit of measure such as average price per weight. Ultimately, experts can present a recommended bond amount expressed as the difference in average prices as a percentage of the price or value of the respondent's product. If available, experts can also consider the royalty charged to licensees of the asserted IP.

The ITC retains authority to bring a civil action against a respondent who fails to comply with a cease and desist order or a consent order.[52] The threat of monetary sanctions encourages compliance. In enforcement proceedings, a complainant can seek monetary penalties against the respondent. The ITC can require that respondents "pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of $100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order."[53] Experts can calculate the penalty.

The ITC can also use (and experts can offer opinions on) a six-factor test in establishing the amount of civil penalties to impose in an enforcement proceeding:[54]

1. Respondent's good or bad faith
2. Injury to the public
3. Respondent's ability to pay
4. Extent to which the respondent has benefited from its violations
5. Need to vindicate the authority of the Commission
6. Impact of the penalty on the public interest

When assessing the respondent's good or bad faith, experts can employ an additional five-pronged test that considers whether the respondent:

1. Had a reasonable basis to believe that the violating product was not within the scope of the Commission's order
2. Requested an advisory opinion or clarification from the Commission
3. Provided any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of the violation
4. Decided which products were subject to the order based on the decisions of management and technical personnel, without legal advice
5. Satisfied its reporting requirements under the relevant Commission order[55]

An expert could examine whether the respondent informed employees and customers of the remedial order and took steps to comply with such order. These measures could demonstrate a serious and diligent effort by the respondent to comply with the remedial order at a significant cost of both out-of-pocket expenses as well as lost sales or customers.

21.4 ESTABLISHING THE CORRECT REMEDY

If the ITC finds a Section 337 violation, it has discretion to select the form, scope, and extent of a remedy in the investigation. The ITC does not have authority to award monetary damages but can issue a remedial order that directs U.S. Customs and Border Protection to exclude the respondent's infringing products (Limited Exclusion Order, or LEO) from entry into the United States or to exclude all infringing goods regardless of the source (General Exclusion Order, or GEO) if the complainant demonstrates that certain conditions existed.

(a) Limited Exclusion Order

If the ITC finds a Section 337 violation, "it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States" unless such relief would be contrary to the statutory public interest factors.[56] An LEO prohibits importation into the United States of infringing products manufactured by or on behalf of respondents in violation of Section 337. The ITC must determine the scope of the exclusion order, such as whether to exclude respondents' finished products or only components of finished products if it finds that the respondents violated Section 337.[57]

In the past, the ITC excluded in an LEO the downstream products of unnamed respondents that incorporated infringing products of named respondents. In *Kyocera Wireless Corp. v. U.S. International Trade Commission*, the Federal Circuit limited the ITC's authority to exclude products in an LEO to the products of named respondents in a Section 337 investigation.[58] In *Kyocera*, the Federal Circuit determined that the ITC can exclude only products of unnamed respondents if the requirements of a GEO in Section 337(d)(2) are met.[59]

The ITC initially claimed the authority to exclude downstream products in *Certain Erasable Programmable Read-Only Memories* (EPROMs) in 1989. In determining the scope of an LEO, the ITC can exclude named respondents' downstream products if an analysis of nine factors known as the "EPROMs factors" warrants such an exclusion. The ITC will determine whether an LEO should include respondents' downstream products after weighing the following nine factors:

1. Value of the infringing products compared to value of the downstream products that incorporate them
2. Whether the party that committed the unfair act or third parties manufactured the downstream products
3. Incremental value to complainant of the exclusion of downstream products
4. Incremental detriment to respondents of such exclusion
5. Burdens imposed on third parties by excluding downstream products
6. Availability of alternative downstream products that do not contain the infringing articles
7. Likelihood that imported downstream products contain the infringing articles and are thereby subject to exclusion
8. Opportunity for evasion of an exclusion order that does not include downstream products
9. Enforceability of an order by U.S. Customs[60]

The ITC can also "take into account any other factors which it believes bear on the question of whether to extend remedial exclusion to downstream products, and if so to what specific products."[61]

