

# IP QUARTERLY

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## SUPREME COURT HEARS SIX PATENT CASES THIS TERM

By Steve Keane

The Supreme Court heard a record-breaking six patent cases in the 2013–2014 Term. By contrast, the high court heard only three patent cases in each of the three previous Terms. While hearing even three patent cases in a single term is high by historical standards, hearing six patent cases is unprecedented and reflects the Court's increasing interest in patent law. An overview of each of the patent cases from the current Term appears below.

### *Alice Corporation Pty. Ltd. v. CLS Bank International*

On June 19, 2014, the Court decided *Alice v. CLS*, which concerns the scope of patentable subject matter under 35 U.S.C. § 101. This is the same issue that the Court addressed in *Bilski v. Kappos* (2010), *Mayo v. Prometheus* (2012), and *Association for Molecular Pathology v. Myriad* (2013). Those cases and others establish that § 101 contains an implicit exception for “laws of nature, natural phenomena, and abstract ideas.” In a unanimous decision authored by Justice Thomas, the *Alice* Court follows the *Mayo* framework for evaluating the “abstract ideas” exception. Using a two-step approach, courts should determine: (1) whether the claim is directed to an abstract idea; and if so, (2) whether there are claimed elements that “transform the nature of the claim into a patent-eligible application.” Applying this test, the Court held that the claims-at-issue were not patent-eligible.

The patentee, Alice, alleged that CLS Bank infringed method, computer-readable medium, and system claims in four patents. The claimed subject matter relates to a computerized trading platform for exchanging obligations by way of a trusted third party to eliminate settlement risk for the exchanging parties. In May 2013, sitting *en banc*, the Federal Circuit affirmed, in a *per curiam* decision, the lower court's holding that the claims are directed to an abstract idea rather than to patent-eligible subject matter. The *en banc* court, however, issued seven separate opinions, none of which reflected a majority of the court's views.

Despite a fractured Federal Circuit, the Justices reached a unanimous decision, affirming the holding that Alice's claims are drawn to a patent-ineligible abstract idea. The Court held that Alice's claims do no more than “simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer,” which is insufficient to transform the abstract idea into patent-eligible subject matter.

In a concurring opinion, Justice Sotomayor, joined by Justices Ginsburg and Breyer, stated her view that “any claim that merely describes a method of doing business does not qualify as a process under § 101.” Under this theory, the Court would not need to

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apply the “abstract idea” test, because business method claims would not fall within one of the four enumerated bases for patent protection under § 101.

Of the six patent cases this Term, *Alice* is the only case where the Supreme Court affirmed the holding of the Federal Circuit.

### ***Nautilus, Inc. v. Biosig Instruments, Inc.***

On June 2, 2014, the Court decided *Nautilus v. Biosig*, which concerns the definiteness standard for patent claims under 35 U.S.C. § 112. Section 112 requires a patent specification to “conclude with one or more claims that particularly point[] out and distinctly claim[] the subject matter which the inventor . . . regards as the invention.” In a unanimous opinion authored by Justice Ginsburg, the Court held that a patent is invalid for indefiniteness “if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.” The holding overrules the Federal Circuit’s “insolubly ambiguous” standard and lowers the bar for invalidating patents for indefiniteness.

The claim at issue is directed to a heart-rate monitor for use with an exercise apparatus. The claim recites pairs of electrodes that are mounted in a “spaced relationship” with each other. The district court held the claim indefinite because of ambiguity in what “spaced relationship” means. The Federal Circuit reversed, holding the claim not insolubly ambiguous, because the patent “discloses certain inherent parameters of the claimed apparatus, which to a skilled artisan may be sufficient to understand the metes and bounds of ‘spaced relationship.’”

Vacating the Federal Circuit decision, the Supreme Court concluded that “[t]o tolerate imprecision just short of that rendering a claim ‘insolubly ambiguous’ would diminish the definiteness requirement’s public-notice function and foster the innovation-discouraging ‘zone of uncertainty’ . . . against which this Court has warned.” The Court remanded the case for a determination of whether the “spaced relationship” claim satisfies the new “reasonable certainty” standard.

According to the Court, the new standard will counteract the “powerful incentives to inject ambiguity” into patent claims. The requirement of “reasonable certainty” will likely drive an increase in the number of definiteness challenges to existing patents.

