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Ruling Strengthens ITC's Hand in Patent Cases

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An en banc Federal Circuit panel dominated by Barack Obama appointees on Monday deferred to the U.S. International Trade Commission on its handling of induced infringement claims.

Judge Jimmie Reyna wrote for a 6-4 panel that the ITC is empowered to block imports of fingerprint scanners that were later combined in the United States with software in ways that infringe method patents held by Cross Match Technologies Inc.

A three-judge panel had previously held that because Section 337 of the Tariff Act of 1930 blocks "articles that ... infringe" a patent, it covered only imports that infringed at the time of importation. But the en banc U.S. Court of Appeals for the Federal Circuit ruled that Section 337's application is not crystal clear in these circumstances. "Because Section 337 does not answer the question before us, the commission's interpretation of Section 337 is entitled to deference," Reyna wrote in *Suprema v. ITC*.

Latham & Watkins partner Maximilian Grant, who had the winning argument for Cross Match, said the decision restores the ordinary practice of the ITC for many years before the 2013 panel decision. It's important, he said, because it's not hard to imagine companies—such as smartphone makers for one example—taking advantage by importing hardware, then letting third parties install software that leads to infringement.

Judge Kathleen O'Malley dissented. "Although the majority says it is concerned about importers taking advantage of an apparent gap in the statute, any gaps should be filled by Congress, not by us or the commission," she wrote. Patent holders in such circumstances are "still well protected" by bringing infringement actions in district court, she contended.

Reyna, who practiced international trade law before his 2011 appointment to the bench, was joined by Obama appointees Evan Wallach, Richard Taranto, Raymond Chen and Todd Hughes, plus Reagan appointee Pauline Newman. Patent cases don't typically break down along the lines of presidential appointment, but the newer appointees may be signaling a court more willing to extend so-called *Chevron* deference to executive-agency decisions. The court also on Monday summarily affirmed three decisions of the Patent Trial and Appeal Board.

O'Malley is the other Obama appointee who participated in the *Suprema* decision. She was joined by Chief Judge Sharon Prost and Federal Circuit veterans Alan Lourie and Timothy Dyk. Judges Kimberly Moore and Kara Stoll did not participate.

Cross Match is a small company that manufactures fingerprint scanners used by U.S. Customs, among others. Suprema Inc. was importing scanners made abroad that were sometimes combined in the U.S. with software, made by a company called Mentalix Inc., that captured data from the images and filtered it.

While the case was pending en banc, the Federal Circuit requested the views of the Justice Department, which said the ITC's approach was "reasonable, consistent with the text and history of the Tariff Act, and entitled to deference."

Monday's majority mostly agreed. The use of the present tense "articles ... that infringe" in the Tariff Act is ambiguous, Reyna wrote. Under the Patent Act, "articles" by themselves never infringe—it's the act of making, using or selling them. Under Suprema's interpretation, Section 337 would not bar "even garden-variety direct infringement," he wrote, and Congress could not have intended that.

Rather, banning articles that have been part of inducement as an unfair trade act "is consistent with the statutory phrase 'articles that infringe.' "

Moreover, the ITC has followed a similar interpretation for 35 years. "The commission's consistency supports the reasonableness of its interpretation," Reyna wrote.

Judge Jimmie V. Reyna, United States Court of Appeals for the Federal Circuit

J. Albert Diaz

Finnegan, Henderson, Farabow, Garrett & Dunner partner Eric Fues, who contributed an amicus curiae brief for the International Trade Commission Trial Lawyers Association, said the ruling also removes some clouds around contributory infringement that the three-judge panel's decision had created.

O'Malley was the author of that panel decision, and on Monday she led the four dissenters. The Federal Circuit and the ITC are going further than they have in the past, she argued, because Suprema neither embedded software in the scanners nor sold it separately.

Chevron deference "is not to be used as a substitute for statutory interpretation," she wrote. "This is especially true where, as here, the interpretation proffered by the agency 'makes scant sense.' "

Assisting Grant on the briefs were Latham partners Clement Naples, Bert Reiser, counsel Gabriel Bell and associate Jennifer Halbleib.

Vinson & Elkins partner Darryl Woo argued the appeal for Suprema. Clark Cheney of the ITC's Office of the General Counsel argued for the commission. Mark Freeman argued for the Justice Department.

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