The Federal Circuit's ruling in *Kyocera* limits the relevant EPROMs factors to consider when assessing whether to include respondents' downstream products in an LEO. Experts can consider several matters when analyzing the relevant EPROMs factors:

- When assessing the value of the infringing products compared to the value of the downstream products that incorporate them, the expert could consider both the quantitative and qualitative value associated with the infringing products as compared to the value of the downstream products. For example, the cost of an infringing product might not reflect its qualitative importance.
- When assessing the incremental value to the complainant of the exclusion of downstream products, the expert could consider the volume of infringing products imported directly to the United States relative to the volume of infringing products imported as components in the respondents' downstream products. Experts can also consider the degree of competition in downstream markets between the complainant and respondents.
- When assessing the incremental detriment to the respondents of the exclusion of downstream products, the expert could consider the burden imposed on the respondents' ability to sell downstream products that do not contain infringing products as components.
- When assessing the burdens imposed on third parties by excluding downstream products, the expert could consider the burdens imposed on end consumers, the respondents' customers, and third-party suppliers of components and parts to respondents' downstream products.
- When assessing the availability of alternative downstream products that do not contain the infringing articles, the expert could consider the availability of

downstream products that are reasonable substitutes for respondents' downstream products and any reasonable substitutes for the infringing products that downstream products can employ.
- When assessing the likelihood that imported downstream products contain the infringing articles, the expert could consider whether all—or a subset—of respondents' downstream products contain infringing products and whether the infringing products have identifiable model numbers or some other unique identifier.
- When assessing the opportunity for evasion of an exclusion order that does not include downstream products, the expert could consider whether respondents had a preexisting practice of incorporating infringing products as components in downstream products prior to the investigation.

After the Federal Circuit's ruling in *Kyocera*, some ALJs believe the EPROMs factors lack relevance when determining the proper scope of an LEO, while other ALJs continue to weigh the EPROMs factors.[62] An expert should understand the EPROMs factors and the appropriate considerations in case the ALJ or counsel asks for such an analysis.

(b) General Exclusion Order

A GEO applies to all infringing products. A GEO prohibits importation into the United States of (1) infringing products manufactured by or on behalf of respondents who are in violation of Section 337, and (2) downstream products of unnamed respondents that incorporate infringing products of named respondents (e.g., a product from an unnamed respondent manufacturer that contains an infringing product as a component).

For many years, the factors codified in *Spray Pumps* guided the ITC's analysis of whether a GEO provides the proper remedy.[63] In *Spray Pumps*, the ITC determined that a complainant seeking a GEO must demonstrate the existence of two factors:

1. A widespread pattern of unauthorized use of its patented invention:
   - Unauthorized infringing imports by numerous foreign manufacturers
   - The pendency of foreign infringement suits based on foreign patents that correspond to the domestic patent at issue
   - Other evidence that demonstrates a history of unauthorized foreign use of the patented invention[64]
2. Certain business conditions from which one could reasonably infer that foreign manufacturers other than the respondents to the investigation could attempt to enter the U.S. market with infringing articles:[65]
   - Established demand for the patented product in the United States and world markets
   - The availability of marketing and distribution networks in the United States for potential foreign manufacturers
   - The cost to foreign entrepreneurs of building a facility capable of producing the patented article
   - The number of foreign manufacturers whose facilities could be retooled to produce the patented article

- The cost to foreign manufacturers of retooling their facility to produce the patented article[66]

The ITC's analysis of whether a GEO provides the proper remedy now focuses on the statutory language under Section 337(d)(2) as opposed to the factors in *Spray Pumps*.[67] (While the complainant can consider the *Spray Pumps* factors, they are not additional requirements to those under Section 337(d)(2).[68]) The complainant must show that at least one of the following conditions exists for the ITC to issue a GEO:

1. The situation warrants a general exclusion from entry of articles to prevent circumvention of an exclusion order limited to products of named persons.
2. A pattern of violation of this section exists and one cannot identify the source of infringing products.[69]

