

The Rise of Non-Practicing Entity Complaints at the ITC: Current Trends and Potential Responses

Morgan Lewis
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series

Presenters

Eric Namrow
Partner, Litigation/IP
Chair, ITC Practice

Mark Taylor
Associate, IP

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The Statute



- 19 U.S.C. §1337 declares unlawful “unfair methods of competition and unfair acts” in the importation of articles into the U.S.

The Popularity of the ITC

“The International Trade Commission ...has become the hottest venue around for patent disputes.”

» *The National Law Journal*, December 13, 2010

“The ITC has become a popular venue for patent infringement cases.”

» *The Wall Street Journal*, January 14, 2010

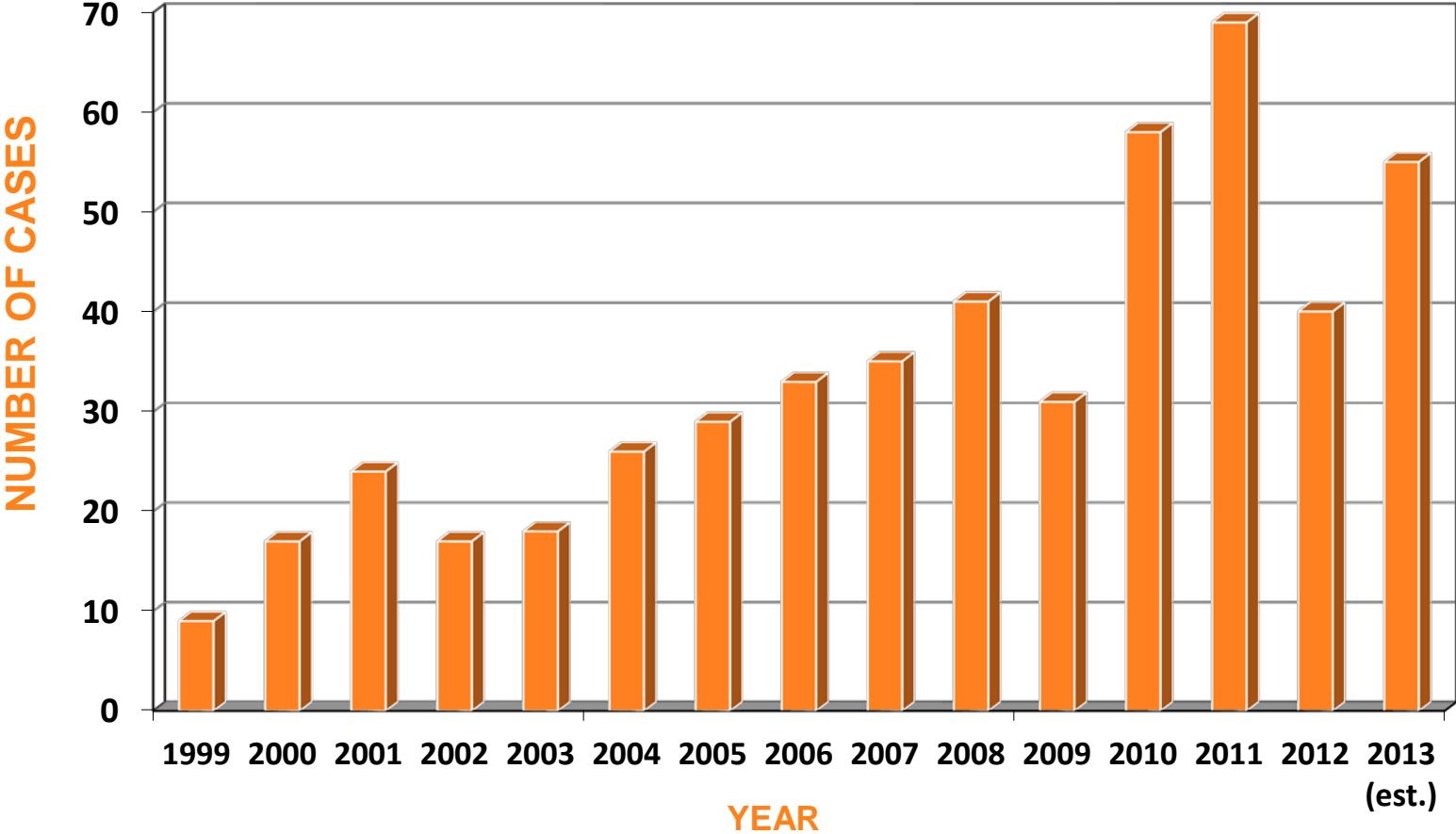
“[T]he ITC has become the battlefield du jour [for patent disputes].”