### ***Limelight Networks, Inc. v. Akamai Technologies, Inc.***

On June 2, 2014, the Court also decided *Limelight v. Akamai*, which presented the question of whether a defendant may be held liable for inducing infringement under 35 U.S.C. § 271(b) where multiple entities collectively perform all the steps of a claim, but no single entity performs every step — i.e., “divided infringement.” In an opinion

authored by Justice Alito, the Court held unanimously that a defendant is not liable for inducing infringement under § 271(b) “when no one has directly infringed the patent under § 271(a) or any other statutory provision.” In so holding, the Court overturned a short-lived attempt by the Federal Circuit to decouple induced-infringement liability from the prerequisite of direct-infringement liability.

In an *en banc* decision issued in August 2012, the Federal Circuit held that defendant Limelight could be liable for induced infringement of Akamai’s method claim by practicing several of the steps itself and inducing others to perform the remaining steps. The Federal Circuit’s decision significantly expanded a patent owner’s ability to establish liability in divided infringement cases, as the patent owner was not required to show that a single entity directly infringed in order to prove inducement.

The Supreme Court reversed the Federal Circuit, holding that “[b]ecause Limelight did not undertake all steps of the ’703 patent and cannot otherwise be held responsible for all those steps, respondents’ rights have not been violated.” The Court relied on *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961), for the settled proposition that “inducement liability may arise ‘if, but only if, [there is] . . . direct infringement,’” and concluded that the Federal Circuit’s standard “would require the courts to develop two parallel bodies of infringement law: one for liability for direct infringement, and one for liability for inducement.”

Although the question presented concerned inducement under § 271(b), Akamai had cross-petitioned the Court seeking to overturn the Federal Circuit’s rule establishing that direct infringement under § 271(a) requires all steps of a method claim to be performed by a single entity. The Court denied Akamai’s cross-petition and declined to reach that issue. The Court noted, however, that on remand, “the Federal Circuit will have the opportunity to revisit the § 271(a) question if it so chooses,” perhaps foreshadowing a *Limelight II* on that issue.

### ***Octane Fitness, LLC v. Icon Health & Fitness, Inc. / Highmark, Inc. v. Allcare Health Management Systems, Inc.***

On April 29, 2014, the Supreme Court decided *Octane Fitness* and *Highmark*, both of which involve the award of attorneys’ fees in patent cases. In unanimous opinions delivered by Justice Sotomayor, the Court relaxed the standard for awarding such fees and articulated the proper standard of appellate review.

In both cases, the patentee lost its infringement case on summary judgment, and the accused infringer sought attorneys’ fees under 35 U.S.C. § 285, which states that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” In *Octane Fitness*, the Federal Circuit affirmed the district court’s determination that the case was

not “exceptional,” relying on its two-part *Brooks Furniture* test, under which, absent some material inappropriate conduct, a determination of exceptional case depends on whether the litigation was (i) objectively baseless and (2) brought in subjective bad faith. In *Highmark*, a divided Federal Circuit undertook a *de novo* review of the district court’s exceptional-case finding and reversed that finding without deference.

The Supreme Court sided with petitioners in both cases. In *Octane Fitness*, the Court overruled *Brooks Furniture*, concluding that the Federal Circuit’s standard for an award of fees was “unduly rigid.” The Court held that “an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” The Court reversed and remanded the case for consideration under this standard. The *Octane Fitness* decision leaves it to district courts to “determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.”

In *Highmark*, the Supreme Court vacated the Federal Circuit decision and held that the statutory text compelled that “an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination.”

The *Octane Fitness* decision ensures that the statutory text governs attorneys’ fees in patent cases, while the *Highmark* decision ensures that a district court decision to award fees is reviewed for an abuse of discretion. As a result of these cases, courts will likely see an increased number of motions for attorneys’ fees at the conclusion of litigation, and the threat of attorneys’ fees may become a more meaningful deterrent to filing meritless patent suits.

### ***Medtronic, Inc. v. Mirowski Family Ventures, LLC***

On January 22, 2014, the Supreme Court decided the first patent case of the Term, *Medtronic v. Mirowski*. In an opinion authored by Justice Breyer, the Court held unanimously that “when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee.”

The case arose from a license agreement under which Medtronic, in exchange for royalty payments, received a license to certain Mirowski patents relating to implantable heart stimulators. In 2007, Mirowski sent notice to Medtronic asserting that several of Medtronic’s new products practiced patents covered by the licensing agreement. In response, Medtronic brought a declaratory judgment action in district court, seeking a declaration that Medtronic’s devices did not infringe any valid claim of the asserted patents. Per the license agreement, Medtronic continued to make royalty payments during the pendency of the lawsuit.

