

ClientAlert

Intellectual Property

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Federal Circuit Affirms ITC's Limits on the Use of Litigation Costs to Establish Domestic Industry

In the United States of America, a patent owner can enforce his patent rights in federal district courts and/or the International Trade Commission ("ITC"). Upon a reasonable belief of infringement, any patent owner can allege infringement in district court. Patent owners, however, must meet an additional burden in order to be heard and prevail in the ITC. More specifically, all patent holders must show the existence of a domestic industry in order for the ITC to institute an investigation based upon a patentee's intellectual property rights.

Despite this additional burden, over the past five years, the number of complaints filed in the ITC has grown exponentially, rendering the ITC as a forum of choice to assert patent claims. This trend is largely due to the Appellate Courts' heightened burden on a patentee to obtain (1) injunctive relief (see *eBay Inc v. MercExchange, L.L.C.*, 547 US 388 (2006)), (2) treble damages due to willful infringement (see *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007)) or (3) high royalty rates (see *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011)). As a result of these recent appellate opinions, patentees, especially nonpracticing entities, began seeking a new forum—one that would provide automatic injunctive relief and thereby, provide an incentive for large settlements more in line with previous damages calculations. Until recently, the ITC seemed to be a perfect fit as this "new forum."

In 2009, Complainant John Mezzalingua Associates (d/b/a PPC, Inc.) ("PPC") sought to enforce its design patent, US Patent No. D440,539 ("the '539 patent"), against multiple foreign manufacturers that imported coaxial cable connectors into the United States. See *In re Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*; Notice of Investigation, 73 Fed. Reg. 31145 (May 30, 2008). As a complainant, the ITC required PPC to establish that it had a domestic industry. *Id.* In other words, PPC was required to show that it had made significant investments in plant and equipment, significant investments in employment of labor or capital, or substantial investments in research and development or licensing associated with its asserted patent. 19 USC § 337(a)(3). However, because PPC itself did not manufacture connectors, own plant or equipment in the United States or employ personnel in the United States, it relied on legal expenses that it had incurred in previous litigations to establish its domestic industry through the "exploitation" of its patent. See Final Initial Determination of Administrative Law Judge, Inv. No. 337-TA-650, 2009 WL 3694421 (U.S.I.T.C., Oct. 13, 2009). Specifically, PPC argued that it had made a substantial investment in asserting its patents, including the '539 patent, in previous district court litigation and thereby, met the domestic industry requirement. *Id.*



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Initially, the ALJ presiding over the investigation issued a determination finding that PPC had satisfied the domestic industry requirement by establishing a “substantial investment in the exploitation” of the design patent by licensing. *Id.* Judge Gildea reasoned that at least some part of the legal expenses that PPC incurred in enforcing the ‘539 patent in a previous district court action constituted an investment in licensing. *Id.* Judge Gildea’s reasoning was in line with a determination just issued by Chief Administrative Law Judge Luckern, who relied on the inventor/complainant’s litigation expenses incurred over a decade in enforcing the subject patent as a basis for finding a domestic industry.¹

Upon reviewing Judge Gildea’s determination, the Commission vacated and remanded the initial determination, rejecting PPC’s argument that it met the domestic industry requirement. *See Comm’n Op., Inv. No. 337-TA-650, 2010 ITC Lexis 570 (U.S.I.T.C., Apr. 14, 2010).* The Commission reasoned that “a determination that patent infringement litigation activities taken alone constitute ‘exploitation’ would render the domestic industry requirement a nullity.” *Id.* at *66. Given the facts of the instant investigation, the Commission found that PPC failed to show that its litigation activities were related specifically to *licensing* the ‘539 patent. *Id.* at *80. Although PPC had asserted the ‘539 patent in litigation, the license resulting from such litigation did not mention the ‘539 patent itself. *Id.* As a result, the Commission was not persuaded by PPC’s broad allegation of its costs related to litigation as evidence that PPC made a “substantial investment” in asserting its patents, where PPC failed to show how much of those litigation costs were related to licensing the ‘539 patent. *Id.*

On remand, the ALJ recognized that PPC had incurred legal expenses negotiating a single licensing agreement that included the ‘539 patent. *See Administrative Law Judge Order, Inv. No. 337-TA-650, 2010 WL 2451681 (U.S.I.T.C., May 27, 2010).* Nonetheless, the ALJ found that the expenses attributable to the license agreement fell short of the “substantial investment” necessary to meet the domestic industry requirement. *Id.* The ALJ determined that PPC had not sufficiently tied its litigation costs to licensing the ‘539 patent specifically. *Id.* In evaluating the evidence, the ALJ found that PPC did not have an established licensing program, made no efforts to send cease-and-desist letters or engage in other licensing activities other than the litigations. *Id.* As a result, the ALJ concluded that attributing

most of the incurred legal expenses as an investment in licensing the ‘539 patent would be improper. *Id.* The ITC made no modification to the ALJ’s opinion.