» *Networkworld*, February 22, 2010

“Once little known as a statute affecting IP practice, Section 337 has become mainstream as imports have come to play an ever-more significant role in the US economy.”

» *Chambers and Partners*, 2011

ITC Filings Increased 530% in Last Decade



NPEs in the ITC



History of NPEs

- Business model is not new:
 - Elias Howe licensed and obtained injunctions with sewing machine patent in 1840s
- Various terms for general business model:
 - Non-Practicing Entity (“NPE”)
 - Patent Assertion Entity (“PAE”)
 - Patent Assertion Company (“PAC”)
 - Patent Licensing Company (“PLC”)

What exactly is an NPE?

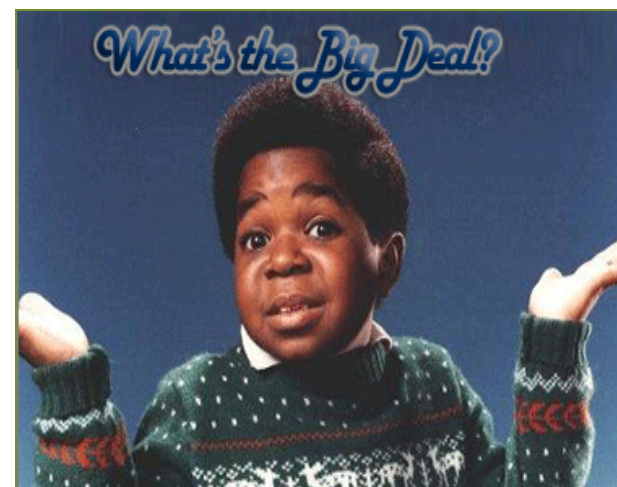
- Patent “Trolls”/Patent Assertion Entities
- Universities, research facilities, and start-ups
 - Choose not to invest in commercializing technology or develop a product line
- Large corporations with assertion subsidiaries
- ITC statistics:
 - “Category 1” NPEs: universities or start-ups
 - “Category 2” NPEs: classic “trolls” or PAEs

Is There Really a Problem?

Former Chief Judge Paul R. Michel:

“I consider the 'problem' [of NPEs] to be greatly exaggerated ... NPEs may add value to the patents by buying them up when manufacturers decline to do so. Inventors may have benefited from the developing market in patent acquisition. What is so bad about that?”

