



## NPEs Trolling The ITC

*Law360, New York (March 22, 2012, 1:08 PM ET)* -- Though troll work is welcomed by plaintiffs attorneys, patent trolls have been the bane of corporate attorneys' existence for more than a decade.[1] Trolls, also known as nonpracticing entities, build their company's patent portfolio with the patents serving as the primary and, oftentimes, only asset. While rarely, if ever, manufacturing any invention disclosed by their patents, trolls set out to obtain patent-infringement judgments against companies that actually make products. Targets tend to be large, well-known corporations with deep pockets.

If infringement is proven in district court, two remedies desirable to a patent troll are available. First, a reasonable royalty may be granted. This is an award of monetary damages. Second, and more importantly, the troll could be awarded an injunction. This equitable relief would require the infringer to stop making and selling any of its products found to infringe the troll's patent(s).

The threat of such an injunction is accompanied by the devastating reality that this could substantially affect the accused infringer's bottom line and, in some cases, even put the company out of business. Trolls rely on this threat to license patent(s) to the accused infringer or settle the litigation in some other manner.

While trolls seeking these remedies have become a staple in district courts, they are now trying to establish their existence on a new playing field — the U.S. International Trade Commission. A statutory federal agency, the ITC investigates complaints of unlawful importation into the United States. If the ITC discovers importation of products that infringe a valid and enforceable U.S. patent, it has but one remedy — to issue an injunction.

Just over a year ago, the ITC decided a series of cases associated with ITC Investigation No. 337-TA-650. The controversial decisions were interpreted as throwing open the ITC's doors to nonpracticing entities (i.e., patent trolls). These decisions revolve around a requirement unique to the ITC — "domestic industry." The domestic industry requirement is a threshold question to determining whether infringement occurred. In other words, if the ITC does not find the existence of a domestic industry, the ITC cannot find that a patent has been infringed, unlawful importation occurred or injunctive relief is appropriate.

To meet the domestic industry requirement, a complainant[2] must establish that a domestic industry relating to the products protected by the patent at issue within the United States existed at the time or is in the process of being established. (19 U.S.C. 1337(a)(2)). This can be proven in three ways. (19 U.S.C. 1337 (a)(3)).

First, the complainant may demonstrate a significant investment in plant(s) and equipment within the United States relating to the products covered by the patent at issue. Second, a showing of significant U.S. employment of labor or capital relating to the products covered by the patent at issue may satisfy the domestic industry standard. Finally, if a substantial investment in the exploitation of the products protected by the patent within the United States, including engineering, research and development, or licensing, has been made, then the domestic industry requirement will be met.

It would seem that trolls cannot establish the existence of a domestic industry simply because they have no other business than enforcing their patents. Likely, their licensing efforts have failed to date and that is why the troll has resorted to litigation or an ITC investigation. Again, trolls are hoping to scare the accused infringers into settling the matter, which usually includes taking a license to continue using the invention disclosed in the troll's patent(s). As such, the ITC appeared to be an inappropriate forum in which a patent troll could pursue relief.

However, the aforementioned ITC decisions changed all that. The ITC held that substantial costs related to enforcing patent(s) through litigation could satisfy the licensing element mentioned in the final substantial-investment prong of the domestic industry standard.

Thus, prelitigation and post-litigation licensing activities, if substantial enough, alone could satisfy the domestic industry requirement. "One commentator lamented that if litigation costs are permitted to count toward the domestic industry requirement, 'access to the ITC [will] functionally require only ownership of a patent and a team of aggressive lawyers engaged in enforcement suits.'" [3] Despite similar concerns, the Federal Circuit affirmed the ITC's ruling that the domestic industry requirement is not limited to prelitigation licensing efforts. [4]

Not long after, the ITC issued a decision thought to curtail the use of its investigations for licensing-based cases typically associated with trolls. Specifically, the ITC, in regard to Investigation No. 337-TA-694, held in July 2011 that licensing activities "reflecting a revenue-driven licensing model targeting existing production rather than industry-creating, production driven licensing activity that Congress meant to encourage" was insufficient to establish a domestic industry. Therefore, a business whose sole goal is to accumulate patents and attempt to license them (i.e., a patent troll) will not meet the domestic industry standard with those activities alone.

