



# ITC: Forum of Choice For Patent Litigation

BY **ETHAN HORWITZ**  
AND **ANDREA PACELLI**

A number of recent developments have made the International Trade Commission (ITC) a more interesting forum for patent owners. The U.S. Supreme Court, in *eBay v. MercExchange*, has made it more difficult to obtain injunctions in patent cases in district court. However, the ITC can also issue the equivalent of an injunction, but without applying the *eBay* analysis.

As globalization pushes manufacturing away from American shores, the commission's reach over foreign activities and its jurisdiction over importation of goods into the United States make it a powerful and appealing forum. The ITC has jurisdiction over goods coming into the country; thus, foreign manufacturers and U.S. companies that manufacture abroad may

have their goods subject to the decisions of the ITC. And with recent decisions lowering the jurisdictional requirements for the very companies that are most negatively affected by *eBay*, the ITC may be poised to become the forum of choice for patent enforcement.

## International Trade Commission

The ITC is a quasi-judicial independent federal agency that has authority to enforce certain intellectual property rights. Enforcement of patent rights in the ITC bears some similarity to a patent infringement action in district court, but has some significant differences as well.

A patent owner (complainant) can ask the ITC to initiate an "investigation" into possible violations of Section 337 of the Tariff Act of 1930, 19 U.S.C. §1337. Section 337 was enacted with the goal of protecting American businesses from unfair competition from abroad, and makes it unlawful, among other things, to import into the United States articles that infringe a valid and enforceable U.S. patent.<sup>1</sup> To succeed in the ITC, the complainant must show that a

valid U.S. patent is infringed, and must also show the existence of a domestic industry tied to the patent.

Perhaps the ITC's most marked departure from district court litigation is the so-called "domestic industry" requirement. Section 337 limits jurisdiction of the ITC to a situation where "an industry in the United States, relating to the articles protected by the patent...exists or is in the process of being established."<sup>2</sup> In other words, in order to establish jurisdiction in the ITC a patent holder must affirmatively show that it exploits the patent within the United States.

The alleged infringer (respondent) defends the case much like it would in district court, and can raise, for examples, the defenses of non-infringement, patent invalidity and unenforceability. However, it may also defend on the basis that there is no domestic industry, or that the domestic industry has no relationship to the patent. With some exceptions, the ITC largely applies the same substantive patent law as U.S. district courts, and its decisions are likewise appealable to the U.S. Court of Appeals for the Federal Circuit.

ETHAN HORWITZ is a partner in the IP practice area of King & Spalding, and the author of "Patent Litigation: Procedure and Tactics" (Matthew Bender). ANDREA PACELLI is an associate in the IP practice area of the firm and has a Ph.D. in electrical engineering.

An ITC investigation involves a discovery process similar to a district court action, followed by a trial before an Administrative Law Judge (ALJ). After trial, the ALJ issues an “initial determination” (ID) which is a recommendation to the commission on whether a violation of Section 337 has been found, and on the appropriate remedy. The commission can then adopt, reject or modify the ID. Its final determination is subject to ultimate review by the President of the United States; unless rejected by the president, the effect of the commission’s action is to exclude infringing goods from entering the country.

Even though the remedy available in the ITC takes the form of an “exclusion order” and/or a “cease and desist order,” for most practical purposes it is analogous to an injunction. For example, the commission can issue exclusion orders, enforced by U.S. Customs and Border Protection, to block importation of infringing goods into the United States. The commission can also issue cease and desist orders that prohibit the sale of previously imported domestic inventories. Given that so many consumer goods are manufactured abroad, these remedies may amount to completely preventing a respondent from selling infringing articles in the United States. Even where infringing goods are manufactured within the United States, the ITC can block their re-importation if they have been shipped abroad, e.g., for further manufacturing or final assembly.<sup>3</sup>

The ITC has some distinct advantages for the patent plaintiff as compared to a federal district court. To start with, it is generally not necessary to establish personal jurisdiction and proper venue over each of the respondents, as the commission has in rem jurisdiction over the articles being imported. In addition, the ITC’s procedural schedules are enormously accelerated as compared to the average district court.

