

## Section 337: Whether to Respond or Default

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The International Trade Commission (ITC) is an increasingly popular forum in which to enforce intellectual property rights against foreign entities that export goods to the United States as well as against U.S. companies that import such products. While the U.S. style of litigation is routinely decried as overly burdensome by non-U.S. litigants, patent litigation in an ITC “Section 337” (19 U.S.C. § 1337) investigation carries a particularly daunting set of challenges, largely stemming from the short deadlines and rapid pace of the action.

Given this environment, it is not surprising that respondents named in a Section 337 investigation often simply default, choosing to forego sales of product into the U.S. market rather than contest the action. While this may make sense in some circumstances, it is important that respondents considering this course of action understand the potential consequences of doing so - including those that may reach beyond the particular products at issue.

### BACKGROUND

The ITC is a unique forum for patent infringement actions. Section 337 investigations are directed to unfair trade competition, including infringement of intellectual property rights by the importation of products into the United States. Any entity that has a “domestic industry” covered by the patent (a fairly forgiving standard), regardless of whether the patentee is a U.S. entity, may seek to initiate a Section 337 investigation. The ITC lacks statutory authority to award monetary damages, but has the unique ability to issue “exclusion orders” covering infringing products that are enforceable by U.S. Customs and Border Protection.

The ITC is seen as a favorable venue by patent holders for a number of reasons, including (1) the speed of the proceedings (approximately 16 months from start to finish), (2) the ITC’s in rem jurisdiction over the offending goods, which can moot potentially difficult issues of jurisdiction over foreign companies, and (3) the ability to pursue multiple respondents in a single investigation rather than through piecemeal U.S. District Court litigation in multiple venues.

Respondents start at a distinct disadvantage in a Section 337 action. The complainant typically has spent significant time preparing to file a detailed complaint. A typical ITC complaint provides sufficient information, complete with claim charts and declarations among other evidence, to establish a prima facie case in complainant’s favor. In other words, counsel for complainant necessarily has a deep understanding of the patents at issue as well as the complainant’s and respondents’ respective products.

Complainant’s counsel also normally has met with an ITC staff attorney from the Office of Unfair Import Investigations (OUII) to vet any potential procedural problems with the proposed complaint prior to filing, and has received the OUII’s blessing to go forward with the complaint. In addition, complainants often draft discovery requests in advance of filing, which may be served immediately upon publication of the Notice of Investigation (NOI).

Respondents, by contrast, are at a disadvantage from the outset of the investigation. Respondents have only twenty days from the institution of the investigation by which to respond to the complaint. Failure to respond can lead to a finding of default.

In addition, respondents typically have ten days to respond to complainant’s first wave of discovery requests. While it is not uncommon for extensions of discovery response time to be granted, the process still moves at a rapid clip and the demands of responding to such discovery can be substantial.

Even though many respondents learn of the filing of a complaint through publication in the Federal Register even before an investigation is instituted, these circumstances still present harrowing deadlines. And because ITC investigations begin and end within 16 months, respondents cannot “catch up” at a later point. Thus, starting from behind and facing a costly, fast paced and time consuming battle in a foreign tribunal, many foreign respondents choose to default.

### DEFAULT AND ITS CONSEQUENCES

The Commission Rules provide that a party shall be found in default if it fails to respond to the complaint and NOI in the manner prescribed in the Rules. To initiate default proceedings, the complainant files a motion for an order directing a respondent to show cause as to why it should not be found in default. If a respondent fails to respond to the motion or to the order to show cause, the Administrative Law Judge (ALJ) will issue an initial determination finding the respondent in default. Entry of default waives the respondent’s right to appear, to be served with documents and to contest the allegations at issue in the complaint.