- *Intellectual Property Watch*, July 14, 2011



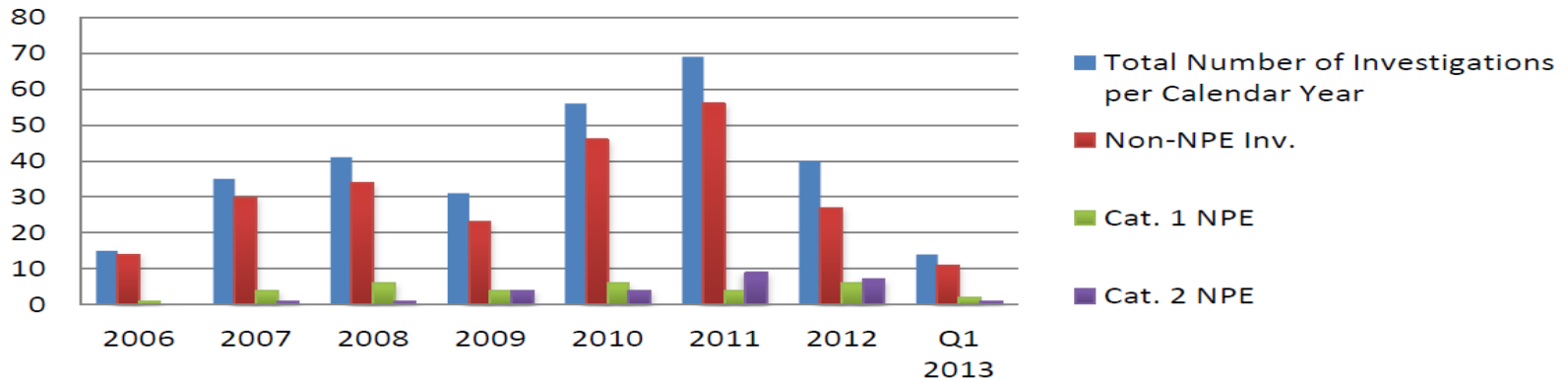
ITC:

“Some commentators have suggested that NPE filings ... account for the increased caseload at the USITC because of the [eBay decision]. However, those commentators have not offered a convincing analysis of the data ... to support this suggestion.”

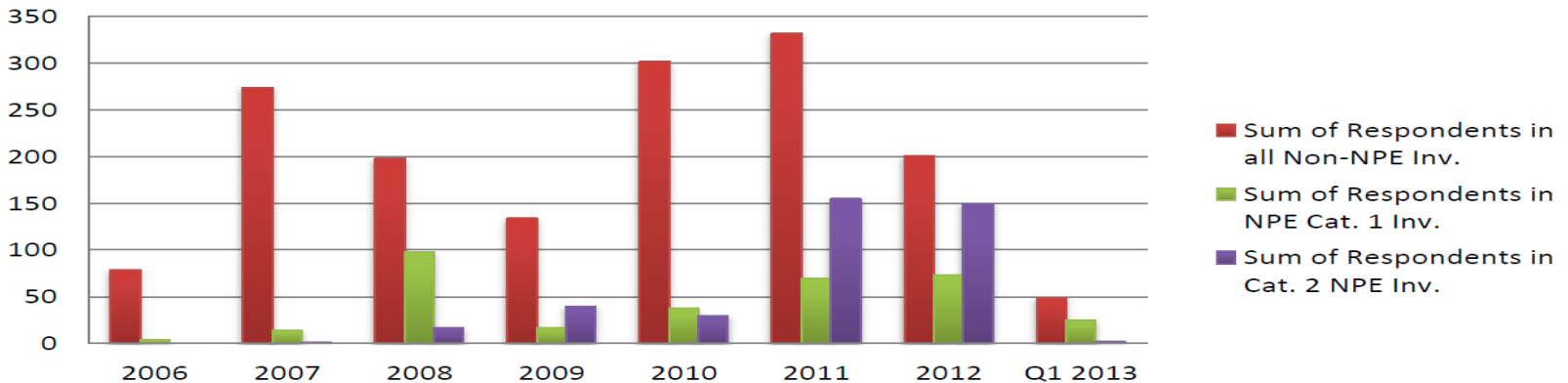
- *Facts and Trends Re Section 337 Investigations* (April 15, 2013 Update)

