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### **Federal Circuit: The U.S. International Trade Commission Has No Jurisdiction Over Electronic Transmission of Digital Data**

The United States International Trade Commission ("ITC") is viewed as a friendly jurisdiction -- duplicative of the federal court system -- to which a company can turn to attempt to prevent a competitor from importing infringing goods into the United States. Section 337 of the Tariff Act of 1930 prohibits the importation into the United States of "articles" that infringe federally registered intellectual property rights, including patents, trademarks and copyrights. See 19 U.S.C. § 1337. The ITC, upon either the filing of a complaint or on its own initiative, is authorized to investigate alleged violations of Section 337, and to issue exclusions orders, denying entry of infringing good into the United States.

In *ClearCorrect Operating, LLC v. International Trade Commission*, however, the Federal Circuit held that the ITC's jurisdiction is limited to "material things," and does not include the "electronic transmission of digital

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data." The case is significant because it involves a "low tech" interpretation of the statute, and precludes the ITC from taking action against digital copyright infringers that are located abroad, such as streaming services.



The technology at issue in ClearCorrect is the production of orthodontic appliances known as "aligners," such as those sold under the brand name Invisalign®. Invisalign® aligners are marketed by Align Technology, Inc., the company that filed the complaint with the ITC. Aligners, as defined by a patent at issue in that case, "are configured to be placed successively on the patient's teeth and to incrementally reposition the teeth from an initial tooth arrangement, through a plurality of intermediate tooth arrangements, and to a final tooth arrangement." U.S. Patent No. 6,722,880.

The accused infringer, ClearCorrect, produces its aligners by scanning physical models of the patient's teeth into a digital file that is electronically submitted to its Pakistan affiliate. That affiliate creates digital models of the intermediate tooth positions, and those digital models are transmitted back to the United States and used to thermoplastically mold the aligners. Thus, the accused "articles" in this case are transmissions of digital data.

ClearCorrect appealed the ITC's decision holding that "articles," as described in 19 U.S.C. § 1337(a), "should be construed to include electronic transmission of digital data." On November 10, 2015, the Federal Circuit reversed, holding that the ITC's decision to "expand the scope of its jurisdiction to include electronic transmission of digital data runs counter to the 'unambiguously expressed intent of Congress.'" 810 F.3d 1283 (Fed. Cir. 2015). In so holding, the Federal Circuit limited the jurisdiction of the ITC to prohibiting unfair acts and methods of competition to imports involving "material things."

The Federal Circuit evaluated whether Congress had directly spoken to the question at issue, and if not, whether the ITC's position to embrace digital technology was based on a permissible construction of the statute. The Court weighed dictionary definitions contemporaneous with the statute and concluded that Congress unambiguously defined "articles" as "material things," which did not include the transmission of electronic data. The Court thought it best to "leave to Congress the task of expanding the statute." Judge Newman vigorously dissented, stating that the ITC "correctly applied the Tariff Act to encompass today's forms of infringing technology" that include "the new technologies of the Information age focus[ed] on computer-implemented methods and systems."

On March 31, 2016, the Federal Circuit denied a petition for rehearing en banc. See 2016 U.S. App. LEXIS 5872. In its decision, the Court specifically addressed Judge Newman's dissent, stating that her citation to a "hodgepodge" of other legislative enactments was unavailing, as they have no bearing on the Congressional intent of Section 337. The court stated that, "when Congress wanted to bridge the gap between the non-digital world and the digital world, it did so affirmatively," but Congress "failed to do so here."

So, for now, digital infringers cannot be "stopped at the border" by an ITC exclusion order. Instead, intellectual property owners must fight digital infringement the old fashioned way: by seeking injunctions and other relief in the Federal District Court system.

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**PIB Law Obtains Favorable Ruling  
from New Jersey's Chancery Division  
Regarding Enforceability of Validly  
Signed eNote**

The New Jersey Chancery Court of Monmouth County recently granted summary judgment in favor of a mortgagee represented by Parker Ibrahim & Berg, in a foreclosure action involving an electronically executed mortgage note ("eNote"). The Court issued an oral ruling finding that the mortgagee had established standing to foreclose by providing evidence that it had control of the "transferable record" in the form of a validly signed eNote as required under the New Jersey Uniform Electronic Transactions Act, N.J.S.A. § 12A:12-1 et seq. ("UETA"). In particular, the Court was satisfied that affidavit evidence presented by the mortgagee in support of its motion for summary judgment established that the eNote was a unique, identifiable, unalterable and unaltered record, that the eNote was validly transferred to the mortgagee, and that the chain of title for the eNote was duly tracked by an appropriate electronic registry -- the MERS® eRegistry. Accordingly, the Court concluded that the mortgagee met its burden of proof under UETA to show that it had standing to foreclose on the basis of an electronically signed mortgage note.