## RECENT MOFO IP AWARDS



The Morrison & Foerster Intellectual Property Group was recognized as one of the top IP practices in the *Chambers USA* 2014 rankings. Sixteen of our IP and technology practitioners were recommended among the best in the nation.



The Morrison & Foerster Intellectual Property Group was recognized as one of the top IP practices in the *Chambers Global* 2014 rankings. Thirteen of the Intellectual Property group attorneys were recommended among the best across the United States, Japan, China, and the UK.



BTI Consulting Group named the Morrison & Foerster Intellectual Property Group among its 12 IP VIPs, which it describes as “firms that earn recognition from multiple clients in all areas of IP: complex IP litigation, complex patent work, routine IP litigation, and routine patent work.”

After a bench trial, the district court upheld the validity of the patents but entered judgment in Medtronic’s favor on the issue of infringement. The court held that Mirowski, as patentee, bore the burden of proof on infringement and failed to carry that burden. The Federal Circuit vacated the noninfringement holding, concluding that the district court had incorrectly allocated the burden of proof. According to the Federal Circuit, when a patentee is a declaratory judgment defendant and is foreclosed from asserting an infringement counterclaim by the continued existence of a license, the party seeking a declaratory judgment of noninfringement bears the burden of persuasion.

The Supreme Court reversed, holding that even in the circumstance of a continued license, “the burden of persuasion [for infringement] is with the patentee, just as it would be had the patentee brought an infringement suit.” For patent licensors, the Court’s decision highlights the importance of contractual provisions preventing the licensee from filing suit while still maintaining a license. For licensees, the decision affirms their right to file suit for invalidity or noninfringement without terminating the license. It also ensures that licensees will not be placed at a procedural disadvantage in the litigation because of that choice.

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With half of the patent opinions from this Term just days or weeks old, it is not yet clear which decisions will have the broadest impact on patent practice. The Court’s decision in *Alice* casts doubt on the patentability of many business method patents. *Nautilus* will likely spur a greater number of indefiniteness challenges, while *Octane Fitness* may prompt an increase in motions for attorneys’ fees. Regardless of the aftermath of these particular cases, however, the Supreme Court plainly continues to play an active role in shaping patent law and providing a steady stream of guidance to the Federal Circuit. Moreover, as each of the six decisions from the current Term was unanimous, the Court is clearly striving to speak with a single voice on patent law.

## IS IMPLIED LICENSE THE NEW FAIR USE?

By Craig B. Whitney and Cindy P. Abramson

The implied license defense to copyright infringement has historically taken a back seat to the fair use defense. This is because fair use has long been viewed as the more malleable of the two doctrines, with an amorphous balancing test that courts can readily manipulate to achieve the desired result. By contrast, with its origins in contract law and its focus on the interactions between the parties, the implied license doctrine has been viewed as the narrower defense and thus sparingly used.

Recent copyright decisions, however, suggest a trend toward the more aggressive application of the implied license defense to account for changing industry and social norms. The result is that the doctrine is being applied to circumstances previously unimagined, such as when the defendant has never interacted with and does not even know the copyright owner’s identity.

### Traditional Test for Implied License

As a contract law doctrine, the implied license defense focuses on the parties’ intentions. In particular, when a copyright holder indicates via its interactions that it intended to grant a license to an accused infringer to exploit a copyrighted work, a nonexclusive license will be implied even absent an express license. The Seventh and Ninth Circuits have articulated specific factors for determining whether a copyright holder granted an implied nonexclusive license:

1. A person (the licensee) requests the creation of a work;
2. The creator (the licensor) makes the work and delivers it to the requester; and
3. The licensor intends that the licensee-requestor copy and distribute the work.<sup>1</sup>

While most jurisdictions have adopted this test (known as the “*Effects/Shaver* test”), district and circuit courts alike have struggled to apply it when the parties’ interactions are limited or nonexistent.

### Inaction as Indication of Intent

Courts have reached different conclusions about whether a plaintiff’s failure to take reasonable steps to prevent unauthorized use gives rise to an implied license.