The complainant must also show that exceptional circumstances require the imposition of a GEO to achieve effective relief from the respondents' IP infringement. In numerous investigations, the ITC elected to impose an LEO because the complainant did not show the exceptional circumstances needed to establish the need for a GEO.[70]

The ITC wants to anchor a determination to grant relief under Section 337(d)(2) in substantial, reliable, and probative evidence.[71] The expert should evaluate whether a GEO presents the correct remedy by focusing on the statutory language under Section 337(d)(2). In particular, the expert's analysis can evaluate whether (1) a respondent can circumvent an LEO, (2) a pattern of violation exists, and (3) one cannot identify the source of infringing products. The following sections discuss each of these factors.

(i) Circumvention of an LEO Experts must show a real and substantial risk of a respondent's circumvention of an exclusion order that an LEO cannot address. Experts can analyze the following business conditions to assess whether a respondent can circumvent an LEO:

1. Barriers to entry in the U.S. market
2. Number of potential entrants to the U.S. market
3. Distribution channels for the infringing products in the U.S. market
4. Market demand for the patented product in the United States

In *Towel Dispensers*, the ITC determined that "conditions are ripe for circumvention of a limited exclusion order" based on evidence of low barriers to enter the U.S. market, a large number of potential entrants to the U.S. market, well-established distribution channels, and heavy demand for the patented product.[72]

Several factors do not, by themselves, present sufficient information to show whether respondents can circumvent an LEO. In *Ground Fault Circuit Interrupters*, the ITC determined that standard LEO language was broad enough to handle concerns about circumvention when companies alter their names or corporate structures.[73] The ITC also determined that showing the ability to build facilities abroad to manufacture the product is not sufficient to show the exceptional circumstances needed to establish the necessity for a GEO.[74] In *Semiconductor Chips* *with Minimized Chip Package Size*, the ITC found that the sale of component parts to downstream product manufacturers abroad, without proof of a significant amount of transfer, would fail to demonstrate circumvention of an LEO.[75] The ITC has found that a GEO is not the correct remedy to exclude infringing downstream products of unnamed respondents that incorporate infringing products of named respondents in their products prior to the investigation. Such a practice does not demonstrate circumvention of an LEO because the practice existed prior to the investigation.[76]

(ii) Pattern of Violation Experts can analyze a number of factors to determine whether a pattern of violation exists. This includes business conditions, such as the following:

1. Barriers to entry in the U.S. market
2. Number of potential entrants to the U.S. market
3. Manufacturing costs
4. Distribution channels for the infringing products in the U.S. market
5. Existence of online market places
6. Market demand for the patented product in the United States

The business conditions that exist with regard to the circumvention of an LEO can show evidence of a pattern of violation.

The volume and dollar value of infringing products imported into the United States do not alone provide sufficient information to show a pattern of violation. In *Ground Fault Circuit Interrupters*, the ITC acknowledged that even a large volume and dollar value of infringing products imported to the United States does not itself establish a pattern of violation.[77] In *Self-Cleaning Litter Boxes*, the ITC determined that volume and dollar value of infringing products imported into the United States was not the "pattern of violation" contemplated by Section 337(d)(2).[78]

(iii) Identifying the Source of Infringing Goods Experts must demonstrate genuine difficulty in identifying the source of the infringing goods, which would make an LEO ineffective. Experts can analyze a number of factors to assess the complexity and flexibility of the supply chain for the infringing products by analyzing the following:

1. Location of manufacture of the infringing products
2. Distribution channels for the infringing products
3. Assembly location for downstream products that contain infringing products
4. Distribution channels for downstream products that contain infringing products
5. Ability of downstream product companies to track their use of the infringing products