What happens next is largely dependent on whether other respondents participate in the investigation. The Commission Rules permit a complainant to seek immediate entry of an exclusion order or cease and desist order (or both) against a defaulting respondent. If there are no other respondents that appear and contest the allegations of the complaint, the ALJ will presume the pleaded facts to be true against the defaulting respondent and the ITC will typically then issue

an exclusion order barring the respondent's accused products from entry into the U.S.

When active respondents remain in the investigation, however, it is the ITC's practice to delay granting immediate relief against a defaulting respondent. This practice stems from a concern that the ITC could be forced to vacate a prematurely issued limited exclusion order against the defaulting respondent should the patent at issue be found invalid or unenforceable. If the patent at issue survives the challenges from the participating respondents and the investigation proceeds to an initial determination, the ITC will then likely issue an exclusion order covering the defaulted respondent's products.

#### **PRACTICAL CONSIDERATIONS REGARDING DEFAULT**

In determining whether to respond to a complaint in a Section 337 action, the most important question is whether the prospective profits likely to be generated by continued access to the U.S. market justify the cost of litigation. If the accused product is not significant to a respondent's business or the U.S. market is not critical, the respondent might choose to default and face an exclusion order.

While this may appear to be a straightforward calculation, however, certain considerations highlight the potential hidden costs of default. For example, rather than contesting the allegations of the complaint, a respondent may elect to devote its resources to developing and bringing to market a design-around product, i.e., a product that does not infringe the patent at issue. However, if a respondent pursues this course, it must accept the likelihood that the ITC will issue an exclusion order and a cease and desist order against it directed to any similar products that infringe the patent at issue. If the complainant subsequently pursues an enforcement action against the "design around" and succeeds in demonstrating that the redesigned product infringes the patent (and therefore violates the exclusion and cease and desist orders), the respondent could be subject to a penalty of up to \$100,000 per day for violation of the cease and desist order. The draconian nature of this penalty suggests that in some instances a respondent may be better off contesting the allegations of the complaint (including the complainant's entitlement to a cease and desist order) than defaulting and attempting to sidestep the patent through a design around.

Some respondents may also believe that they can default and then free-ride on the efforts of respondents who have chosen to contest the validity of the asserted patents. The expectation is that if the participating respondents succeed in invalidating the patent in suit, no remedy will be imposed against the defaulting respondents. While this sounds like a sensible approach, in practice it should rarely yield the anticipated windfall, for two reasons. First, if it appears from the pre-trial filings that the patent is seriously at risk, a complainant has an easy way out - simply settle with the remaining respondents and then obtain exclusion orders against the defaulted respondents. Second, if one or more of the respondents is not willing to settle on terms the complainant finds suitable, the complainant can avoid putting its patent at risk by simply withdrawing the allegations in the complaint that are directed toward the recalcitrant respondent and then moving to terminate the investigation as to that respondent. Unlike in patent suits in U.S. district court, the complainant in the ITC has a plenary right under Commission Rule 210.21(a)(1) to withdraw the complaint or particular allegations contained in the complaint, and to then move to terminate the investigation as to any respondent, at any time prior to the issuance of an initial determination. So, a savvy complainant facing a serious risk to the validity of its patent will either settle with or terminate the investigation as to the participating respondents, leaving it free to obtain a remedy as against any defaulting respondents. This largely nullifies the potential benefit of a "free-rider" strategy for defaulting respondents.

Conversely, the ITC presents respondents with one advantage that is often absent in U.S. district court - the ability to join together and share the cost of litigation, either by coordinating their strategy through separate counsel or sharing the cost of representation by a single law firm among several different respondents. Coordinated respondents can, for example, propound strategically timed and non-repetitive discovery requests that can focus on the respondent's defenses and also keep the complainant from focusing exclusively on preparing its case. And, sharing the cost of joint representation by a single counsel may work an even more radical reduction in the cost of defense for each respondent.

So, companies against which a Section 337 investigation is initiated should carefully consider the potential detriments of defaulting as well as the potential benefits of joint representation and coordinated representation when weighing whether to default.



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