In *Field v. Google, Inc.*,<sup>2</sup> the plaintiff, an author, had included copies of his works on his website.<sup>3</sup> Google cached an image of the author’s website and the works on it. The author subsequently brought a copyright infringement action alleging that, by displaying his works in search results, Google had violated his exclusive rights to reproduce and distribute the works.<sup>4</sup> In response, Google submitted evidence that website owners can communicate with search engines to prevent the collection of their data for searching. For example, website owners can place meta-tags on their webpages telling Google’s automated web crawler not to analyze their pages and to exclude them from Google’s search results.<sup>5</sup> The author knew of these industry-standard mechanisms, but elected not to use them.<sup>6</sup>

On Google’s motion for summary judgment, the court held that the plaintiff’s failure to act was “reasonably interpreted as the grant of a license to Google for that use.”<sup>7</sup> The court reasoned that “[c]onsent to use of the copyrighted work need not be



manifested verbally and may be inferred based on silence where the copyright holder knows of the use and encourages it.”<sup>8</sup> The Eastern District of Pennsylvania in *Parker v. Yahoo! Inc.* also held that an implied license existed on similar facts.<sup>9</sup>

In 2013, however, the Southern District of New York refused to apply the rationale of *Field* and *Parker*. The defendant “scraped” the Internet for news stories, including the plaintiff’s, and then sent excerpts from the articles to its newsletter subscribers.<sup>10</sup> The defendant argued that the plaintiff had granted it an implied license by failing to employ an electronic protocol that would have excluded web crawlers.<sup>11</sup> Relying on the traditional test requiring a “meeting of the minds” between the parties for an implied license, the court distinguished *Field* and *Parker* as limited to cached versions of websites.<sup>12</sup>

## Scope of Intent

Courts also have taken a more liberal approach to the scope of the implied license, where it is apparent that the plaintiff intended to grant one.

In *Unclaimed Property Recovery Services, Inc. v. Kaplan*, the plaintiffs claimed to own the copyright in a class action complaint that they had authored. After they fired their attorney in the class action, he filed an amended complaint based on the original complaint on behalf of other class members.<sup>13</sup> The plaintiffs argued that, even if they had granted the defendant an implied license by permitting him to file the original complaint and accompanying documents, they had revoked it when they fired him.<sup>14</sup> The district court disagreed, instead holding that the attorney had an irrevocable implied license to file an amended version of the complaint. The district court reasoned that there was adequate consideration for the implied license, i.e., the attorney’s representation of the plaintiffs. The district court also explained that the filing of the amended complaint fell within the scope of the license, as it was consistent with the defendant’s original retention to represent the class members.<sup>15</sup>

On appeal, the Second Circuit affirmed the district court’s decision, but applied an “authorization” theory to hold that there was no copyright infringement.<sup>16</sup> Specifically, the Second Circuit held that the “authorization granted to any litigating party to use [] documents in a litigation constitutes an irrevocable authorization to all parties to the litigation, **present and future**, as well as to their attorneys and to the court, to use the documents in the litigation thereafter.”<sup>17</sup> The appellate court extended the scope of this authorization to “future” attorneys in the action, even though they may never have interacted with the alleged copyright holder.<sup>18</sup>

Courts also have recently narrowed the scope of an implied license where unusual facts required it.<sup>19</sup> In *Garcia v. Google*, the plaintiff was an actress cast in a minor role, which she believed was an adventure film set in ancient Arabia.<sup>20</sup> The

filmmakers then used footage of the actress, with portions dubbed over, in an anti-Islamic film. Circulation of the film on the Internet, including on Google-owned YouTube, resulted in significant uproar in certain largely Islamic countries and death threats against the actress.

The actress then unsuccessfully filed suit to have YouTube take down the video.<sup>21</sup> On appeal, the Ninth Circuit determined that the actress likely owned a copyrightable interest in her role in the film. The court also determined that the actress had granted the filmmakers a broad implied license to use her copyrighted performance, or otherwise her contributions to the film would have “be[en] worthless or of ‘minimal value.’”<sup>22</sup> The Ninth Circuit nevertheless held that, because the resulting film was so radically different from anything that she could have imagined, the use exceeded the bounds of any such license and thus was unauthorized.<sup>23</sup>

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The implied license doctrine is plainly receiving greater attention from courts than in the past, with courts increasingly less reluctant to apply and even reinvent the doctrine when necessary. In view of the developing case law, defendants in copyright infringement actions should be sure to consider the doctrine as a defense along with the more common fair use doctrine.

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1 *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996) (citing *Effects Assocs. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir. 1990)).

2 412 F. Supp. 2d 1006 (D. Nev. 2006).1990.

3 *Id.* at 1110.

4 *Id.* at 1119.

5 *Id.* at 1112-13, 1116.

6 *Id.* at 1116.

7 *Id.*

8 *Id.*

9 *Parker v. Yahoo! Inc.*, No. 07-2757, 2008 U.S. Dist. LEXIS 74512, at \*15-16 (E.D. Pa., Sept. 25, 2008).