Several factors do not provide, by themselves, sufficient information to show the difficulty of identifying the source of infringing products. In *Ground Fault Circuit Interrupters*, the ITC acknowledged that the respondent imported a large volume and dollar value of infringing products to the United States, but that alone did not establish difficulty in identifying the source of infringing products.[79] In *Self-Cleaning Litter Boxes*, the ITC found that, even though it found the sources of the infringing products difficult to identify, because they did not contain data identifying the manufacturer of the goods, each infringing product was clearly identified as a product of the named respondents.[80] In *Semiconductor Chips with Minimized Chip Package Size*, the ITC found that the ability to identify the downstream product manufacturers that use infringing products as components negated the idea that one could not identify the source of the infringing products.[81]

(c) The Public Interest Factors

The ALJ, and ultimately the ITC, consider whether adequately significant public interest exists to override the protection and enforcement of IP rights. They consider four factors (discussed below):

1. The public health and welfare in the United States
2. The production of like or directly competitive articles in the United States
3. Competitive conditions in the U.S. economy
4. Prices, quality, and number of goods available to U.S. consumers

The ITC rarely finds that public interests are significant enough to preclude or limit remedies for a Section 337 violation. Examples include an investigation where the ITC deemed infringing articles essential for the U.S. automotive industry to meet congressionally mandated fuel efficiency standards during an oil embargo in 1979.[82] In another example, the ITC limited remedies in an investigation to commence four months after the opinion issued due to the competitive conditions in the U.S. economy.[83] By delaying the enactment of an exclusion order, the ITC effectively allowed the cannibalization of certain infringing products in the marketplace through new product introduction. In each case, the ITC determined that the public interests were significant enough to preclude remedies altogether, or to limit them, despite finding a Section 337 violation.

The Public Health and Welfare in the United States: When assessing the impact of a proposed remedy on the public health and welfare, experts consider whether the products covered by the proposed remedy are vital to national security interests, national crises, or the health of the public in the United States. This public interest factor weighs in favor of the proposed remedy unless the remedy restricts the availability of a vital product or the case involves extraordinary circumstances or immediate needs to the public (as in one of the cases discussed earlier).

The Production of Like or Directly Competitive Articles in the United States: Experts consider the impact of the proposed remedy on expenditures in the United States related to the production of like and directly competitive products and domestic investment in product development and research and development. This public interest factor weighs in favor of the proposed remedy unless the remedy significantly restricts domestic investment and the production of reasonable substitutes for products covered by the proposed remedy.

Competitive Conditions in the U.S. Economy: When considering how the remedy will affect competitive conditions in the United States, experts can analyze the impact of the proposed remedy on the following:

- The presence of products in the U.S. market that meet or exceed the features and quality of the products covered by the proposed remedy
- The ability of competitors to increase production and sales if the products covered by the proposed remedy are excluded from the U.S. market
- Technological advancements in the industry
- Whether failure to enforce a remedy would adversely affect the competitiveness of U.S. companies that have properly licensed the IP at issue

This public interest factor weighs in favor of the proposed remedy unless the remedy significantly lessens competitive conditions in the U.S. economy.

U.S. Consumers: Experts consider the effects of the proposed remedy on the following:

- Prices of products that compete with the infringing products (Will consumers experience higher prices?)
- Quality of products that compete with the infringing products (Will consumers experience lower quality?)
- Number of products that compete with the infringing products (Will consumers have fewer product choices?)[84]

This public interest factor weighs in favor of the proposed remedy unless the remedy significantly harms U.S. consumers.

Finally, experts can analyze how the public interest could benefit from effective protection and enforcement of the complainant's IP rights. They can discuss the complainant's domestic industry and how the public interest would benefit by protecting the complainant's investments. Failing to enforce the complainant's IP rights could lessen its source of funds for domestic industry activities within the United States, thereby discouraging innovation and technological advancement.

21.5 CONCLUSION

The ITC allows for a speedy hearing and resolution of IP disputes. Such efficiency creates a need for well-defined theories and expert opinions on numerous issues, including the existence of a domestic industry, analysis of the appropriate remedy, and the impact of the remedy on the public interest.

NOTES

1. The authors acknowledge the research assistance of Kenny Lamb in the preparation of this chapter. For purposes of this chapter, "financial expert" refers to any nontechnical expert including but not limited to an expert in the field of finance, economics, and/or accounting who is retained to provide analysis on the nontechnical issues discussed herein at the ITC. The views expressed in this chapter belong to the authors and are not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals.