ITC Fact Sheet on NPEs

Commission Investigations Instituted 5/16/2006 - Q1 2013

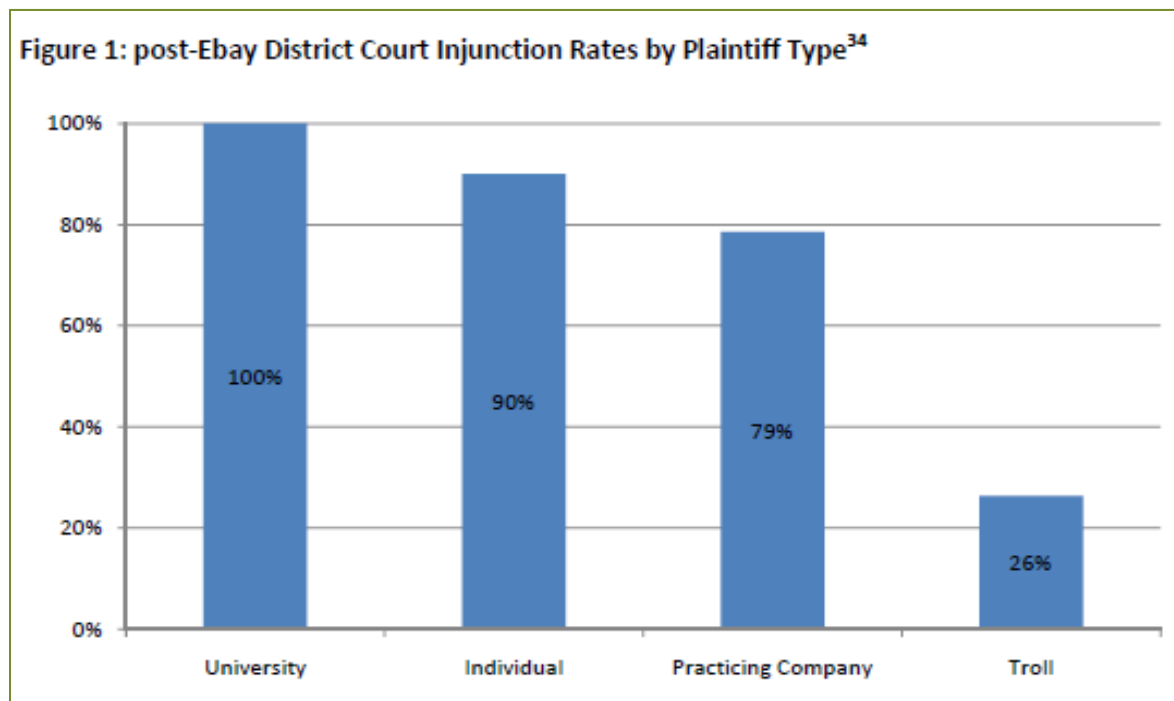


Number of Respondents in Investigations Instituted 5/16/2006 - Q1 2013



The Impact of *eBay v. MercExchange*, 547 U.S. 388 (2006)