10 *Associated Press v. Meltwater U.S. Holdings, Inc.*, 931 F. Supp. 2d 537, 541 (S.D.N.Y. 2013).

11 *Id.* at 564.

12 *Id.* at 562, 564.

13 *Unclaimed Prop. Recovery Serv., Inc. v. Kaplan*, No. 11-cv-1799, 2012 U.S. Dist. LEXIS 135094, at \*2-3 (E.D.N.Y. Sept. 20, 2012).

14 *Id.* at \*11-12.

15 *Id.* at \*12-14.

16 *Unclaimed Prop. Recovery Serv., Inc. v. Kaplan*, 734 F.3d 142, 147 n.2 (2d Cir. 2013).

17 *Id.* at 143 (emphasis added).

18 *Id.* at 147 n.2.

19 *Garcia v. Google, Inc.*, \_\_\_ F.3d \_\_\_, No. 12-57302, 2014 U.S. App. LEXIS 3694 (9th Cir. Feb. 26, 2014).

20 *Id.* at \*17-18.

21 *Id.* at \*3-4.

22 *Id.* at \*16 (quoting *Effects Assocs.*, 908 F.2d at 559).

23 *Id.* at \*17-18.

# NAVIGATING THE MURKY WATERS OF THE DOMESTIC INDUSTRY REQUIREMENTS IN THE INTERNATIONAL TRADE COMMISSION

By John A. Trocki, III

Around 2000 B.C., the Minoans were among the first civilizations to navigate using the stars. Their ability to navigate by the stars allowed them to sail at night and to leave the sight of land, enabling them to cross the Mediterranean and explore and open trade routes with Egypt, Greece, Cyprus, and possibly even Israel.<sup>1</sup>

As navigation at night presented an obstacle that the mariners of ancient Crete were able to overcome, recent decisions from the Federal Circuit and the International Trade Commission have made the sometimes-murky domestic industry requirement at the ITC easier to navigate. These decisions provide additional guidance on the domestic industry requirement, particularly in the context of using patent licensing efforts to establish a domestic industry, and allow the experienced ITC practitioner to cruise safely through the ITC's version of Scylla and Charybdis: the economic and technical prongs of the domestic industry analysis.

## The Domestic Industry Requirement at the ITC

Section 337 requires a complainant to establish that an industry relating to the articles protected by the patent exists or is in the process of being established in the United States, commonly referred to as the “domestic industry” requirement.<sup>2</sup> “The date for determining whether an industry exists is the filing date of the complaint.”<sup>3</sup> The complainant bears the burden of proving the existence of a domestic industry.<sup>4</sup>

The domestic industry requirement is divided into two prongs: (1) an economic prong and (2) a technical prong.<sup>5</sup> Domestic industry allegations must be specifically tied to the product(s) asserted to practice the patents, rather than generally referencing the investments related to all products.<sup>6</sup> “The technical prong requires that the articles relied on for a domestic industry be covered by the asserted patent while the economic prong requires that the specified activities in the United States exist with respect to the articles identified by the technical prong.”<sup>7</sup>

To satisfy the economic prong of the domestic industry requirement, a complainant must establish by a preponderance of the evidence that an industry in the United States exists or is in the process of being established with respect to the articles protected by the patent by showing.<sup>8</sup>

(A) significant investment in plant and equipment (“Subsection A”);

(B) significant employment of labor and capital (“Subsection B”); or

(C) substantial investment in its exploitation, including engineering, research, and development, or licensing (“Subsection C”).

The requirements under these subsections are different from each other. To establish a domestic industry under § 1337(a)(3)(A) or (B), “a complainant’s investment in plant and equipment or employment of labor or capital must be shown to be ‘significant’ in relation to the articles protected by the intellectual property right concerned.”<sup>9</sup> In contrast, a domestic industry under §1337(a)(3)(C) requires “substantial investment” in “exploitation” of the patent. Therefore activities asserted to satisfy Subsection (C) must have a nexus to the asserted patents.<sup>10</sup> Under all three prongs, however, “to satisfy the economic prong, it is necessary for the complainant to establish, *inter alia*, that the asserted investment relates to the articles protected by the patent.”<sup>11</sup>

## Licensing Activity as a Basis to Establish Domestic Industry

Prior to 1988, the Commission interpreted Section 337 “to require proof of the existence (or prospect) of a domestic industry that was manufacturing the articles protected by intellectual property before the Commission could bar the import of infringing products.”<sup>12</sup> In 1988, Congress amended Section 337 to expand the scope of foreign goods subject to exclusion through proceedings at the Commission by removing the requirement that the production or manufacture of the goods at issue be in the United States.<sup>13</sup> Congress expressly indicated that a significant investment in plant and equipment (19 U.S.C. § 1337(a)(3)(A)) or the significant employment of labor or capital (19 U.S.C. § 1337(a)(3)(B)) satisfies the domestic industry requirement. That legislation also expanded the scope of the domestic industry by adding 19 U.S.C. § 1337(a)(3)(C), which provided for the satisfaction of the domestic industry requirement through substantial investment in the exploitation of the asserted patent, including engineering, research, and development, or licensing.

