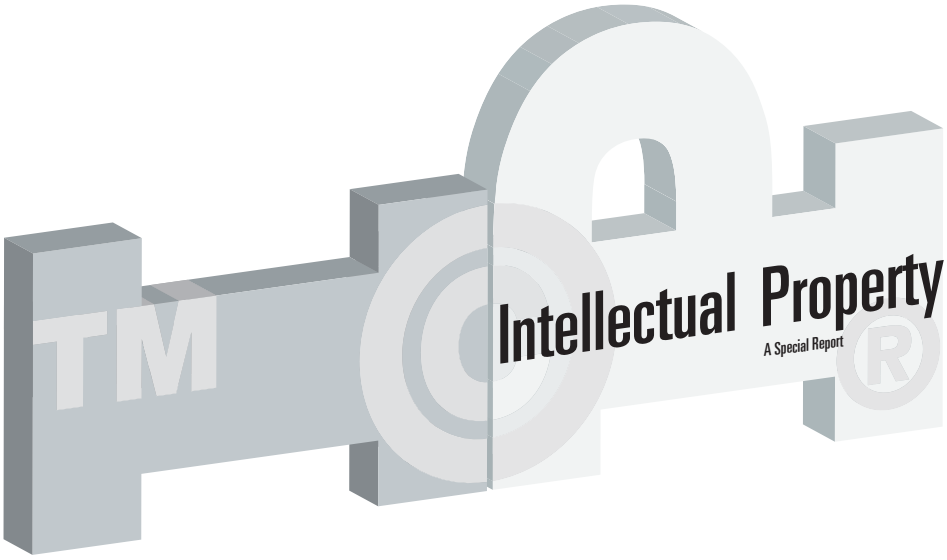
THE NATIONAL LAW JOURNAL
MAY 9, 2011
Online Feature
An ALM Publication

ITC HAS BECOME A MORE ATTRACTIVE FORUM FOR NONPRACTICING ENTITIES

In order to have standing, they need to show a licensing program that will likely establish a domestic industry; litigation expenses are not enough.

Kenneth B. Herman, David S. Chun and Diana Santos
Ropes & Gray LLP
The National Law Journal
May 09, 2011



The International Trade Commission functions in part to protect industries in the United States from unfair trade acts by foreign corporations. Such acts may include the importation of products that infringe a U.S. patent or that were made using a process that would infringe a U.S. patent if carried out in this country. Traditionally, complainants in the ITC manufactured or sold products in competition with the accused foreign product. Recently, however, nonpracticing entities (NPEs) have turned to the ITC even when they have no competing product.

Three recent events have made the ITC a potentially attractive forum for NPEs. First, the ITC has adopted a liberal view of what constitutes a U.S. domestic industry. See *Certain Microsphere Adhesives, Process for Making Same, and Products Containing Same, Including Self-Stick Repositionable Notes*, Investigation No. 337-TA-366, Comm. Op. at 24 (Jan. 16, 1996). Second, the U.S. Court of Appeals for the Federal Circuit has held that the requirement to obtain an exclusion order at the ITC is less stringent than the requirement for obtaining an injunction in a U.S. district court after a trial for patent infringement. *Spansion Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010). Third, the Federal Circuit has issued a number of decisions that have made it more difficult for NPEs to maintain their chosen venue for some or all the named defendants. See, e.g., *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011).

This article examines recent filings of complaints by NPEs in the ITC and discusses what an NPE must show to have standing. In general, an NPE must show more than litigation expenses and that it has a licensing program that will likely establish a domestic industry in the future.

In the typical case, the aggrieved U.S. patent holder files a complaint against the foreign infringer with the ITC under 19 U.S.C. 1337. The ITC then decides whether there is sufficient merit in the complaint to warrant an investigation. If the ITC ultimately finds an infringing act, the ITC can order U.S. Customs to exclude infringing products from being imported into the United States. This order is subject to presidential approval.

Unlike a plaintiff in a district court action, an ITC complainant must satisfy what is known as the domestic-industry requirement. As an alternative to showing actual manufacture, a domestic industry "shall [also] be considered to exist if there is in the United States, with respect to the articles protected by the patent…concerned — (C) substantial investment in its exploitation, including engineering, research, and development, or licensing." 19 U.S.C. 1337(a)(3)(C). There is no requirement under subsection (C) that the complainant actually practice any claim of the patents at issue. *Certain Microsphere Adhesives*, Investigation No. 337-TA-366, Comm. Op. at 24.

The ITC analyzes the domestic-industry requirement for an NPE in two parts: an economic prong that requires "substantial investment" and a technical prong that requires "sufficient nexus" between the "exploitation" activities and the asserted patent(s). *Certain Hybrid Electric Vehicles and Components Thereof*, Investigation No. 337-TA-688, Order No. 5 at 6 (Feb. 26, 2010). The economic prong in connection with NPEs is examined in this article.

