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Recent Developments At The ITC

Law360, New York (May 08, 2009) -- The U.S. International Trade Commission has long been an attractive venue for litigating patent disputes due to the advantages of this forum, such as the fast pace and relatively short duration of cases brought there under Section 337 of the Tariff Act of 1930.

Recent developments have altered the landscape for Section 337 actions, increasing the appeal of the ITC for some parties and adding additional considerations for others contemplating the ITC.

These recent developments are important both for IP owners who may file in the ITC and potential respondents in Section 337 actions. An overview of noteworthy developments follows.

Nonpracticing Entities Are Increasingly Filing Section 337 Cases at the ITC

As “rocket docket” U.S. district courts offering rapid progress to trial have dwindled and some district courts have become more restrictive on venue grounds, nonpracticing entities appear to be increasingly filing Section 337 actions at the ITC.

But the ITC can be challenging for nonpracticing entities, particularly given that one of the requirements for Section 337 actions is that the complainant show a “domestic industry” exists in the United States for the technology covered by the patent or other intellectual property rights alleged to be infringed.

Traditionally, although the “domestic industry” requirement did not completely bar nonpracticing entities from filing Section 337 cases, many of these patent holders pursued enforcement actions in U.S. district courts instead of the ITC.

Recently however, a number of Section 337 cases have been filed by nonpracticing entities which will likely test the limits of the domestic industry requirement.

The ITC's domestic industry requirement has an economic prong and a technical prong. The economic prong is satisfied when there is a (a) "significant" investment in plant and equipment; (b) "significant" employment of labor or capital; or (c) "substantial" investment in the exploitation of the right, including engineering R&D or licensing. 19 U.S.C. §1337(a)(3).

The technical prong looks at whether the alleged domestic activity relates to the patent(s)-at-issue. The recent trend in Section 337 cases has been to recognize relatively lower levels of economic activity as satisfying this requirement, and substantial licensing activity for the asserted patent has been recognized as sufficient. In *re* Semiconductor Chips Inv. No. 337-TA-432 (2002) and *In re* Certain Digital Satellite System Receivers Inv. No. 337-TA-392 (1997).

In fact, Section 337 was amended in 1988 to specify that research and development and licensing are types of economic activity that can satisfy the domestic industry requirement.

Two nonpracticing entities have filed Section 337 cases recently that could push the boundaries of the existing threshold for showing domestic industry. Saxon Innovations LLC of Tyler, Texas filed two Section 337 complaints asserting patents relating to cellular telephone technology. See Docket No. 2653 and Inv. No. 337-TA-667.

Gertrude Neumark Rothschild of Hartsdale, N.Y. — a Professor Emerita at Columbia University — also recently filed a complaint naming six potential respondents that are allegedly infringing her patents relating to LED chips. See Docket No. 2655.

Professor Rothschild filed an earlier complaint at the ITC in February, 2008, against other respondents but relating to the same patent. See Inv. No. 337-TA-640.

As noted above, using licensing activities to satisfy the domestic industry requirement is nothing new. For example, in *Semiconductor Chips*, and *Digital Satellite System Receivers*, the ITC found that the nonpracticing entities satisfied the domestic industry requirement because of existing licenses on the patented technology and substantial royalty streams from those licenses.

Both Saxon and Professor Rothschild appear to differ from prior complainants at the ITC who relied on licensing to prove domestic industry. Saxon has no domestic manufacturing, does not sell any products and provides no services related to the patented technology.

Instead, Saxon "[f]ocuses ... on acquiring, licensing and enforcing patented technology." But what distinguishes Saxon the most from past nonpracticing entities at the ITC is that, according to its complaint, while Saxon "routinely engages in licensing discussions," it apparently has not yet actually licensed any of its patents, including the patents-in-suit.

With respect to Professor Rothschild, while she has stated in her complaint that she has enforced and licensed the rights to the patent-at-issue, she does not appear to have any employees other than herself, or offices or other facilities to support a domestic industry of licensing.

The lack of employees and infrastructure could be an issue in light of the “significant” and “substantial” activities required to satisfy the economic prong of the domestic industry requirement. §337(a)(3).

These filings could represent a rising tide of nonpracticing entities at the ITC. Coupled with *eBay Inc. v. MercExchange LLC*, 126 S. Ct. 1837 (2006), which makes it unlikely if not impossible for nonpracticing entities to obtain injunctive relief in district courts, the ITC may see a continued influx of Section 337 filings by these types of entities.

Another potential factor that could increase the appeal of the ITC to nonpracticing entities is the current pending patent reform legislation in Congress, which could significantly limit damages that would be available under the reasonable royalty measure of damages in U.S. district courts.