This precedent remains intact. But with cases chipping away at the clarity of the ITC's decision, this may not ring true in coming years. Even with this decision, trolls have not been entirely precluded from initiating investigations within the ITC. Indeed, trolls continue to pursue ITC relief, and corporations continue to be targeted by these strategies.

For example, Walker Digital LLC, a nonpracticing entity, recently filed a complaint with the ITC alleging that companies such as Denon Electronics (USA) LLC, Funai Corp. Inc., LG Electronics Inc., Panasonic Corp., Philips Electronics North America Corp, Pioneer Corp., Samsung Electronics Co. Ltd, Sharp Corp., Sony Corp., Toshiba Corp., VIZIO Inc. and Yamaha Corp. unlawfully import and/or sell certain infringing Blu-ray disc players within the United States.

The patent at issue, U.S. Patent No. 6,263,505, is also the subject of a District of Delaware case involving 28 defendants styled Walker Digital LLC v. Ayre Acoustics Inc. et al. Previously in Delaware, seven other companies were accused of infringing this same patent in a case styled Walker Digital LLC v. Apple Inc. et al. Currently, the company has more than 30 active cases alleging patent infringement within its portfolio. This is, however, Walker Digital's only ITC investigation.

Walker Digital claims that it has "made substantial investment in the exploitation of the '505 patent through licensing activities." Walker Digital allegedly licensed the patent to Oppo Digital Inc. Oppo Digital is a California-based electronics designer, manufacturer and seller. Walker Digital also asserts additional confidential licenses with other entities.

Without being privy to all the licensing details, there is no way determine or even predict whether the ITC will find that the domestic industry requirement has been met by Walker Digital. But several companies, namely the respondents, [5] are hoping the ITC's precedent in Investigation No. 337-TA-694 will be affirmed in this investigation. [6]

In the meantime, the ITC remains attractive to trolls for several reasons. They can threaten to pursue injunctive relief, which provides great settlement leverage, the time involved with an ITC investigation is typically much shorter than a district court action, the ITC has broader jurisdiction, and summary determinations are frequently not granted. Yet, with precedent like Investigation No. 337-TA-694, various aspects still discourage trolls from using the ITC.

First, if the domestic industry requirement is not satisfied, the troll is not entitled to anything. Second, monetary damages are not available in ITC proceedings, so the troll can never recover in that manner. Third, the administrative law judges who preside over the ITC investigations are patent-savvy, and no sympathetic jury is available to convince that the big bad companies took advantage of the little guy. Fourth, due to the speed with which the investigation proceeds, the parties have hardly any down time to negotiate a settlement.

Trolls may be a permanent fixture in district courts, but with the increasing amounts of complaints before the ITC, overwhelming ITC case load, and precedent like Investigation No. 337-TA-694, they may not be trolling around the ITC for long.

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Shook Hardy & Bacon represented Garmin International Inc. and Garmin Corp. in Investigation No. 337-TA-694.

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[1] The term "patent troll" was allegedly coined in 2001. See Raymond P. Niro, Exposing the Patent Troll Myth, Legal IQ, August 2006, available online at <http://www.niroip.com/download.php?Id=113&Field=File>. Thus, such nonpracticing entities have been acknowledged as a problem since that time. Their existence in patent litigation, however, likely extends well before this name emerged.

[2] The complainant in an ITC investigation is similar to a plaintiff in a district court case.

[3] Blakeslee, Merritt, The Doors of the U.S. International Trade Commission are Open to Non-U.S. Plaintiffs: Standing and the ITC's Domestic Industry Requirement, January 2011, available online at <http://www.whda.com/blog/2011/01/the-doors-of-the-u-s-international-trade-commission-are-open-to-non-u-s-plaintiffs-standing-and-the-itc%E2%80%99s-domestic-industry-requirement/>.

[4] John Mezzalingua Assocs. Inc. (d/b/a PPC Inc.) v. Int'l Trade Comm'n, No. 2010-1536 (Fed. Cir. Oct. 2011).

[5] Respondents in an ITC investigation are similar to defendants in a district court case.

[6] Investigation No. 337-TA-824.

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