- The Remedy
 - Fewer USDC injunctions granted to NPEs post-*eBay*

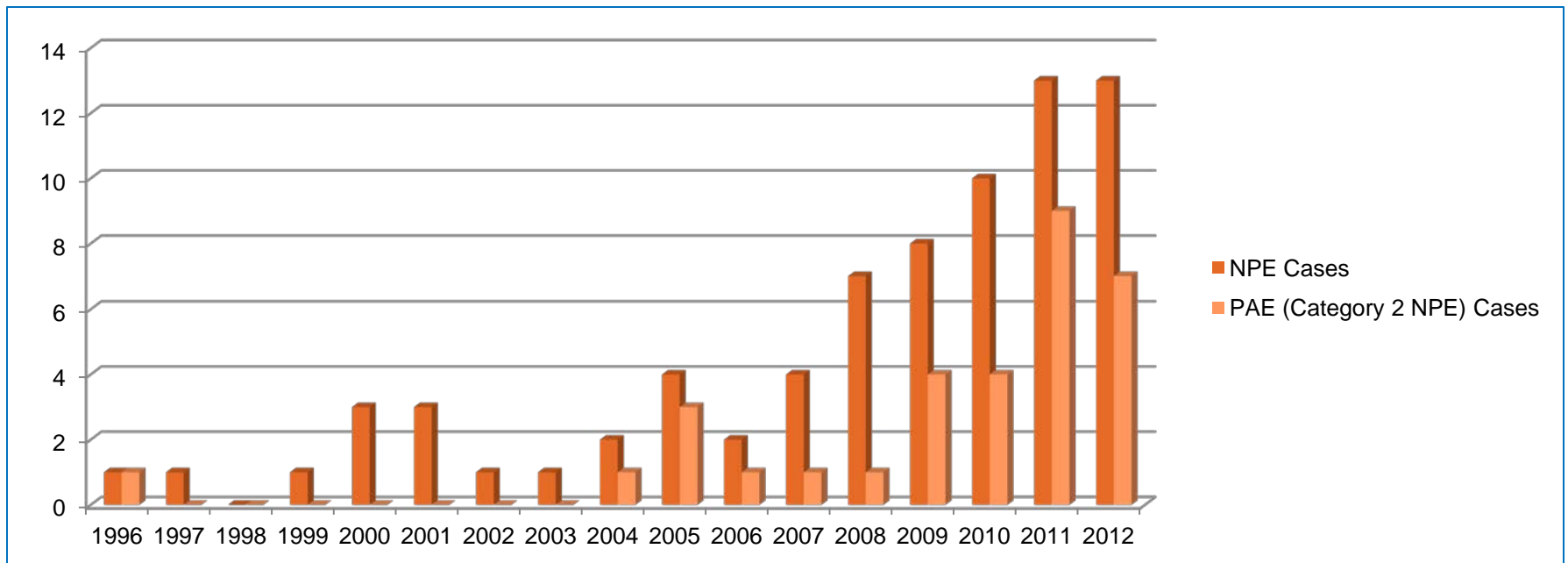


Data through
August 11, 2011

- Patent Holdup, the ITC, and the Public Interest (Chien and Lemley, 2012)

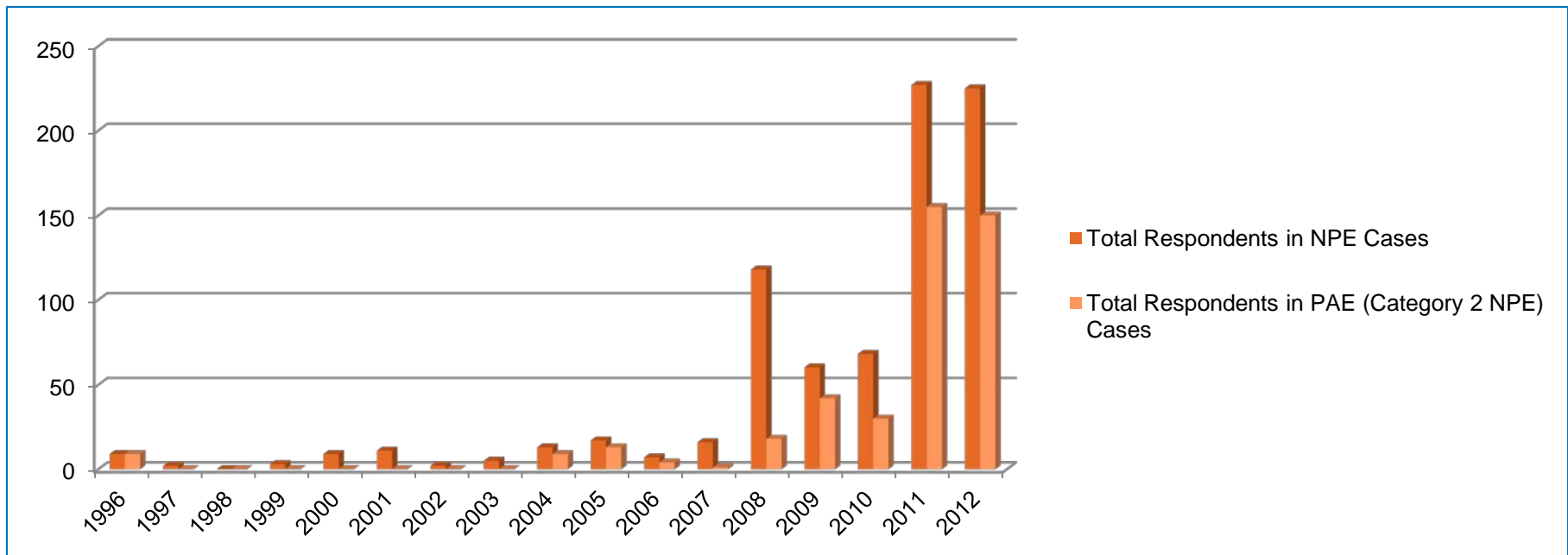
The Impact of *eBay v. MercExchange*, 547 U.S. 388 (2006)