While the ITC cannot assess damages, its remedy of an exclusion order would remain a powerful threat.

The Federal Circuit’s Ruling In the Kyocera Case Clarified the Scope of Limited Exclusion Orders For Downstream Products

The Federal Circuit’s recent decision in *Kyocera Wireless Corporation v. International Trade Commission* has already impacted the way practitioners handle Section 337 investigations.

Most notably, in *Kyocera* the Federal Circuit ostensibly limited the scope of one of the ITC’s typical remedies — the limited exclusion order (“LEO”) — by ruling that an LEO may not bar the importation into the United States of downstream products that incorporate infringing components by companies that were not a party to the underlying ITC investigation.

In *Kyocera* the Federal Circuit held that the ITC only has the statutory authority to issue a remedy that prevents the importation of downstream products by nonparty manufacturers through a general exclusion order (“GEO”), which requires a higher showing of proof by the complainant.

This holding is an apparent reversal of precedent that had previously allowed the ITC to issue LEOs, in certain instances, that prohibited the importation of downstream products into which the infringing goods were incorporated, even when the manufacturers of the downstream products were not parties to the investigation.

There still exists some uncertainty regarding the full impact of the Kyocera decision.

In particular, the ITC has subsequently stated that it does not view the Federal Circuit's opinion in *Kyocera* as "affecting the issuance of LEOs that exclude infringing products made by respondents found to be violating Section 337, but imported by another entity." *In re Certain GPS Devices Inv. No. 337-TA-602*, Comm'n Op. at 17 n.6.

In any event, as a result of *Kyocera* complainants will undoubtedly need to increase the scope of prefiling investigations to identify not only the companies making the infringing goods but also to determine if there are any companies importing downstream products that incorporate the infringing goods.

The *Kyocera* decision also already appears to have resulted in complainants naming more respondents in complaints to try to secure more comprehensive relief from infringement. See *Inv. No. 337-TA-664* (naming 33 respondents); *Inv. No. 337-TA-661* (naming 17 respondents).

Alternatively, complainants may also seek to obtain a GEO — a broader exclusionary remedy that necessitates a higher standard of proof.

Foreign-based Companies Have Continued to File Section 337 Cases at the ITC

While the notion that the ITC is reserved for U.S. companies has been laid to rest for some time, the trend of foreign companies filing Section 337 cases using the ITC affirmatively continues.

In an era where many foreign companies have sufficient activity in the U.S. to establish domestic industry, the ITC is now more than ever a tool for foreign companies to prevent competitors, including U.S. companies, from importing goods into the U.S.

As of the writing of this article, three out of the eight complaints filed in 2009 were filed by foreign companies: LG Electronics (Korea), Samsung Electronics (Korea) and Avago Technologies (Singapore).

While 2008 saw a slight dip in foreign complainants (approximately 16 percent), in 2007 over 25 percent of the complaints were filed by foreign companies.

Samsung in particular has been active at the ITC, filing three Section 337 complaints since the start of 2007: Docket No. 2651 (digital cameras) and *Inv. Nos. 337-TA-631* (LCD devices) and -607 (semiconductors).

Other Asian companies are also active as complainants at the ITC, including Sumitomo Chemical Company, (337-TA-635), Sharp Corporation (337-TA-634), Acer Inc. (337-TA-618), and Toshiba Corporation (337-TA-603, -592). European companies also have

appeared as complainants, including Qimonda AG (337-TA-665) and Nokia Corporation (337-TA-614).

The increase in foreign complainants is certainly due in part to the fact that corporations are becoming increasingly multinational with production facilities and/or research and development in the United States (domestic industry).

Also, the global nature of today's economy has resulted in more competition through imports by other foreign companies and by U.S. companies. Foreign companies may also view the ITC as a fair (and perhaps favorable) alternative to district court juries.

An Increase In ALJs

As the ITC continues to be popular, it is allocating resources to handle its case load at the same fast pace as before. The ITC has historically had four administrative law judges ("ALJs").

In 2008, the ITC added two more ALJs: Judge Robert K. Rogers and Judge E. James Gildea. Judge Rogers was most recently a Supervisory ALJ at the Office of Medicare Hearings and Appeals and also served as an ALJ at the Federal Energy Regulatory Commission. Judge Gildea was most recently an ALJ at the Social Security Administration.

In addition, the ITC appointed Judge Paul J. Luckern, the longest-serving and most experienced ALJ handling Section 337 investigations, as the Chief ALJ.

Judge Luckern has an extensive background in patent law, both in public service — as an IP litigator at the Department of Justice and an Examiner at the PTO — and in private practice.

These measures appear to position the ITC and its ALJs well to continue to handle Section 337 cases rapidly and efficiency.

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