Section 337 expressly requires the commission to make a determination “at the earliest practicable time” and after “expeditious adjudication.” And in fact, investigations typically reach final decision about a year and a half after filing of the complaint. This puts respondents at a disadvantage; the complainant can

prepare its case and get ready with experts and discovery before filing the complaint, whereas a respondent must develop its defenses very quickly and has a limited amount of time to respond to discovery. For example, opening expert reports are typically due four to seven months after the initiation of an investigation. In a patent case, where invalidity is often one of the key defenses, a respondent must locate and retain a suitable expert witness, research the prior art, develop invalidity theories, and draft the expert report, all within that short time.

ITC proceedings are somewhat more “technical” than a typical trial in district court.

The combination of fast-moving schedules, reduced jurisdictional requirements, and the ready availability of injunction-like remedies make the ITC an ideal forum for the enforcement of patent rights.

First of all, since the ITC is not an Article III court, there is no right to a jury trial, and every case is tried to an ALJ; most ALJs have developed substantial experience in patent cases. In addition, through the commission, the public is a party to every ITC investigation, and is represented by the attorneys of the Commission Investigative Staff, several of whom are patent attorneys. The staff can, among other things, take a position with respect to any issue in the case, submit briefs to the court, and cross-examine witnesses at trial. Since every party’s positions are scrutinized by many attorneys that are often well versed in patent law, the ITC as a forum may be more receptive to well-reasoned technical arguments than to “jury arguments” that appeal to a layperson’s common sense.

#### **Becoming a Jurisdiction of Choice**

Perhaps as a result of the perceived advantages to patentees as compared to district courts, the number of complaints filed in the ITC has been steadily increasing.<sup>4</sup> There have been a number of recent decisions that can explain this increase and foretell future increases.

The 2006 Supreme Court decision in *eBay v. MercExchange* made it more difficult for plaintiffs in district court patent litigation to be granted an injunction. Under earlier Federal Circuit precedent, a prevailing plaintiff was virtually guaranteed an injunction, which forced an infringer to settle on the patent holder’s terms or face a complete shutdown of its business. In *eBay*, the Supreme Court rejected this long-standing rule and instead instructed the lower courts to make a case-by-case determination, based on “well-established principles of equity.”<sup>5</sup> This determination is not applicable to exclusion orders in the ITC.

Strict application of *eBay* can be especially hard on patent plaintiffs that do not directly practice their patents—the so-called non-practicing entities, or NPEs. For example, a court under *eBay* must determine whether the plaintiff has suffered an irreparable injury, and whether monetary damages alone are adequate to compensate for that injury. A former manufacturer of computer disk drives was recently denied an injunction because, among other things, it did not make any products covered by the patent, and had licensed its patent to most of the disk drive industry, and thus it could not argue that an award of money damages would have been insufficient to repair its injury.<sup>6</sup> Since the ultimate decision rests within the equitable discretion of the district courts, a district judge’s denial of an injunction cannot be reversed on appeal unless an abuse of discretion is found.

The *eBay* decision has made U.S. district courts less of a plaintiff-friendly place as compared to the ITC. In addition, recent developments have further pushed forward the ITC as a potential replacement for district courts. Historically, one pitfall for non-practicing entities has been the ITC requirement of a domestic industry tied to the patent; however, recent case law is making this less of a problem.

In 1988, Congress amended Section 337 to make clear that the statute “does not require actual production of the article in the United States if it can be demonstrated that investment activities...are taking place in the United States” relating to the patent.<sup>7</sup>

Section 337 now provides for three different ways in which the domestic industry requirement may be met, by showing “(A) significant investment in plant and equipment; (B) significant employment of labor or capital; or (C) substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing.”<sup>8</sup>

It is the “licensing” language in Subsection (C) that opens the door to non-practicing entities in the ITC. Importantly, a complainant does not have to show that any of its licensees actually practices the patents at issue.<sup>9</sup> However, a complainant’s receipt of royalties is an important factor in determining whether the domestic industry requirement is satisfied.<sup>10</sup>

Complainants have been able to rely on a wide variety of licensing activities to meet the domestic industry requirement of Section 337. For example, technology companies have met the domestic industry requirement by large-scale portfolio licensing programs, resulting in substantial royalties from multiple licensees, even though the patents-in-suit were only a small part of a broad portfolio of patents.<sup>11</sup> At the opposite end of the spectrum, small companies and individual inventors with relatively modest licensing programs have also cleared the domestic industry hurdle, for example, because the small size of their portfolio gave prominence to the patents-in-suit, and also because even a relatively small amount in royalty payments may be quite “substantial” for a smaller company or individual.<sup>12</sup>