- ITC's own data shows a steady increase in the number of NPE cases filed
 - 2 in 2006
 - 13 in each of 2011 and 2012



The Impact of *eBay v. MercExchange*, 547 U.S. 388 (2006)

- ITC data showing number of respondents in NPE-filed cases
 - 5 in 2006
 - 225 in each of 2011 and 2012



Summary of post-eBay NPE Cases

Time Period	NPE Cases	Number of Respondents in NPE Cases
Pre-eBay (5/96 – 5/06, 10 yrs)	18	75
Post-eBay (6/06 – present, 7 yrs)	59	745

Other Factors Making ITC Attractive to NPEs

- Speed
 - ITC cases conclude at “earliest practicable time”
 - Average time to trial:
 - United States District Courts: 24.8 months
 - International Trade Commission: 6-8 months
- Broad discovery – FRE do not apply
- Expedited relief early in product life-cycle

Other Factors Making ITC Attractive to NPEs

- Handle multiple infringers in one lawsuit
 - AIA makes joining multiple defendants in USDC difficult
 - *Kyocera* requires naming additional respondents to obtain downstream relief from ITC
- Fewer procedural hurdles
 - No venue transfers
 - No monetary damages issues
 - Investigations rarely stayed pending reexamination

How Do NPEs Have Standing in the ITC?

- Domestic Industry requirements
 - Licensing = **both** economic and technical DI prongs
 - A domestic industry exists under Section 337(a)(3) if there is an industry:

in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work, or design concerned—

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

*(C) substantial investment in its exploitation, including engineering, research and development, **or licensing.***

NPEs and Domestic Industry

- Does NPE need to satisfy technical prong of DI?
 - § 1337(a)(3)(C): “with respect to the articles protected by the patent . . . a substantial investment in . . . licensing.”
- *Interdigital v. ITC* (CAFC, 2010-1093):
 - Does § 1337(a)(3)(C) require the DI technical prong?
 - Federal Circuit looked to legislative history
 - Dissent cites to legislative proposals

NPEs and Domestic Industry

- How much domestic industry is enough?
 - *Certain Digital Satellite Systems Receivers & Components Thereof*, ITC Inv. No. 337-TA-392 (1997):
 - five full-time licensing employees sufficient to satisfy domestic industry
 - *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, ITC Inv. No. 337-TA-650 (2010):
 - nexus test

Challenges Presented By NPEs

- No products
 - No available counter-assertion of patents or cross-licenses
 - Cross-license generally unavailable
- Patent scope
 - Often have patents with unclear claim boundaries
 - Often present little evidence at the outset of litigation
- Low Overhead
 - No manufacturing or research, very few documents in discovery
 - Often hire attorneys on contingency-fee basis
 - Economies of scale suing many defendants at once
- Approach
 - Aggressive positions and expectations

The NPE Challenge: Settlement

- Fewer Percentage of Settlements in the ITC
 - USDC: 97% patent cases settle
 - ITC: Just 48% cases settle
- Speed of the ITC
 - Legal fees and Costs can grow rapidly
 - Expenses in far more compressed time period
- Effective, one-tiered Protective Orders

The NPE Challenge: Remedy

- The Remedy
 - Powerful, injunctive, *in rem* relief enforced by Customs
 - VISX stock price dropped over 40% the day after failing to exclude Nidek's laser eye surgery equipment (337-TA-419)
 - Rambus stock price rose 7.2% after it obtained an exclusion order against Nvidia's computer graphics chips (337-TA-661)
 - HTC's stock price dropped over 6.5% after Apple obtained exclusion order (337-TA-710)
 - District courts require *eBay* test for injunctive relief