## Recent Developments in the Domestic Industry Analysis Related to Licensing

It has long been understood that complainants seeking to establish a domestic industry under Subsections A or B must also establish the technical prong, e.g., that articles exist in the relevant domestic industry practicing at least one claim of the asserted patent, as part of the domestic industry requirement at the ITC.<sup>14</sup> But Commission decisions did not require a

complainant asserting a domestic industry under Subsection C to establish the technical prong, instead only requiring that complainant establish that there be a sufficient nexus between the Subsection C activity and the asserted patent.<sup>15</sup>

## **Computers and Computer Peripheral Devices, 337-TA-841**

In January 2014, the Commission issued its decision in *Computers and Computer Peripheral Devices*, 337-TA-841. In that investigation, the complainant, Technology Properties Limited, LLC (TPL), asserted six patents against 21 respondents. In support of its allegations regarding the satisfaction of the domestic industry requirement, TPL claimed that it had made “substantial investments in the exploitation of the Asserted Patents through its significant licensing activities.”<sup>16</sup>

After the hearing, the ALJ’s initial determination found that TPL’s licensing activities satisfied Subsection C,<sup>17</sup> despite TPL’s failure to satisfy the technical prong.<sup>18</sup> In reaching that determination, the ALJ stated that “[i]n establishing a domestic industry under § 337(a)(3)(C), the complainant does not need to show that it or one of its licensees is practicing a patent-in-suit.”<sup>19</sup>

The Commission determined to review the ALJ’s Initial Determination in its entirety, and asked the parties to do the following in their briefing:

Discuss, in light of the statutory language, legislative history, the Commission’s prior decisions, and relevant court decisions, including *InterDigital Communications, LLC v. ITC*, 690 F.3d 1318 (Fed. Cir. 2012), 707 F.3d 1295 (Fed. Cir. 2013) and *Microsoft Corp. v. ITC*, Nos. 2012-1445 & -1535, 2013 WL 5479876 (Fed. Cir. Oct. 3, 2103), whether establishing a domestic industry based on licensing under 19 U.S.C. § 1337(a)(3)(C) requires proof of “articles protected by the patent” (*i.e.*, a technical prong). If so, please identify and describe the evidence in the record that establishes articles protected by the asserted patents.<sup>20</sup>

In its opinion, the Commission framed the domestic industry issue as “whether TPL, in alleging the existence of a domestic industry under § 337(a)(3)(C), must demonstrate the existence of articles practicing the asserted patents.”<sup>21</sup> As a result of its consideration of recent Federal Circuit precedent, the Commission held that **a complainant seeking to establish a Subsection C domestic industry through its licensing efforts is required to demonstrate the existence of articles practicing the asserted patents.**<sup>22</sup>

The Commission recognized that its prior practice “had been not to require a complainant to demonstrate for purposes of a licensing-based domestic industry the existence of

protected articles practicing the asserted patents.”<sup>23</sup> But the recent Federal Circuit decisions in *InterDigital v. ITC*,<sup>24</sup> and *Microsoft Corp. v. ITC*<sup>25</sup> swayed the Commission to change that practice, now requiring the satisfaction of the technical prong, in addition to the economic prong, under Subsection C.

## **InterDigital I and II**

The Federal Circuit’s decision in *InterDigital I* arose as an appeal from *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613. In that investigation, the ALJ granted InterDigital’s (IDG) motion for summary determination that it satisfied the economic prong of the domestic industry requirement of § 337(a)(3)(C).<sup>26</sup> After the hearing, the ALJ found no § 337 violation because the accused Nokia handsets did not infringe the asserted patents.<sup>27</sup> The Commission reviewed the initial determination, and affirmed the finding that no § 337 violation took place, but did not review the domestic industry issue.<sup>28</sup> When InterDigital appealed that decision, Nokia intervened to support the noninfringement findings, and also to establish that InterDigital failed to satisfy the domestic industry requirement through its alleged licensing activity.<sup>29</sup>

