

ITC CLARIFIES DOMESTIC INDUSTRY REQUIREMENT



The recent *Coaxial Cable* decision confirms that patent litigation activities related to licensing may meet the US International Trade Commission's domestic industry requirements. Kenneth Adamo and David Maiorana explain.

On April 14, 2010, the United States International Trade Commission (ITC) issued a decision in *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, holding that litigation activities related to licensing may qualify to meet the economic prong of the domestic industry requirement in patent-enforcement proceedings before the ITC. This decision is important since it arguably expands the types of activities that may now be used to show existence of a domestic industry in ITC actions.

The *Coaxial Cable* decision

The *Coaxial Cable* investigation was instituted by the ITC on May 30, 2008, based on a complaint for patent infringement filed by PPC, Inc. At issue were four patents, all owned by PPC, covering a specific type of coaxial cable connector used in the telecommunications, satellite and television industries. While PPC does not itself manufacture or sell any of the patented connectors in the US, it does license its patent rights to a company in the US that makes and sells the connectors. On at least one occasion, PPC enforced its cable connector patent rights by asserting one of its patents (the '539 patent) in a patent action in a US district court. PPC was successful at trial in that case, with the defendant subsequently taking out a licence for the '539 patent.

The ALJ's decision and request for review by the ITC

Following an evidentiary hearing, on October 13, 2009, Administrative Law Judge (ALJ) E. James Gildea issued an initial determination. He found that several of the respondents were in violation of § 337 of the Tariff Act by infringing the asserted claims of all four patents-in-suit. In addition, the ALJ determined that PPC met the domestic industry requirement for

all four patents. As to the '539 patent, the ALJ determined that the economic prong of the domestic industry requirement was met based on several factors, including evidence showing substantial investment made by PPC in enforcing its rights under the '539 patent, specifically by incurring litigation expenses through its patent infringement suit in the US district court, which resulted in a licence.

Following the ALJ's decision, the ITC's investigative attorney filed a petition seeking review of *inter alia* the ALJ's finding that PPC satisfied the economic prong of the domestic industry requirement as to PPC's '539 patent. On December 14, 2009, the ITC granted the petition.

The ITC's decision

On April 14, 2010, the ITC issued its final determination. On the issue of domestic industry and the '539 patent, it considered "whether litigation activities constitute 'exploitation' under section 337(a)(3)(C)". The ITC stated that while patent infringement litigation activities *on their own* do not meet the domestic industry requirement under § 337(a)(3)(C), "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. The same holds true for other types of activities."

In reaching this conclusion, the ITC found that litigation activities related to licensing may constitute 'exploitation' for the purposes of showing domestic industry. It went on to state that the ordinary meaning of the term 'exploitation' would cover licensing activities that both: "put [the patent] to a productive use, i.e., bring a patented technology to market"; and

“take advantage of the patent, i.e., solely derive revenue”. In this regard, litigation costs that result in the patent owner obtaining a licence would fall under the second category of licensing activities.

The ITC noted, however, that obtaining a licence following litigation does not automatically fulfil the economic prong of the domestic industry requirement. Specifically, any and all costs associated with the litigation must be well documented and linked to the specific patent that is the subject to the ITC proceeding. The costs incurred by the patent owner in bringing the litigation must be “substantial”, as required in § 1337(a)(3)(C). This is a factual inquiry and depends “on the industry in question and the complainant’s relative size”.

Examining the record before it, the ITC could not determine whether PPC showed domestic industry for the ‘539 patent through its patent infringement litigation activities and costs. Accordingly, it remanded the matter to the ALJ for further consideration.

The ALJ’s Remand Initial Determination

On May 27, 2010, ALJ Gildea issued a Remand Initial Determination, finding that PPC did not show domestic industry for the ‘539 patent. In reaching this conclusion, the ALJ carefully considered whether each litigation activity asserted by PPC, and associated litigation expense, related to licensing and the ‘539 patent. Since PPC sought a general exclusion order with respect to any Section 337 violation of the ‘539 patent—instead of a limited exclusion order—PPC faced a higher burden to show domestic industry “by substantial, reliable, and probative evidence”.

On remand, PPC argued that six separate lawsuits were directly connected to its efforts to license the ‘539 patent and, as such, all expenses incurred from those actions could be considered in determining domestic industry. The ALJ disagreed and found that it would be inappropriate to apportion 100 percent of PPC’s litigation expenses from these actions to PPC’s licensing efforts, because each was only tangentially related to the licensing of the ‘539 patent. Specifically, four of the actions did not even concern the ‘539 patent. As for the other two, PPC presented no evidence that it had sent cease and desist letters, or otherwise engaged in licensing efforts, prior to commencing those actions. The ALJ, however, agreed to consider expenses relating to: PPC’s drafting of the settlement and licence agreements that resulted in termination of all six PPC litigations, and licences to multiple patents, including the ‘539

patent; and general licensing and settlement efforts with respect to only two of the six PPC litigations.

Based on PPC’s evidence concerning litigation costs, the ALJ found that the number of attorney work hours and amount of money spent on licensing and settlement efforts with respect to the ‘539 patent were 79.4 and \$27,506.00, respectively. The ALJ also considered 45.15 attorney work hours or almost \$15,000, but gave these amounts less weight because they could not be 100 percent attributable to the specific matter in question.

The ALJ considered the issue “a close one”, but found that PPC did not establish domestic industry with respect to the ‘539 patent in light of the fact that PPC: “received only one license for the ‘539 patent, of which only a portion actually relates to the patent at issue”; “has no established licensing program, let alone one that encompasses the ‘539 patent”; “has made no other efforts to send cease and desist letters with offers to license the ‘539 patent”; and “has not engaged in other licensing offers or talks with any persons or entities other than those involved with the single ‘539 license”. These facts, along with the reduced value of time and money spent in litigation activities concerning licensing of the ‘539 patent, were not “substantial” investments in the exploitation of the ‘539 patent to prove domestic industry. Consequently, there could be no Section 337 violation of the ‘539 patent. On June 7, 2010, PPC petitioned the ITC to review the ALJ’s Remand Initial Determination. On July 12, 2010, the ITC issued a decision not to review the ALJ’s Remand Initial Determination, terminating the matter.

The practical effects of, and questions raised by, *Coaxial Cable*

While *Coaxial Cable* has clearly expanded the types of activities available to meet the domestic industry requirement, the ITC’s decision raises new questions and considerations:

- Is engaging in US district court litigation now sufficient to meet the domestic industry requirement?

Not necessarily. The ITC’s decision made clear that litigation activities alone would not meet the economic prong of the domestic requirement. Litigation activities must specifically relate to licensing of the particular patent(s) at issue, in accordance with the text of § 1337(a)(3)(C), and the litigation costs must be adequately documented.

- What effect does *Coaxial Cable* have on a prospective ITC complainant whose only activity is licensing, i.e. Non-Practicing Entities (NPEs)?

Coaxial Cable will likely be helpful to those seeking access to the ITC and who are only engaged in licensing activities with respect to their patents, because patent litigation activities can now be used to prove domestic industry so long as such activities relate to licensing. But even before *Coaxial Cable*, it was possible to demonstrate domestic industry through licence activities alone. It is important to remember, however, that one must also show a nexus between the licensing activities relied on and the patent-in-suit (i.e. technical prong). A complainant must also receive some revenue, either as a lump-sum payment or royalties from its licensing activities. The “investment” made in licensing the patent-in-suit must also be “substantial”.

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This paper reflects only the present considerations and views of the authors, which should not be attributed to Jones Day.



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