ITC Remedies and FRAND Issues

- Arizona State Univ. Study (2010):
 - 251 interoperability standards in a modern laptop computer
 - Of the 197 categorized:
 - RAND: 148 (75%)
 - Royalty Free: 43 (22%)
 - Patent Pool: 6 (3%)

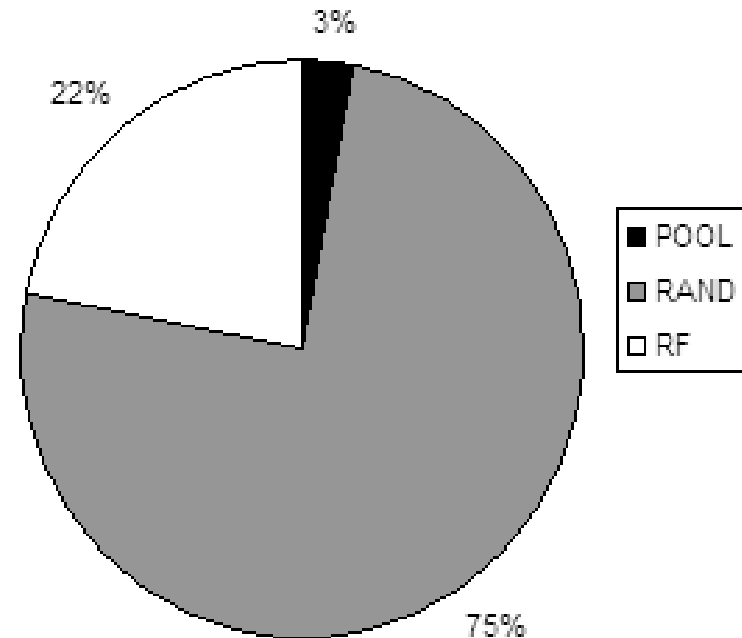


Figure 2: IP MODELS

- “How Many Standards in a Laptop? (And Other Empirical Questions)”
(Biddle, 2010)

Legislative Proposals

- Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act of 2013:
 - Loser pays if plaintiff is a classic “troll”
- “ITC Working Group” proposals:
 - Apply *eBay* to the ITC
 - Require technical prong for DI re licensing
- Vermont: suits for bad-faith infringement allegations

Executive Proposals

- White House Task Force On High-Tech Patent Issues:
 - President Obama: “[NPEs] are essentially trying to leverage and hijack somebody else’s idea and see if they can extort some money out of them.”
 - Legislative Recommendations, including:
 - “Change the ITC standard for obtaining an injunction to better align it with the traditional four-factor test in eBay Inc. v. MercExchange...”
 - “Ensure the ITC has adequate flexibility in hiring qualified Administrative Law Judges.”

ITC and Federal Circuit Responses

- ITC:
 - *Laminated Packaging* – Commission ordered DI hearing 100 days from institution (337-TA-874)
 - ITC recent practice to allow ALJs to take public interest evidence at beginning of case
- Federal Circuit:
 - *Motiva LLC v. ITC*: DI determined at the time of filing
 - DI may be in the process of being established
 - Impact on establishment of licensing-based DI?

Takeaways

- Congress can and has amended the statute in the past: possible application of *eBay* test at ITC
 - **Pros**
 - Consistent injunction analysis for district court and ITC
 - Reduce NPEs at the ITC
 - **Cons**
 - Difficulty in porting the test to ITC
 - Would apply to all complainants, not just NPEs
 - Potential for violation without a remedy
 - **Potential middle ground**
 - Modified version of *eBay*

Takeaways

- 19 U.S.C. § 1337(d)(1):

If the Commission determines ... that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.

Takeaways

- Potential to use public interest factor to limit impact of NPE exclusion orders:
 - Delaying implementation of exclusion orders, *e.g.*, to allow design-around (337-TA-710);
 - Grandfathering in existing products, *e.g.*, where infringing component is small (337-TA-543);
 - Exempting spare parts to service existing products (337-TA-503); or
 - Potential to extend bond period/penalty provisions to provide compensation for ongoing infringement

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