By way of background, on January 29, 2009, John J. Grillo and Michele Grillo ("the Borrowers") signed an eNote in favor of Millenium Home Mortgage, LLC ("Millenium"), in the amount of \$292,000. As a security for the advancement of the funds, the Borrowers executed a mortgage ("Mortgage") in favor of Mortgage Electronic Registration Systems, Inc. ("MERS") as nominee for Millenium, on a parcel of real property located in Holmdel, NJ. The Mortgage was subsequently assigned to Metlife Home Loans, and then to Green Tree Servicing LLC ("Green Tree"). The Borrowers defaulted on their loan obligations and Green Tree commenced a foreclosure.

The Borrowers opposed the foreclosure by arguing that they did not execute any documents in electronic form and that Green Tree failed to provide access to the "authoritative copy" of the eNote as that term is

referenced in UETA. In response, Green Tree provided two affidavits from its employees setting forth as follows:

- The paper copy of the eNote produced to the Borrowers in discovery is a true and correct copy of the eNote;
- A single, authoritative copy of the eNote, which is unique, identifiable, and unalterable without the alterations being identifiable, is stored in an e-Vault technology system utilized by Green Tree through an outside vendor;
- Green Tree has sole, exclusive and secure access to the authoritative copy of the eNote as maintained by said vendor; and
- The authoritative copy of the eNote has not been altered or tampered with as evidenced by a true and correct copy of a screenshot validating a tamper-proof seal associated with the eNote.

Additionally, Green Tree provided another affidavit from a representative of MERSCORP Holdings, Inc., the owner and operator of the MERS® eRegistry, a system which tracks the transfer of ownership interests in electronic mortgage notes. By way of this affidavit, Green Tree set forth a detailed history concerning the transfer of the ownership interest in the eNote from the original lender to Green Tree.

By providing these affidavits in addition to the paper copy of the eNote to the Borrowers, Green Tree contended that it had complied with the requirement under UETA to provide "access to the authoritative copy" of the eNote, and that any request by the Borrowers to review the eNote in electronic form as it is stored in the eVault, or to conduct an electronic forensic audit of same is neither reasonable nor necessary for Green Tree to establish standing to foreclose or to authenticate the paper copy of the eNote. Green Tree also emphasized that standing to foreclose, under UETA and other provisions of New Jersey common

and statutory law, requires only that Green Tree provide reasonable proof that it was in control of the original eNote -- proof that Green Tree provided by way of the three affidavits. The Court agreed.

In granting Green Tree's motion for summary judgment, the Court explained that in order to prove standing to foreclose based on an electronically signed mortgage note, a mortgagee has to show that it is in control of the note. Based on the affidavits submitted by Green Tree, the Court found that Green Tree produced sufficient evidence that the eNote was properly transferred to it and that Green Tree was therefore in control of it. The Court explained that under UETA section 12A:12-16b, a "person has control of the transferable record if a system employed for evidencing the transfer of interests in the transferable record reliably establishes that person as the person to which the transferable record was issued or transferred." In this case, the Court recognized that the MERS® eRegistry was such a system, and that it reliably established that Green Tree was the entity to which the eNote was properly transferred.

Moreover, the Court noted that the Borrowers' emphasis on an "authoritative copy" of the eNote and their demand for the production or forensic examination of the eNote was misplaced. This is because UETA does not define the term "authoritative copy" directly. Rather, the statute refers to an "authoritative copy" in N.J.S.A. § 12A:12-16f, a section which defines "transferable record" and how to identify who controls such a record for purposes of proving standing to foreclose. That is, the statutory emphasis is on the issue of control of a "transferable record", rather than the existence or production of an "authoritative copy" of such a record. The eNote, the Court explained, is a "transferable record" because it is a note governed by Article III of the Uniform Commercial Code (N.J.S.A. § 12A:12-16a(1)), albeit a note with an electronic, rather than a manual signature -- a fact that is immaterial

under New Jersey law.

Finally, the Court concluded that Green Tree provided sufficient evidence as required by N.J.S.A. § 12A:12-16c to prove that the eNote was a unique and identifiable record which had not been altered, and that Green Tree had allowed the Borrowers to review the eNote's terms as per the requirements of UETA, such that production or a forensic audit of an "authoritative copy" of the eNote was not required. The Court found that the Borrowers' contention that they did not execute the eNote did not create any issues of material fact and did not warrant any additional discovery or fact-finding.

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