Client Alert.

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ITC Leaves Door Open to Non-Practicing Entities

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The International Trade Commission ("ITC") recently held that litigation expenses may, under certain circumstances, count toward satisfying the economic prong of the domestic industry requirement for Section 337 cases, provided there is some showing of nexus with the patents in suit. This leaves the door open for Non-Practicing Entities (*i.e.* patent owners who do not manufacture the patented article) to meet the domestic industry requirement and use the ITC to enforce U.S. patents, provided certain litigation expenses satisfy the Commission's new standards.

The economic prong of the domestic industry requirement, contained in19 U.S.C. § 1337(a)(3)(A), (B), and (C), can be satisfied through any one of three criteria: (A) a significant investment in plant and equipment; (B) a significant employment of labor or capital; or (C) a substantial investment in the exploitation of the article protected by the patent, including engineering, research and development, or licensing. *See Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468, Initial Determination at 342, 2006 WL 1831891 (U.S.I.T.C., Jan 29, 2003) (stating that the use of the disjunctive term "or" means that a complainant need only satisfy any one of the three criteria in order to satisfactorily demonstrate the existence of a domestic industry); *Certain Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, Commission Notice at 18, 1992 WL 813952 (U.S.I.T.C. Oct 31, 1992) (stating that a complainant need only prove the existence of one of these factors to establish a domestic industry).

In 1988, Congress amended Section 337 to include the three specific and separate factors noted above (the "1988 Amendments") in order to relax the domestic industry requirement. Up until the 1988 Amendments, the domestic industry requirement usually was satisfied by investment in U.S. manufacturing. Specifically, the language adopted for the first two factors (*i.e.*, significant investment in plant and equipment or significant employment of labor or capital) was drawn from pre-existing Commission case law.

However, the third factor (*i.e.*, substantial investment in the exploitation of the article through means such as engineering, research and development, or licensing) introduced a new means by which a complainant could satisfy the economic prong. The 1988 Amendments extended the law beyond the traditional requirements for proving domestic industry, and the third factor of Section 337(A)(3)—subsection (C)—is much broader than either subsection (A) or (B). According to Congress:

> The third factor [requiring substantial investment in the exploitation of the article protected by the patent, including engineering, research and development, or licensing], however, goes beyond the ITC's recent decisions in this area. This definition does not require actual production of the article in the United States if it can be demonstrated that substantial investment and activities of the type enumerated are taking place in the United States.

S. Rep. No. 71, 100th Cong., 1st Sess., at 129 (1987) (Senate Report).

Subsection (C), in particular, has been held to include within its scope a wide range of activities, not limited to the

enumerated examples of engineering, research and development, or licensing. *See Certain Digital Televisions and Products Containing Same and Methods of Using Same*, Inv. No. 337-TA-617, Initial Determination at 151-60 (Nov. 2008) (domestic industry based on aftermarket services); *Certain Diltiazem Hydrochloride and Diltiazem Preparations*, Inv. No. 337-TA-349, U.S.I.T.C. Pub. No. 2902, Initial Determination at 139 (Feb. 1995) (domestic industry based on product finishing, quality control and packaging of imported bulk diltiazem) (Comm'n determination not to review); *Certain Cube Puzzles*, Inv. No. 337-TA-112, U.S.I.T.C. Pub. 1334, Commission Action and Order (1983) (domestic industry based on quality control, repair, and packaging of imported cube puzzles); *Certain Plastic Fasteners and Processes for the Manufacture Thereof*, Inv. No. 337-TA-248, Initial Determination (June 1987), aff'd, Comm'n Op. at 49-51 (1987) (domestic industry based in part on distribution and warehousing); *Certain Airtight Cast Iron Stoves*, Inv. No. 337-TA-69, U.S.I.T.C. Pub. 1126 (1981) (domestic industry based on repair and installation activities associated with imported stoves). Until recently, it remained unclear whether litigation activities should be included in subsection (C) and, if so, what types of litigation activities would count.

In *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Inv. No. 337-TA-650, Comm'n Op. (Apr. 14, 2010) (Public Version), the ITC held that "litigation activities (including patent infringement lawsuits) may satisfy [Section 337(a)(3)(C)] if a complainant can prove that these activities are related to licensing and pertain to the patent at issue, and can document the associated costs." The ITC specifically noted that it was not addressing litigation activities related to engineering or research and development (subsections (A) and (B) of the domestic industry requirement). *See id.* at 44, n.13, and 46 ("the question before the Commission is whether litigation activities that are related to ***licensing*** may be considered exploitation.") (emphasis added). Interestingly, the issue came before the Commission because the Office of Unfair Import Investigations (OUII), not any respondent, petitioned for review of the economic prong of the domestic industry requirement.[1]

In *Coaxial Cable Connectors*, the ITC first emphasized that patent infringement activities alone would ***not*** count toward the domestic industry requirement if they were unrelated to one of the types of activities (engineering, research and development, and licensing) enumerated in the statute. To hold otherwise, said the ITC, would set the bar for establishing a domestic industry so low that it "would render the domestic industry requirement a nullity." The ITC evaluated the legislative history of section 337(a)(3)(C) and concluded that the types of licensing activities that Congress contemplated could satisfy section 337(a)(3)(C) include (1) licensing activities that "bring a patented technology to market," and (2) licensing activities that "solely derive revenue" from existing production. *See id.* at 49-50.

The ITC stressed that, in order for litigation costs related to licensing to apply toward subsection (C) of the domestic industry requirement, a complainant must "prove that each asserted activity is related to licensing" *and* must also show that the "licensing activities pertain to the particular patent(s) at issue." *Id.* at 50. The ITC provided concrete examples of such activities—"drafting and sending cease and desist letters, filing and conducting a patent infringement litigation, conducting settlement negotiations, and negotiating, drafting, and executing a license"—as long as the complaint can clearly link each activity to licensing the asserted patent(s). *Id.* at 50-51.

In *Coaxial Cable Connectors*, the complainant argued that its patent infringement litigation costs should be considered under subsection (C) of the domestic industry requirement because the litigation resulted in a license. The complainant relied predominantly on a prior patent infringement litigation before another forum that resulted in $1.35 million in damages and an injunction. The ITC noted that the record was not clear as to what portion of the litigation costs were

[1] The patent at issue was only asserted against defaulting respondents.

associated with activities related to licensing rather than related to seeking an injunction. The ITC remanded the case for further proceedings, providing the complainant an opportunity to show what litigation activities were related to licensing of the asserted patent, and the costs incurred for any such activity.

The remand hearing is scheduled to take place on April 27, 2010. *Coaxial Cable Connectors*, 337-TA-650, Order No. 31 (Apr. 14, 2010).

Another Issue to Watch at the ITC: Another "hot topic" currently percolating at the ITC is how the ITC applies issue and claim preclusion in Section 337 cases. There are at least two cases where the Commission has addressed or will shortly address claim and/or issue preclusion. *See Hybrid Vehicles*, Inv. No. 337-TA-688 and *Certain Products and Pharmaceutical Compositions*, Inv. No. 337-TA-568 in which the Commission has posed a series of questions regarding issue preclusion.

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