A recent decision by the ITC has further expanded the options for NPEs. Under the standard articulated in the *Coaxial Cable Connectors* investigation, complainants may now rely on patent litigation expenses that relate to their licensing programs to establish domestic industry.<sup>13</sup> This is a substantial change in the law. As recently as three years ago, ALJ Sidney Harris wrote that it was “unlikely that the commission would construe section 337 to permit litigation expenses to play any role in the definition of a domestic industry in view of the relevant legislative history and the longstanding public policy of not encouraging litigation while promoting judicial economy.”<sup>14</sup>

The commission has now stated, however, that “litigation activities (including patent infringement lawsuits) may satisfy [the domestic industry requirement] 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.”<sup>15</sup> A complainant can even rely on “licensing activities for which the sole purpose is to derive revenue from existing production,” as opposed to bringing the patented technology to the market.<sup>16</sup>

Factors that can be used to establish a link between litigation and licensing include:

- Whether the patentee and accused infringer were in licensing negotiations before the suit was filed or while it was ongoing;
- Whether the patentee made a concerted effort to license the patent;
- Whether the patentee has an established licensing program; and
- Whether any cease-and-desist letters sent by the patentee offer the recipient the option of taking a license, or form part of a concerted licensing program or effort.<sup>17</sup>

On remand in that same investigation, the ALJ applied the commission’s new standard, and determined that the complainant did not meet the domestic industry requirement. Among other things, the ALJ considered the facts that the documented litigation expenses that were demonstrably related to licensing were relatively small, and that complainant had no established licensing program and had made no other efforts to send cease and desist letters with offers to license the asserted patent.<sup>18</sup> However, it is foreseeable that future complainants, who now have the benefit of knowing the commission’s standards before engaging in litigation, will adjust their practices to maximize the share of litigation expenses that they can use to satisfy the domestic industry requirement.

### Conclusion

The combination of fast-moving schedules, reduced jurisdictional requirements, and the ready availability of injunction-like remedies make the ITC an ideal forum for the enforcement of patent rights. In addition, the domestic industry requirement, once a significant barrier for NPEs, has

become easier to satisfy. As traditional manufacturing facilities abandon the United States, the ITC can still be the forum of choice for those American businesses that manufacture abroad, or even those whose sole business is to exploit patents.

.....●●.....

1. A trademark or copyright may also be the subject of a Section 337 investigation.

2. 19 U.S.C. §1337(a)(2).

3. See *Certain Sputtered Carbon Coated Computer Disks and Products Containing Same, Including Disk Drives*, Inv. No. 337-TA-350, Comm’n Op., 1993 ITC LEXIS 893 (Oct. 27, 1993), at \*18.

4. The commission currently opens between 30 and 40 Section 337 investigations every year, compared to about 20 per year in the early 2000s. See [http://www.usitc.gov/intellectual\\_property/documents/cy\\_337\\_institutions.pdf](http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf).

5. *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

6. See *Ricoh Co. v. Quanta Computer Inc.*, 2010 U.S. Dist. LEXIS 38220, at \*5-7 (W.D. Wis. April 19, 2010).

7. H. Rep. No. 100-40, at 157 (1987).

8. 19 U.S.C. §1337(a)(3).

9. *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same*, Inv. No. 337-TA-640, Order No. 72, 2009 ITC LEXIS 1021, at \*7 (May 8, 2009).

10. *Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-559, Initial Determination, at 93-94 (May 11, 2007).

11. See, e.g., *Certain 3G Wideband Code Division Multiple Access (WCDMA) Handsets and Components Thereof*, Inv. No. 337-TA-601, Order No. 20, 2008 ITC LEXIS 2234, at \*12-16 (June 24, 2008); *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Inv. No. 337-TA-432, Order No. 13, 2001 ITC LEXIS 971, at \*17-23 (Jan. 24, 2001).

12. See, e.g., *Short-Wavelength Light Emitting Diodes* at \*13-19; *Digital Processors* at 95-99.

13. *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Inv. No. 337-TA-650, Comm’n Op., 2010 ITC LEXIS 570, at \*64 (April 14, 2010).

14. *Digital Processors* at 99.

15. *Coaxial Cable Connectors* at \*64.

16. *Id.* at \*73.

17. *Id.* at \*79-80, 82.

18. *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Inv. No. 337-TA-650, Remand Initial Determination, 2010 ITC LEXIS 1016, at \*32-34 (May 27, 2010).