2. "U.S. International Trade Commission, FY 2014 at a Glance," available at www.usitc.gov/press_room/documents/yir_op2_2015.pdf (last visited on Oct. 14, 2015).
3. 19 U.S.C. §1337.
4. "Section 337 Statistical Information," available at www.usitc.gov/press_room/337_stats.htm (last visited on Oct. 14, 2015).
5. "The U.S. International Trade Commission Section 337 Investigations Answers to Frequently Asked Questions," available at www.usitc.gov/intellectual_property/documents/337_faqs.pdf (last visited Oct. 14, 2015).
6. *Id.*
7. "The U.S. International Trade Commission Section 337 Investigations Answers to Frequently Asked Questions," available at www.usitc.gov/intellectual_property/documents/337_faqs.pdf (last visited Oct. 14, 2015). *See also* "Understanding Investigations of Intellectual Property Infringement and Other Unfair Practices in Import Trade (Section 337)," available at www.usitc.gov/press_room/us337.htm (last visited Oct. 14, 2015). The Commission must decide within 60 days whether to review the ID. If the Commission does not review the ID, then the ID becomes the Commission's final determination.
8. "Understanding Investigations of Intellectual Property Infringement and Other Unfair Practices in Import Trade (Section 337)," available at www.usitc.gov/press_room/us337.htm (last visited Oct. 14, 2015).
9. "The U.S. International Trade Commission Section 337 Investigations Answers to Frequently Asked Questions," available at www.usitc.gov/intellectual_property/documents/337_faqs.pdf (last visited Oct. 14, 2015).
10. Tom M. Schaumberg, ed. (2016). *A Lawyer's Guide to Section 337 Investigations before the U.S. International Trade Commission*, 3rd edition (Chicago: American Bar Association), p. 47.
11. 19 U.S.C. §1337 (a)(1)(B).
12. Schaumberg, p. 52.
13. *Id.*, p. 52.
14. *Certain Digital Multimeters, & Prods. With Multimeter Functionality* (Digital Multimeters), Inv. No. 337-TA-588, Order No. 22 (Initial Determination) (Public Version), January 14, 2008, p. 16.
15. *Id.*, pp. 16–17.
16. International Trade Commission 19CFR Part 210 Rules of Adjudication and Enforcement, *Federal Register*, vol. 78, no. 98 (May 21, 2013).
17. Practitioners often refer to products "practicing" a patent. Herein, to "practice" may also mean to "use" or to "employ" the technology within a product.
18. "International Trade Commission Trial Lawyers Association FAQs," available at www.itctla.org/faq.cfm (last visited Oct. 14, 2015).
19. *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586, Initial Determination, December 3, 2007, p. 25.
20. 19 U.S.C. §1337 (a)(1)(A)(i)-(iii), (a)(2).
21. *Certain Ground Fault Circuit Interrupters & Prods. Containing Same*, Inv. No. 337-TA-739, Comm'n Op., June 8, 2012, p. 71.
22. *Id.*, p. 71. See also Schaumberg, p. 66.
23. 35 U.S.C. §103 sets forth that a patent may not be obtained "if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains."
24. 19 U.S.C. §1337 (a)(3)(A, B, C). Emphasis added. The above criteria only apply to investigations based on statutory IP rights. *See* Schaumberg, p. 55.

