ITC Shuts the Door (Partly) to Non-Practicing Entities

BY ADAM H. GORDON AND BRIAN H. PANDYA
OF WILEY REIN LLP

Adam H. Gordon is a partner in the International Trade practice at Wiley Rein LLP in Washington, DC. He represents U.S. manufacturers, industries and agricultural groups in antidumping and countervailing duty matters before the U.S. Department of Commerce, U.S. International Trade Commission, U.S. Customs and Border Protection, the U.S. Court of International Trade and the U.S. Court of Appeals for the Federal Circuit. Mr. Gordon can be reached at 202.719.7544 or agordon@wileyrein.com.

Brian H. Pandya is a patent lawyer in Wiley Rein's Intellectual Property practice. Mr. Pandya represents a variety of clients in matters relating to the enforcement and procurement of intellectual property rights, with particular focus on patent litigation and counseling. He can be reached at 202.719.7457 or bpandya@wileyrein.com.

The International Trade Commission's (ITC) July 22, 2011 decision on what satisfies the ITC's domestic industry requirements when a patent holder does not develop or manufacture products in the United States raises new hurdles for patent holding companies seeking to use the ITC rather than the district courts to enforce their patent portfolios.

The ITC's decision In the Matter of Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same (Investigation No. 337-TA-694) found that Pioneer, which accused Garmin of infringing several GPS navigation patents held by Pioneer's patent licensing subsidiary, failed to establish a domestic industry for the patents because "Pioneer's activities, on the whole, reflect a revenue-driven licensing model targeting existing production rather than industry-creating, production-driven licensing activity that Congress meant to encourage." In other words, a business based on licensing patent portfolios is, by itself, insufficient to establish a domestic industry. Because Pioneer failed to establish a domestic industry, Garmin could not be liable for allegedly infringing Pioneer's patents.

This investigation drew significant industry attention because more non-practicing entities, whose sole business is licensing and enforcing patents, are turning to the ITC to litigate their patents. Unlike many district courts that have grown skeptical of injunctive relief following the Supreme Court's *eBay v. MercExchange* decision in 2006, injunctive relief—in the form of an order blocking importation of infringing goods—is the sole relief granted by the ITC.

For companies that have shifted their manufacturing operations to countries such as China or Mexico, the threat of an injunction disrupting supply chains can create powerful incentives to license patents regardless of patent validity or infringement, making the ITC an attractive venue for patentees seeking to collect settlements. Further, to obtain injunctive relief following a finding of infringement, the ITC does not require patentees to satisfy the traditional four factor equitable balancing test followed by district courts when deciding whether to grant injunctive relief. Thus, the domestic industry requirement serves as one of the few barriers to obtaining injunctive relief by requiring a patentee to not only prove infringement but also demonstrate that a domestic industry for its patents exists or is in the process of being established.

In addition to demonstrating that a patent holder manufactures products in the United States or has made investments in product research and development in the United States, Section 337 of the Tariff Act of 1930 includes a provision that allows a patentee to use patent licensing activities to satisfy the domestic industry requirement. See 19 U.S.C. § 1337(a)(3)(C). This provision was added to the Tariff Act in 1988 to benefit universities and start-up companies that produce intellectual property through research and development activities in the United States but outsource production through licensing. In recent years, though, non-practicing entities formed to enforce patents, as well as patent holding subsidiaries formed by larger companies for tax purposes, have invoked this provision to gain a foothold at the ITC.

A patent holder that uses patent licensing to establish a domestic industry must demonstrate that it has made significant investments relating to: (a) the patents it is asserting at the ITC, (b) attempts to specifically license the asserted patents, rather than to broadly license a portfolio of patents and (c) activity in the United States supporting the licensing efforts. Under ITC precedent, no one factor is dispositive, and a weak showing on one factor can be overcome by a strong showing on another factor or evidence of a substantially large investment relative to a patent holder's overall size.

In the present case before the ITC, Pioneer was forced to argue that its extensive patent licensing activities constituted a domestic industry because unlike Garmin, which sells a number of GPS devices in the United States, Pioneer offers no apparent competing products in the United States covered by the asserted patents. Although Pioneer actively licensed its extensive portfolio of patents across a wide range of technologies, it could not establish that its licensing efforts were directed to the patents it asserted against Garmin rather than towards its entire patent portfolio.

Particularly troublesome for Pioneer was a lack of evidence showing how the asserted patents fit together with the other patents in Pioneer's portfolio. The ITC found that the asserted patents played a minimal role relative to the many patents that were being offered by Pioneer in its proposed license agreements and that the asserted patents covered a narrow swath of Pioneer's broad patent portfolios. Further, activities directed towards litigating the asserted patents did not demonstrate a domestic industry of licensing those patents; the licensing activity needed to be independent of enforcement.

While Pioneer was unable to use its licensing activities to demonstrate a domestic industry, and this opinion will likely foreclose some patent holding companies from turning to the ITC, the decision leaves open some avenues for patent holding companies (both IP-holding subsidiaries of large corporations and smaller companies formed to license and enforce patents) seeking to bring enforcement actions at the ITC. However, it will be critical that those patent holders first build a record of licensing the specific patents they seek to assert before bringing an action at the ITC.