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Trends in the ITC

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Trends in the ITC

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- Overview of Section 337 Investigations
- Domestic Industry Requirement
- Section 337 Jurisdictional Reach
- Patent Reform and Potential Implications at the ITC

Overview of ITC Litigation

Overview of Section 337 Investigations

- The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright Infringement
- Six Commissioners
- When the ITC institutes an investigation, Chief Administrative Law Judge (“ALJ”) assigns an ALJ to preside over proceedings

The International Trade Commission

- Remedy – Injunctive relief
- Exclusion order enforced by U.S. Customs and Border Protection
- Bars importation of the accused product
- No monetary damages
- Need to file related district court litigation for monetary damages

ITC vs. District Court

ITC

- Jurisdictional advantages: (1) name multiple respondents from U.S. and abroad; (2) *in rem* jurisdiction
- Expedited proceedings – usually 12-16 months; short deadlines throughout investigation
- No counterclaims by respondents
- Discovery: (1) nationwide subpoena power; (2) discovery against foreign respondents; (3) sanctions available against foreign respondents who fail to comply with discovery
- ALJ expertise in IP cases; ALJ handles both discovery disputes and hearing (becomes familiar with the issues)
- Exclusion orders enforced by U.S. Customs & Border Protection

District Court

- No domestic industry requirement (both technical and economic)
- No importation requirement
- Complaint need not lay out fundamental initial infringement contentions; essentially notice pleading v. fact pleading at ITC
- Jury
- Monetary Damages
- Injunctive relief (?)
- Number of defendants limited under AIA Patent Reform