'SUBSTANTIAL INVESTMENT'

The definition of "substantial investment" under subsection (C) includes activities such as consulting, accounting, marketing and legal fees. Employment related to licensing may be sufficient to show standing as long as there is at least one revenue-producing license. In one decision, the administrative law judge presiding over the case found that substantial revenue from a license coupled with employees to monitor the revenue was sufficient. *Certain Integrated Circuit Telecommunication Chips and Products Containing Same Including Dialing Apparatus,* Investigation No. 337-TA-337, ID at 98 (March 3, 1993). Similarly, the costs associated with obtaining four licensing agreements, two of which resulted from prior litigation, and the employment of five individuals was also found to be sufficient. *Certain Digital Satellite System (DSS) Receivers and Components Thereof,* Investigation No. 337-TA-392, ID at 8-12 (Oct. 20, 1997).

In *Certain Digital Processors and Digital Processing Systems,* Investigation No. 337-TA-559, ID at 97 (May 11, 2007), the administrative law judge found that an NPE's operations, including investments in employment and technology consultants for a patent portfolio, created a "technology licensing business" that satisfied the economic prong. The judge noted that, although the size of the complainant's business was not dispositive, the complainant in this case had expended "millions of dollars" in both successful and unsuccessful attempts to license its patents, resulting in millions of dollars in royalties.

ITC decisions have consistently required more than just litigation expenses. Either a licensing program aimed at providing a licensing stream of income or actual production of a patented product, not a litigation campaign, must exist or be developing at the time of the investigation. *Coaxial Cable Connectors and Components Thereof and Products Containing the Same,* Investigation No. 337-TA-650, Remand ID (May 27, 2010).

In *Certain NAND Flash Memory Devices and Products Containing Same,* Investigation No. 337-TA-553, ID at 120 (Nov. 20, 2006), the administrative law judge found that § 337 required more than just expenses resulting from suits alleging infringement to satisfy the economic prong. The judge concluded that the complainant's broad cross-licenses resulting from litigation settlement agreements did not create a qualifying revenue stream, and thus, without proof of nonlitigation costs, did not prove the existence of a domestic industry. The ITC decided to review the judge's final initial determination in its entirety, but the parties settled prior to the review.

The *complainant in Certain Electronic Devices, Including Handheld Wireless Communications Devices,* Investigation No. 337-TA-667, ID (Oct. 15, 2009), relied on both the licensee's substantial investment and its own litigation expenses to satisfy the domestic-industry requirement. Here, the administrative law judge found a domestic industry based solely on the licensee's investments, and ignored the complainant's own litigation expenses. Id. The ITC decided not to review the administrative law judge's initial determination on the basis of the parties' settlement agreements.

In *Coaxial Cable,* the administrative law judge held that the complainant's expenditure of $27,506 and some portion of $14,858 in litigation activities that resulted in a license satisfied the economic prong. The ITC reversed that determination and explained that licensing efforts, including litigation and settlement negotiation costs, would be relevant only if they took place before filing the investigation and were proven to be related to licensing and the asserted patent. *Coaxial Cable,* Comm. Op. at 43-44, 51-54 (April 10, 2010). On remand, the administrative law judge found that the litigation activities alone were insufficient to satisfy the economic prong because the complainant did not have an established licensing program and had not sent cease-and-desist letters prior to the patent infringement litigations. No. 337-TA-650, Remand ID (May 27, 2010).

In contrast to the above cases, in *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes, and Products Containing the Same,* Investigation No. 337-TA-640, ID at 11 (May 8, 2009), the complainant's legal fees under a contingent-fee agreement were several million dollars. The administrative law judge found that the economic prong was satisfied in this case because the fees were substantial for an individual patent owner, a Columbia University professor. Subsequent briefing, however, led the ITC to issue a notice of intent to review the decision, but this investigation terminated before the review.

The ITC recently revisited the applicability of litigation activities to satisfy the economic prong. *Certain Video Game Systems and Controllers,* Investigation No. 337-TA-743, Comm. Op. (April 14, 2011). Although the complainant admitted that it never attempted to license its patents, the ITC found that it could still establish a domestic industry based on prior litigation expenses because the litigation was consistent with its efforts to bring a new product to market before the release of an infringing product. The ITC distinguished this type of litigation activity from "revenue-driven" litigation activities that simply seek to derive revenue from an existing product.

Although subsection (a)(3)(C) of § 337 appears to make the ITC a viable forum for NPEs, to date litigation expenses themselves have not been sufficient to satisfy the domestic-industry requirement. NPEs must prove that their overall strategy and related expenses pertain to obtaining licenses prior to filing a complaint.

The requirements for an NPE to establish domestic industry in the ITC based on licensing activities is still evolving. On April 18, the ITC requested supplemental briefing and invited public comments on this issue. See *Certain Multimedia Display And Navigation Devices and Systems,* Investigation No. 337-TA-694.

Kenneth B. Herman and David S. Chun are New York-based partners in Ropes & Gray's intellectual property litigation group. Herman has been litigating patents and other intellectual property for more than 40 years. Chun's practice focuses on patent infringement and trade secrets misappropriation litigations. Diana Santos is a New York-based associate in that group.