

Keywords: International Trade Commission (ITC); 19 U.S.C. § 1337(a); induced infringement; post-importation infringement; Chevron framework

General: ITC has the power to issue an exclusion order to block importation based upon an inducement theory of infringement – even though the imported products themselves are not infringing.

Suprema, Inc. v. International Trade Commission

U.S. Court of Appeals Federal Circuit (en banc)

No. 2012-1170

Decided: August 10, 2015

I. Facts

Cross Match Technologies, Inc. (“Cross Match”) is the assignee of U.S. Patent No. 7,203,344 (“the ‘344 patent”), which covers technology used in biometric imaging scanners. Claim 19 is at issue and is directed to a method for capturing and processing a fingerprint. In May 2010, Cross Match filed a complaint with the International Trade Commission (“Commission”) alleging infringement of the ‘344 patent against Suprema, Inc. (“Suprema”) and Mentalix, Inc. (“Mentalix”). The Commission instituted an investigation.

Suprema is a Korean company that makes hardware for scanning fingerprints; however, they do not make or sell the software to operate the hardware. Instead, they provide a software development kit (SDK) to develop custom programs that control the scanner. Mentalix is an American company that purchases Suprema’s scanners and imports them into the US. It uses the SDK to write custom software to control the scanners. Mentalix then sells the scanners bundled with its software in the US.

The Commission found there was a violation of 35 U.S.C. § 1337 (§337) because Mentalix directly infringed claim 19 when it integrated its software with the Suprema scanners and SDK and subsequently used and sold the combination in the US. Regarding indirect infringement, the Commission found that Suprema induced Mentalix’s infringement by actively encouraging incorporation of Mentalix’s software with its scanners. The Commission found that Suprema willfully blinded itself to the infringing nature of Mentalix’s activities. For the active encouragement and facilitation requirement, the Commission found a list of confidential examples of collaborative efforts of Suprema and Mentalix. Based on this finding, the Commission issued an exclusion order preventing importation of the accused scanners into the US. Mentalix and Suprema appealed to the Federal Circuit.

In June 2011, a Federal Circuit panel overturned the Commission’s decision. The majority of the panel reasoned that §337’s language, “articles that infringe,” is a temporal requirement and infringement is measured at the time of importation. The panel concluded that the Commission lacks authority under §337 to issue an exclusion order predicated on induced

infringement when such imports are not in an infringing state upon importation. Cross Match and the Commission petitioned for rehearing en banc.

II. Issue

Whether goods qualify as “articles that infringe” under §337 when the Commission has found that such goods were used, after importation, to directly infringe by the importer at the inducement of the goods’ seller?

III. Discussion

Yes. The statute is ambiguous and deference should be given to the Commission’s reasonable interpretation and administration of the statute.

The Federal Circuit started by acknowledging Congress has been vigilant to encourage and protect US domestic interests in connection with unfair commercial activity involving foreign imports. Section 337 was codified as an enforcement statute enacted by congress to stop the entry of goods, i.e., articles, at the border that are involved in unfair trade practices. Section 337 declares certain activities related to importation to be unlawful trade acts and directs the Commission generally to grant prospective relief if it has found an unlawful trade act to have occurred. Subsection (a) identifies several types of acts as unlawful, one of which relates to infringement of a US patent.

The Federal Circuit acknowledged that Congress has delegated authority to the Commission to resolve ambiguity in §337. Thus, the Federal Circuit conducted an analysis under the *Chevron* framework, which has two steps. The first step is the reviewing court must determine whether Congress has directly spoken to the precise question at issue. If Congress has spoken to the issue, the inquiry ends and Congress’ guidance is followed. But, if Congress has not addressed the issue, the court must move to step two and determine whether the agency’s answer to the precise question at issue is based on a permissible construction of the statute.

Under step one of the *Chevron* analysis, the Federal Circuit looked to the language of the statute. The court found that the phrase “articles that infringe” does not unambiguously exclude inducement of post-importation infringement. For example, “infringe” does not narrow §337’s scope to any particular subsection of §271 because “infringement” is a term that encompasses both direct and indirect infringement. “Articles” does not narrow the provision to exclude inducement of post-importation infringement because it introduces textual uncertainty. The court found that the phrase does not map onto the Patent Act’s definition of infringement. In particular, §271 defines persons’ *actions* as infringement so an “article” cannot infringe under any subsection of §271. The court stated the disparity between the language of §337 and the Patent Act’s definitions of infringement presents uncertainty requiring resolution by the Commission.