25. *Certain Variable Speed Wind Turbines & Components Thereof*, USITC Pub. 3003, Inv. No. 337-TA-376, Comm'n Op. (Public Version), September 1996, p. 21.
26. *Certain Television Sets, Television Receivers, Television Tuners, and Components Thereof*, 337-TA-910, Initial Determination on Violation of Section 337 and Recommended Determination on Public Interest, Remedy, and Bonding, February 27, 2015, p. 178.
27. *Certain Video Graphics Display Controllers*, USITC Pub. 3224, Inv. No. 337-TA-412, Notice of Comm'n Determination Not to Review the Bulk of an Initial Determination Finding No Violation of Section 337 of the Tariff Act of 1930, at 1–2; Initial Determination (Public Version), August 1999, pp. 12–13.
28. 19 U.S.C. §1337(a)(2).
29. *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586, Comm'n Op. (Public Version), May 16, 2008, p. 13.
30. *Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468, Initial Determination, January 29, 2003. *See also Certain Printing and Imaging Devices and Components Thereof*, USITC Pub. 4289, Inv. No. 337-TA-690, November 2011.
31. See, e.g., *Certain Male Prophylactic Devices*, Inv. No. 337-TA-546, Comm'n Op. (Public Version), August 1, 2007, p. 39.
32. *Integrated Circuit Chips & Prods. Containing Same*, 337-TA-859, Comm'n Op., August 22, 2014, pp. 47–48.
33. *Multimedia Display and Navigation Devices and Systems*, Inv. No. 337-TA-694, Comm'n Op., August 8, 2011, pp. 7–8.
34. *Id.*, p. 10.
35. *Id.*, pp. 10–11.
36. See, e.g., *Certain Products Having Laminated Packaging, Laminated Packing, and Components Thereof*, Inv. No. 337-TA-874, Comm'n Op., September 3, 2013, p. 15.
37. *Lelo, Inc., v. International Trade Commission*, No. 2013–1582, (Fed. Cir. May 11, 2015).
38. *Id.*
39. *Certain Printing and Imaging Devices and Components Thereof*, USITC Pub. 4289, Inv. No. 337-TA-690, November 2011, p. 31.
40. "The U.S. International Trade Commission Section 337 Investigations Answers to Frequently Asked Questions," available at www.usitc.gov/intellectual_property/documents/337_faqs.pdf (last visited Oct. 14, 2015).
41. *Id.*
42. *Id.*
43. Named respondents are entities identified as respondents in the complaint while unnamed respondents are entities not identified in the complaint but that may incorporate infringing products of named respondents.
44. *Kyocera Wireless Corp. v. U.S. International Trade Commission*, 545 F.3d 1340 (Fed. Cir. 2008).
45. "U.S. International Trade Commission Archived Annual Reports," available at www.usitc.gov/press_room/annual_report.htm (last visited Oct. 14, 2015).
46. "The U.S. International Trade Commission Section 337 Investigations Answers to Frequently Asked Questions," available at www.usitc.gov/intellectual_property/documents/337_faqs.pdf (last visited Oct. 14, 2015).
47. Schaumberg, pp. 163-164.
48. 19 U.S.C. §1337(j)(3).
49. *Certain Reclosable Plastic Bags & Tubing*, Inv. No. 337-TA-266, Comm'n Op., May 2, 1988, p. 5 (quoting S. Rep. No. 1298, 93d Cong., 2d Sess., at 198 (1974)).
50. See, e.g., *Certain Mobile Tel. Handsets, Wireless Commc'n Devices, & Components Thereof*, Inv. No. 337-TA-578, Final & Initial Determinations, December 12, 2007, p. 259.
51. See, e.g., *Certain Self-Cleaning Litter Boxes and Components Thereof*, Inv. No. 337-TA-625, Comm'n Op., April 28, 2009, p. 63.