Nokia argued that IDG did not satisfy the domestic industry requirement because it had not established that there was an industry “relating to the articles protected by the patent and [because] proof of licensing activities alone is not sufficient to satisfy the requirement.”<sup>30</sup> The Federal Circuit disagreed, holding that § 337(a)(3) “makes clear that the required United States industry can be based on patent licensing alone” and does not require that domestically manufactured articles be the subject of those licensing efforts, consistent with long-standing Commission precedent.<sup>31</sup>

Nokia then moved for a rehearing, which was denied, but resulted in the issuance of a panel decision delving further into the domestic industry issues.<sup>32</sup> In its opinion, the Federal Circuit drew a parallel between the requirement that complainants seeking to establish a domestic industry under Subsections A and B are required to establish the technical prong, and the use of identical language – “with respect to the articles protected by the patent” – in Subsection C.<sup>33</sup> The court explained that “[t]his is a classic case for the application of subparagraph C.”<sup>34</sup> InterDigital was a public company that had been engaged in research, development, and engineering relating to CDMA in the U.S. since 1993 and had invested approximately \$7.6 million in salaries and benefits related to that work over that time period, with about \$400 million in licensing revenue from its 3G technology, and had licenses with major manufacturers of wireless devices, including Samsung, LG, Matsushita, Apple, and RIM.<sup>35</sup> The Federal Circuit concluded that the complainant need not manufacture the

product, the product is not required to be manufactured domestically, and:

[A]s long as the patent covers the article that is the subject of the exclusion proceeding, and as long as the party seeking relief can show that it has a sufficiently substantial investment in the exploitation of the intellectual property to satisfy the domestic industry requirement of the statute, the party is entitled to seek relief under section 337.<sup>36</sup>

## Microsoft v. ITC

This Federal Circuit case arose from another ITC investigation, in which the Commission found, *inter alia*, that “Microsoft had not proved that there was a domestic industry relating to articles protected by the patents.”<sup>37</sup> On the domestic industry issue, the Federal Circuit affirmed the Commission’s determination.

The court held that Microsoft had not established that any Microsoft-supported products practiced one of the asserted patents, because although its expert testified that Windows Mobile phones practiced the subject matter of the asserted patent through his analysis of the source code that Microsoft provided to mobile-phone manufacturers, he did not provide any evidence that he had reviewed “specific code actually installed and run on a particular third-party mobile device.”<sup>38</sup> Thus, the Federal Circuit affirmed the ALJ’s decision that Microsoft had not adduced evidence that any articles sold domestically were actually protected by that asserted patent.

The Commission tied these two decisions together in its opinion in *Certain Computers and Peripheral Devices*, Inv. No. 337-TA-841, concluding that “a complainant alleging the existence of a domestic industry under 19 U.S.C. § 1337(a)(3)(C) must show the existence of articles.”<sup>39</sup> Once protected articles have been shown, the complainant must establish substantial investment in the exploitation of the intellectual property right, “including engineering, research and development, or licensing.”<sup>40</sup> Therefore, complainants seeking to establish a domestic industry under Subsection C must now satisfy the technical prong by establishing that domestic articles practice at least one claim of the asserted patent.

## Practice Tips

Complainants seeking to establish a domestic industry under Subsection C will need to satisfy both the economic and technical prongs of the domestic industry analysis. Although the 841 Investigation focused on TPL’s licensing activities, it appears likely that the technical prong requirement should apply to research and development and engineering efforts, the activities at issue in *Microsoft*.

Based on the statements and arguments set forth in *InterDigital I* and *II* and the 841 Commission Opinion, neither the Federal Circuit nor the Commission will be open to respondents’ arguments that would require the domestic manufacture or production of the protected articles.

Thus, although coordination with one’s licensees prior to filing an ITC complaint should be commonplace, the ramifications of the Commission’s decision in the 841 Investigation mandates that complainants establish lines of communication with their licensees prior to filing in order to obtain any evidence complainants need to establish domestic industry. The requirement that complainant establish the technical prong also requires early coordination with technical experts. Moreover, the Commission’s recent institution of the pilot program to have initial determinations regarding domestic industry issues prepared within 100 days of filing<sup>41</sup> in certain investigations makes extensive pre-filing preparation necessary. Of course, this extensive pre-filing preparation by complainants requires respondents to act quickly after the institution of any investigation (if not before) to retain both technical and economic experts, in order to respond thoroughly and efficiently to these potentially dispositive issues.