Under step two of the *Chevron* analysis, the Federal Circuit found that the Commission’s interpretation of §337 was reasonable because it was “consistent with the statutory text, policy, and legislative history of §337.” Specifically, the Court found that “Section 337 contemplates that infringement may occur *after* importation.” The statute defines as unlawful “the sale within the United States after importation... of articles that-(i) infringe...” This language confirms that the Commission is permitted to focus on post-importation activity to identify the completion of infringement. The Court also found the Commission’s interpretation consistent with the legislative history of §337, noting that §337 was meant, like its precursor §316, to be “broad

enough to prevent *every type and form* of unfair practice.” Also, the Court found that for decades the Federal Circuit has “affirmed the Commission’s determination that a violation of Section 337 may arise from an act of induced infringement.” The court reasoned that curtailing the gap-filling authority of the Commission in the way done by the panel would allow foreign entities (which might not be subject to a district court injunction) to circumvent §337 by importing articles in a state requiring post-importation combination or modification before direct infringement could be shown.

IV. Conclusion

The Federal Circuit held that the Commission’s interpretation that the phrase “articles that infringe” covers goods that were used by an importer to directly infringe post-importation as a result of the seller’s inducement is reasonable. The Court remanded to the original panel.

V. Dissent – O’Malley joined by Prost, Lourie, and Dyk

Judge O’Malley asserted that deference under *Chevron* is not to be used as a substitute for statutory interpretation. O’Malley stated that patent holder is well protected because they have the ability to stop the only entity practicing its patented method from doing so in an action in district court under 35 U.S.C. §271(a). O’Malley looked at the language of the statute and said Congress explicitly chose to exclude liability under §337 for induced infringement of a method claim that is not directly infringed, if at all, until after importation. Also, O’Malley asserted that “articles” is not ambiguous based on dictionary definition and “infringe” is defined in §271. Further, O’Malley asserted that induced infringement only lies when there is a direct infringement and there are no “articles that infringe” at the time of importation here. O’Malley stated that if Congress had sought to grant the Commission the power to issue an exclusion order based on an importer’s *intent* to cause direct infringement at a later time, it would have said so.

Also, O’Malley asserted that the crux of the majority’s holding is equity, and the industry’s concern that the plain language of the statute might leave a porous border hospitable to infringers. However, O’Malley emphasized that concern is best left for Congress. O’Malley reasoned that the Commission is subject to the control of the Executive Branch and the Court should not allow the Executive Branch to make laws (Congress’s job) or to say what the law is (Court’s job). According to O’Malley, this holding will prevent objects from entering the US that can be used in both infringing and non-infringing ways based on the perception that they *could* be used to infringe a method claim.

- 19.** A method for capturing and processing a fingerprint, the method comprising:
- (a) scanning one or more fingers;
 - (b) capturing data representing a corresponding fingerprint image;
 - (c) filtering the fingerprint image;
 - (d) binarizing the filtered fingerprint image;
 - (e) detecting a fingerprint area based on a concentration of black pixels in the binarized fingerprint image;
 - (f) detecting a fingerprint shape based on an arrangement of the concentrated black pixels in an oval-like shape in the binarized fingerprint image; and
 - (g) determining whether the detected fingerprint area and shape are an acceptable quality.

19 U.S.C. § 1337

(a) Unlawful activities; covered industries; definitions

(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

(A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), (D), and (E)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—

- (i) to destroy or substantially injure an industry in the United States;
- (ii) to prevent the establishment of such an industry; or
- (iii) to restrain or monopolize trade and commerce in the United States.

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

- (i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17; or
- (ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

(C) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946 [15 U.S.C. 1051 et seq.].

(D) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of a semiconductor chip product in a manner that constitutes infringement of a mask work registered under chapter 9 of title 17.

(E) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consigner, of an article that constitutes infringement of the exclusive rights in a design protected under chapter 13 of title 17.