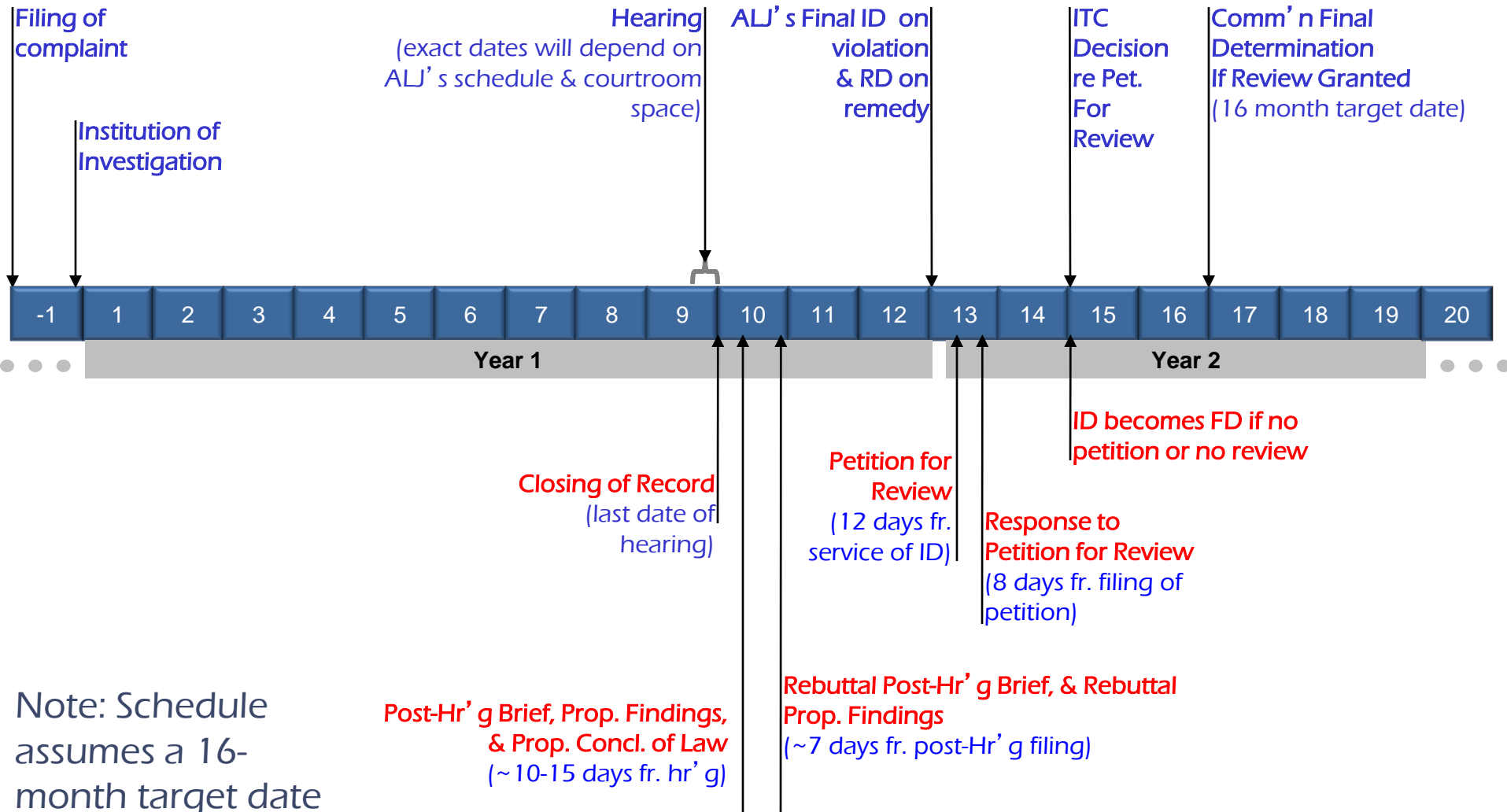
Jurisdiction in the ITC

- Subject Matter Jurisdiction
- In Rem Jurisdiction
- In Personam Jurisdiction

Statutory Elements of an ITC case

- Importation
- Infringement
- Domestic Industry

How fast is fast?: Example of 16-month schedule



What to do if you are sued in the ITC?

- Commission has 30 days after the complaint is filed to decide on whether to institute the investigation
- Complainant has been working on this case for several months and has a head start advantage
- Act quickly and do as much as possible during the pre-initiation phase
- Investigate possibilities for a design-around option
- Decide whether to file a counter-suit in ITC
- Pros and cons of staying related district court litigation

Discovery

- Discovery begins after the institution of the investigation (and may extend to, and even during, the hearing)
- Many similarities to district court litigation regarding types of available discovery (e.g., interrogatories, requests for documents, requests for admissions, depositions)
- Voluminous discovery requests and fast deadlines drive the discovery process
- Given the fast procedural schedule, need to plan out discovery especially with respect to discovery of foreign respondents and third parties, as well as expert discovery
- Discovery motions

Pre-Hearing and Hearing

- Markman hearings depend on the ALJ
- Summary judgment motions
- Meetings with OUII before filing pre-hearing brief
- Pre-hearing briefing and more briefing
- ALJ vs. Jury
- Hearing procedures depend on the ALJ

Post-Hearing

- Post-hearing briefs
- Post-hearing findings of fact
- Petitions for review of the ALJ's initial determination
- Commission may review the ALJ's initial determination based on petitions by the parties or on its own initiative
- Commission may request additional briefing

The Domestic Industry Requirement

Domestic Industry Requirement

- Domestic Industry Requirement – In a patent case, Complainant must show that an industry in the U.S. relating to the articles protected by the patent exists or is in the process of being established
- The domestic industry requirement has two prongs: technical and economic
- The technical prong relates to whether the asserted patents are practiced in the U.S.
- The economic prong involves investment activities in the U.S. with respect to articles protected by the asserted patents (i.e., a significant investment in plant and equipment; significant employment of labor or capital; or substantial investment in its exploitation, including engineering, research and development or licensing)

Recent Developments On The Domestic Industry Requirement: Licensing

- Extremely important given recent increase in NPEs at the ITC
- Recent trends
 - Certain litigation expenditures are taken into consideration
 - Certain portfolio license expenditures are taken into consideration
 - Certain pre-patent/start-up expenditures taken into consideration

Licensing as Domestic Industry: Litigation Expenditures

Certain Coaxial Cable Connectors

Inv. No. 337-TA-650

Domestic Industry Claimed

- PPC's prior patent litigation legal fees
 - 6 district court cases against prior competition
 - PPC won multiple jury verdicts, affirmed by CAFC
 - Settled with License