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1 See, e.g., Carl Waldman and Catherine Mason, *Encyclopedia of European Peoples*, 523-524 (Infobase Publishing, 2006); and Peter E. Blomberg, *On the origins of the modern star map, Mediterranean Archaeology and Archaeometry*, Special Issue, Vol. 6, No. 3, pp. 193-200 (2006).

2 19 U.S.C. § 1337(a)(2) (2012).

3 *Certain Video Game Systems and Controllers (Video Game Systems and Controllers)*, Inv. No. 337-TA-743, Initial Determination, 2011 ITC LEXIS 2566, at \*225.

4 *Certain Methods of Making Carbonated Candy Products*, Inv. No. 337-TA-292, Comm’n Op. at 34-35, USITC Pub. 2390 (June 1991); see also *Certain Semiconductor Chips with Minimized Chip Packaged Size*, 337-TA-605, Initial Determination, 2008 ITC LEXIS 2257 at \*196 (Dec. 1, 2008).

5 See 19 U.S.C. § 1337(a)(2); see also *Certain Printing and Imaging Devices and Components Thereof*, Inv. No. 337-TA-690, Comm’n Op. at 3 (Feb. 17, 2011) (*Printing and Imaging Devices*).

6 E.g., *Printing and Imaging Devices*, Inv. No. 337-TA-690, Order No. 24 at 41 (Apr. 21, 2010).

7 *EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices and Products Containing Same*, Inv. No. 337-TA-395, Initial Det. (Mar. 19, 1998).

8 19 U.S.C. § 1337(a)(3) and *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-694, Comm’n Op. at 3 (July 22, 2011) (*Multimedia Displays*).

9 *Printing and Imaging Devices* at 26.

10 *Multimedia Displays* at 8.

11 *Certain Bulk Welding Wire Containers*, Inv. No. 337-TA-686, Order No. 41, 2010 ITC LEXIS 757 at \*8 (Mar. 3, 2010).

12 *InterDigital Communications, LLC v. Int’l Trade Comm.* 707 F.3d 1295, 1300 (Fed. Cir. 2013) (citations omitted).

13 *Id.*

14 See, e.g., *Certain Microsphere Adhesives, Process for Making Same, and Products Containing Same, Including Self-Stick Repositionable Notes*, Inv. No. 337-TA-366, Comm’n Op. 1996 WL 1056095, at \*7-8 (Jan. 16, 1996).

15 See, e.g., *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-684, Comm’n Op. at 7-8 (Aug. 8, 2011); *Certain Liquid Crystal Display Devices, Including Monitors*,



*Televisions and Modules, and Components Thereof*, Inv. Nos. 337-TA-741 & 749, Comm'n Op. 108-115; *Certain Semiconductor Chips and Products Containing Same*, Inv. No. 337-TA-753, Comm'n Op. at 45 (Aug. 17, 2012); and *Certain Hybrid Electric Vehicles and Components Thereof*, Inv. No. 337-TA-688, Order No. 5 at 4 (Feb. 26, 2010) (recognizing that a complainant moving under Subsection C "need not address the technical prong.").

16 Complaint at 86 (Mar. 26, 2012).

17 Initial Determination at 152-55.

18 *Id.* at 134-138.

19 *Id.* at 131, citing *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Inv. No. 337-TA-432, Order No. 13 at 11 (Jan. 24, 2001).

20 78 Fed. Reg. 64, 977 (October 30, 2013).

21 Comm'n Op. at 6.

22 *Id.* (emphasis added).

23 *Id.* at 28.

24 *InterDigital Commc'ns, LLC v. ITC*, 690 F.3d 1318 (Fed. Cir. 2012) ("*InterDigital I*"), *reh'g denied*, 707 F.3d 1295 (Jan. 10, 2013) ("*InterDigital II*").

25 *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013).

26 *E.g.*, Comm'n Op. at 29.

27 *Id.*

28 *See* 74 Fed. Reg. 55068.

29 *InterDigital I* at 1329.

30 *Id.* at 1329.

31 *Id.* at 1329-30.

32 *InterDigital II*, 707 F.3d 1295 (Jan. 10, 2013).

33 *Id.* at 1297-98.

34 *Id.* at 1298.

35 *Id.* at 1299.

36 *Id.* at 1303-04.

37 *Microsoft*, 731 F.3d 1354, 1357 (Fed. Cir. 2013).

38 *Id.* at 1362.

39 *Comm'n Op.* at 40.

40 *Id.*

41 *E.g.*, *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874.

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