52. The ITC issues a consent order "when a respondent desires to withdraw from an investigation without admitting liability" and "agrees to refrain from importing products that encompass the allegedly infringing activity." See Schaumberg, p. 14.
53. 19 U.S.C. §1337(f)(2).
54. *Certain Ink Cartridges and Components Thereof*, Inv. No. 337-TA-565, Enforcement Proceeding, Comm'n Op., September 24, 2009, at 17–18.
55. *Id.*, p. 19.
56. 19 U.S.C. § 1337(d)(1). See also Schaumberg, p. 158.
57. Schaumberg, p. 158.
58. *Kyocera Wireless Corp. v. U.S. International Trade Commission*, 545 F.3d 1340 (Fed. Cir. 2008). See also, Schaumberg, p. 167.
59. *Id.*
60. *Certain Erasable Programmable Read-Only Memories, Components Thereof, Prods. Containing Such Memories, & Processes for Making Such Memories (EPROM)*, USITC Pub. 2196, Inv. No. 337-TA-276, Commission Opinion (Public Version), May 1989, p. 125.
61. *Id.*, pp. 125–126.
62. See, e.g., *Certain Flash Memory and Prods. Containing Same*, Inv. No. 337-TA-685, Initial Determination (Public Version), February 28, 2011, pp. 108–109; *Certain Light-Emitting Diodes and Products Containing the Same*, Inv. No. 337-TA-784, Recommended Determination (Public Version), July 23, 2012, p. 9.
63. Schaumberg, p. 161.
64. *Certain Airless Paint Spray Pumps and Components Thereof* (Spray Pumps), Inv. No. 337-TA-90, Comm'n Op. (Public Version), November 24, 1981, pp. 18–19.
65. *Id.*, p. 18.
66. *Id.*, p. 19.
67. Schaumberg, p. 161.
68. *Id.*, p. 161.
69. 19 U.S.C. § 1337(d)(2). See also Schaumberg, p. 160.
70. See, e.g., *Semiconductor Chips with Minimized Chip Package Size*, Inv. No. 337-TA-605; *Ground Fault Circuit Interrupters*, Inv. No. 337-TA-615; *Self-Cleaning Litter Boxes*, Inv. No. 337-TA-625.
71. 19 U.S.C. § 1337(g)(2). See also Schaumberg, p. 161.
72. *Certain Electronic Paper Towel Dispensing Devices and Components Thereof* (Towel Dispensers), Inv. No. 337-TA-718, Comm'n Op. (Public Version), December 1, 2011, p. 8. See also Schaumberg, p. 162.
73. *Certain Ground Fault Circuit Interrupters and Products Containing Same* (Ground Fault Circuit Interrupters), Inv. No. 337-TA-615, Comm'n Op. (Public Version), March 26, 2009, pp. 25–26.
74. *Id.*, pp. 26–27.
75. *Certain Semiconductor Chips with Minimized Chip Package Size & Prods Containing Same* (Semiconductor Chips with Minimized Chip Package Size), Inv. No. 337-TA-605, Comm'n Op. (Public Version), June 3, 2009, pp. 66–67.
76. Schaumberg, p. 163.
77. *Certain Ground Fault Circuit Interrupters and Products Containing Same* (Ground Fault Circuit Interrupters), Inv. No. 337-TA-615, Comm'n Op. (Public Version), March 26, 2009, p. 26.
78. *Certain Self-Cleaning Litter Boxes and Components Thereof* (Self-Cleaning Litter Boxes), Inv. No. 337-TA-625, Comm'n Op. (Public Version), April 28, 2009, pp. 55–56.
79. *Certain Ground Fault Circuit Interrupters and Products Containing Same* (Ground Fault Circuit Interrupters), Inv. No. 337-TA-615, Comm'n Op. (Public Version), March 26, 2009, p. 26.

80. *Certain Self-Cleaning Litter Boxes and Components Thereof* (Self-Cleaning Litter Boxes), Inv. No. 337-TA-625, Comm'n Op. (Public Version), April 28, 2009, pp. 56–57.
81. *Certain Semiconductor Chips with Minimized Chip Package Size & Prods Containing Same* (Semiconductor Chips with Minimized Chip Package Size), Inv. No. 337-TA-605, Comm'n Op. (Public Version), June 3, 2009, pp. 68–69.
82. *Certain Automatic Crankpin Grinders*, Inv. No. 337-TA-60, USITC Pub. 1022, Comm'n Op., December 1979, pp. 18–20.
83. *Certain Personal Data & Mobile Commc'ns Devices & Related Software*, Inv. No. 337-TA-710, Comm'n Op., December 29, 2011, p. 83.
84. *Digital Televisions*, Inv. No. 337-TA-617, Comm'n Op., April 23, 2009, pp. 13–16.