Licensing as Domestic Industry: Litigation Expenditures

John Mezzalingua Associates (d/b/a PPC) v. ITC

Appeal No. 2010-1536 (Fed. Cir. Oct. 4, 2011)

No Domestic Industry

- CAFC Affirmed Commission & ALJ Gildea: Litigation expenditures may be domestic industry, but only when:
 - Nexus to licensing (not present here)
 - Factors: Pre-litigation license offers, cease & desist letters; licensing program; other licensees outside litigation; litigation billing entries for “licensing” or “settlement” of asserted patents
 - Substantial investment (not present here) – \$43k “close call”

Licensing as Domestic Industry: Portfolio Licenses

Certain Multimedia Display & Navigation Devices

Inv. No. 337-TA-694

Domestic Industry Claimed

- Pioneer's navigation patent portfolio program
 - Outside counsel fees
 - Travel Expenses
 - Internal engineer's & attorney's salaries and bonus
 - Target product purchases

Licensing as Domestic Industry: Portfolio Licenses

Certain Multimedia Display & Navigation Devices

Inv. No. 337-TA-694 (Comm'n Op. – Aug. 8, 2011)

No Domestic Industry

- Commission reversed ALJ Charneski on DI: Portfolio expenditures may amount to domestic industry, but only if complaint shows substantial nexus: *“Pioneer’s activities, on the whole, reflect a **revenue-driven licensing model** targeting existing production rather than the industry-creating, **production-driven licensing activity** that Congress meant to encourage.”*
 - Nexus to licensing the asserted patents
 - Factors: Number/variety of patent in portfolio; allocation to asserted patents; licensing overtures specific to asserted patents; other recognition of importance of asserted patents
 - Substantiality – other exploitation, *i.e.*, R&D and engineering

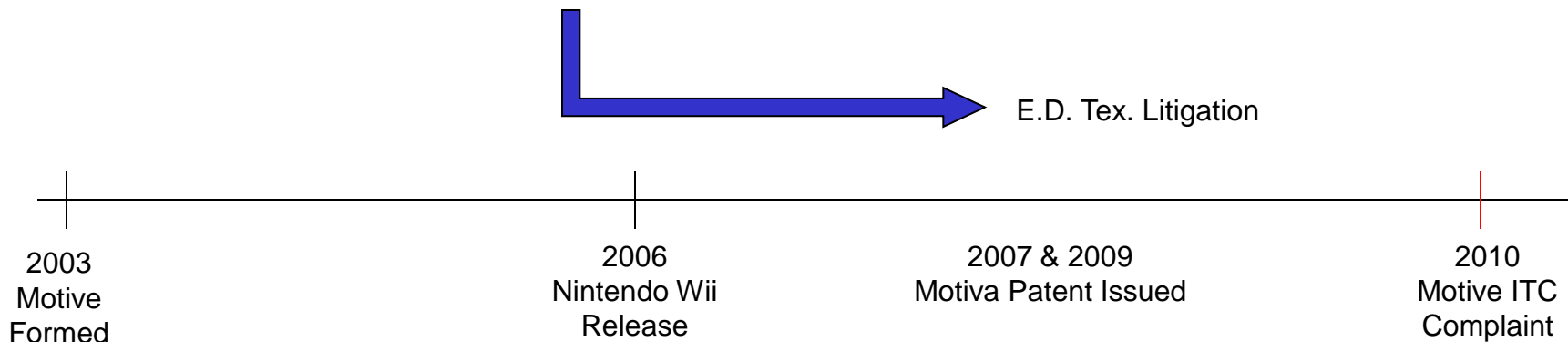
Licensing as Domestic Industry: Pre-patent/start-up expenditures

Certain Video Games Systems & Controllers

Inv. No. 337-TA-743

Domestic Industry Claimed

- Engineering, R&D, Prosecution, Licensing



Licensing as Domestic Industry: Portfolio Licenses

Certain Video Games Systems & Controllers

Inv. No. 337-TA-743 (Comm'n Op. – Apr. 14, 2011; ID – Nov. 2, 2011)