On October 4, 2011, the Federal Circuit applied the “substantial evidence test” to determine “whether particular expenses [incurred by PPC] were related to licensing and whether those expenses, when viewed in the aggregate, were ‘substantial.’” *John Mezzalingua Assoc. v. Int’l Trade Comm’n*, –F.3d–, 2011 WL 4552462 (Fed. Cir., Oct. 4, 2011). In *John Mezzalingua Assoc. v. Int’l Trade Comm’n*, the Federal Circuit reasoned that “expenditures on patent litigation do not automatically constitute evidence of the existence of an industry in the United States established by substantial investment in the exploitation of a patent” within the meaning of Section 337(a)(3)(C). *Id.*

The Federal Circuit affirmed the ITC’s determination that expenses associated with ordinary patent litigation are not *per se* evidence of a ‘substantial investment in...licensing’ to satisfy the domestic industry requirement of section 337. *Id.* at *5.

Although PPC had previously asserted the ‘539 patent in a patent litigation which resulted in a license, there was no evidence that PPC had offered to license the ‘539 patent to the defendant before commencing litigation. *Id.* at *5-6. More particularly, there was “no evidence that PPC had sent a cease-and-desist letter mentioning the possibility of a settlement, and no evidence that PPC had conducted either settlement or licensing negotiations during the lawsuit itself.” *Id.* at *5. Moreover, during the litigation, PPC demanded and attained a permanent injunction. The injunction ensued for nearly two years and was followed by other litigations, which did not include the ‘539 patent, before any agreement was executed. The Court opined that such a delay in executing an agreement “suggests that PPC’s purpose in litigating was not to obtain a license [specifically to the ‘539 patent] but, rather, was to stop [the defendant] from manufacturing infringing connectors.” *Id.* at *6. Barring any evidence directed to licensing the ‘539 patent specifically, the Court found that PPC would not be able to satisfy its domestic industry requirement. *Id.* at *5-6. The Court agreed with the ITC in omitting the majority of legal expenses relied upon by PPC and only including those expenses specifically related to negotiating and drafting the portion of the licensing agreement directed to the ‘539 patent. *Id.* at *7. As a result, the Court held that PPC’s “investment” attributable to the ‘539 patent was “not substantial.” *Id.* The Federal Circuit recognized that while

¹ Although the Commission intended to review Chief Administrative Law Judge Luckern’s initial determination in *In re Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same*, Administrative Law Judge Order, Inv. No. 337-TA-640, 2009 WL 1640140 (U.S.I.T.C., May 8, 2009), the parties settled their disputes and the Judge terminated the investigation before Commission review could occur. *See* Notice of a Commission Decision Not to Review an Initial Determination Terminating the Investigation as to Panasonic Corporation, Inv. No. 337-TA-647 (U.S.I.T.C., Nov. 24, 2009); Notice of a Commission Decision Not to Review an Initial Determination Terminating the Investigation as to Toshiba Corporation, Inv. No. 337-TA-647 (U.S.I.T.C., Nov. 24, 2009).

there is “no rule that a single license—such as an exclusive license—cannot satisfy the domestic industry requirement based on a substantial investment in licensing,” the ITC was “entitled to view the absence of other licenses issued or negotiated for the ‘539 design patent as one factor supporting [its] conclusion that PPC’s expenditures related to licensing were not substantial.” *Id.*

In disagreeing with the majority, Judge Reyna relied on the legislative history of Section 337 as the basis for his dissent. He opined that Congress intended to lower the threshold for establishing a domestic industry through amendments in 1988, which allow patentees to seek relief in the ITC “via any ‘exploitation’ of the patent. *Id.* at *17 (emphasis added). Under the broad language of Section 337(a)(3)(C), Judge Reyna urged that any “patent infringement litigation is an investment in the exploitation of [the] patent.” *Id.* at *18. In finding that the “ITC’s determination to exclude litigation costs untethered to licensing from consideration impermissibly and arbitrarily limited the reach of section 337 for patent owners,” Judge Reyna attempted to transform the ITC from a “trade forum” to an “intellectual property forum.” *Id.*

Although the Federal Circuit provided much needed guidance as to the issues of what activities satisfy the domestic industry requirement, the question still remains as to whether the Commission will require more specificity in the complaint with respect to the basis of a complainant’s domestic industry before instituting an investigation.

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