No Domestic Industry

- Pre-patent and pre-complaint investment may be DI
 - DI in “process of being established” = “tangible steps” + “substantial likelihood” (not present here)
 - Litigation may contribute to DI if necessary step (not present here” “nexus” or “substantiality” here
 - Patent prosecution – split
 - Comm’r Aranoff & ALJ Rogers: never DI because just step to ownership
 - Other Comm’rs: “patent prosecution activities alone would be insufficient” for DI, but could count
- Factors: licensor/manufacturer interest; preliminary injunction sought; legal fees (not contingency); production-ready prototype; continued engineering alongside litigation; engineering-prosecution-product link

Licensing as Domestic Industry: Practice Tips

- License as DI: *It's available, but watch your step*
 - Fact Intensive
 - It's a matter of proof
- Consider funnel Technique
 - Cast a wide net with complaint and supporting declarations
 - Develop evidence proving a strong link between expenditures and asserted patents
 - Keep in mind challenges of 3rd party depositions to show production-driven licensing

Other Recent Developments On Domestic Industry

- No Mathematical Threshold for Domestic Industry
- Certain Male Prophylactic Devices, Inv. No. 337-TA-546
 - The “fact that a complainant may be a small business is not preclusive”
 - 34 percent of cost of product incurred in U.S. was sufficient
- Certain Stringed Musical Instruments I, Inv. No. 337-TA-586
 - Economic prong of DI was not established
 - Facts:
 - No license executed before ITC case filed
 - Approx. \$8,500 investment in prototype (Not enough)
 - Business owner made an investment in time, but it was inadequately focused on exploiting the patents (“Sweat equity” not sufficiently detailed)
 - No DI, but Commission affirmed “there is no minimum monetary expenditure that a complainant must demonstrate to qualify” under the substantial investment requirement of Section 337(a)(3)(c)

Other Recent Developments On Domestic Industry (con' t)

- Customer repair and support expenses
 - Certain Printing and Imaging Devices, Inv. 337-TA-690 Comm' n Op. (Feb. 17, 2011)
 - Whether investment is “significant” in prongs A and B of the statute is “context-dependent” and based on the particular market.
 - The Commission noted: “the magnitude of the investment cannot be assessed without consideration of the nature and importance of the complainant’s activities to the patented products in the context of the marketplace or industry in question.”

Customer repair and support expenses (con't)

- The Commission identified various types of information that can be relevant to showing “significance”
 - Comparison of overall service and repair expenses for the product at issue with the domestic service and repair expenses
 - Comparison of other products’ service and repair expenses with the domestic industry product
 - Demonstrating that the after market activities add value to the products, not merely that they relate to the products
 - Showing how its service and repair activities relate to the company’s overall operations, marketplace or industry
- Although the Commission’s decision was made under Section 337(a)(3)(B), the same reasoning generally applies under (a)(3)(C) which requires “substantial” investment in engineering, research and development, or licensing

Section 337 Jurisdictional Reach:

Tianrui Grp. Co., Ltd. v. Int'l Trade Comm'n
2010-1395 (Fed. Cir. Oct. 11, 2011)

Section 337 Jurisdiction: Trade Secret Misappropriation

Cast Steel Railway Wheels...

Inv. No. 337-TA-655

- ALJ Charneski issued an ID finding a 337 violation occurred through the importation of certain cast steel railway wheels or products containing the same by reason of trade secret misappropriation.
- Should extra-national violations of trade secret law create a cause of action if the resulting product is imported into the United States?

Section 337 Jurisdiction: Trade Secret Misappropriation

Cast Steel Railway Wheels...

Inv. No. 337-TA-655

Federal Circuit Affirmed

- Affirmed ITC's exclusion even though unfair acts occurred entirely in China
- Affirmed that the Commission has the authority over imported products that were made using a misappropriated trade secret even when (1) the misappropriation occurs entirely outside the US and (2) the DI is no longer practicing the trade secret

Section 337 Jurisdiction: Trade Secret Misappropriation

Cast Steel Railway Wheels...

Inv. No. 337-TA-655

Federal Circuit Affirmed

- “There is nothing remarkable about concluding that Congress would have wanted section 337 remedies to be available for acts of trade secret misappropriation occurring abroad.”
- “The foreign ‘unfair’ activity in this case is relevant only to the extent that that it results in the importation of goods into this country causing domestic injury.”

Questions?

Thank You

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