

The Prior Art

One reporter's notes on the IP beat

May 26, 2010

Patent Litigation Weekly: International Trade Commission rebuffs Big Tech, keeps doors open to NPEs

The International Trade Commission is in charge of enforcing the Tariff Act of 1930, a law passed during the Depression to protect U.S.-based companies from unfair trade practices, including the sale of goods that infringe valid U.S. patents. In recent years, however, the agency's definition of what qualifies as "domestic industry" has expanded to the point that small patent-holding companies with just a handful of employees (Saxon Innovations, St. Clair Intellectual Property Consultants) and even individual inventors have been allowed to proceed with ITC litigation.



Congress helped expand the ranks of who could seek remedies at the ITC in 1988 when it amended the "domestic industry" requirement to include "licensing" as qualification. Patent-holding companies have relied on that change ever since to justify their arguments that the taxpayer-funded ITC should ban imports of certain products on their behalf. Of course, in 1988, the patent litigation landscape was very different, and patent-holding companies—aka "non-practicing entities," or "patent trolls"—in the modern sense simply didn't exist.

Over the past two decades, the question of what constitutes a domestic industry has typically been heard by the same ITC administrative law judges who ultimately rule on the patent disputes that come before the agency. It's rare that the full commission considers the issue. On April 14, though, the full commission did weigh in on the subject, issuing a striking ruling that will make it easier than ever for patent-holding companies to enforce patents at the ITC—and put added pressure on the companies getting sued there.

Big companies that are frequent targets of holding company infringement claims have good reasons not to want the ITC to open its doors any wider to NPEs. After all, only a tiny fraction of district court infringement cases go to trial, with the typical defendant paying an estimated average of \$5 million per case. By contrast, 40 percent of ITC cases go to trial and the average defendant there can expect to rack up as much as \$10 million in litigation costs over a much shorter period of time. And while the ITC can't award damages for patent infringement, it can impose bans on imported goods deemed to be infringing, giving NPEs a powerful lever for extracting cash payments from their targets.

The significance of the commission's April 14 ruling in the case titled *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, ITC investigation no. 337-TA-650 is the finding that in most circumstances, merely engaging in litigation—and spending money on it—is enough to qualify an ITC complainant as an "industry" worthy of protection. In essence, the Coaxial Cable case represented the first open, public battle over who deserves to be at the ITC, pitting Big Tech on one side against NPEs on the other—and Big Tech came out the big loser. [ITC decision, [PDF](#).]

The complainant in the case, Syracuse, NY-based PPC, Inc. has no U.S. operations that qualify it as a domestic industry under ITC rules. It argued, though, that the litigation costs it incurred while enforcing its patent-in-suit in multiple district court litigations should earn it domestic-industry status. Its reasoning: the lawsuits resulted in

a patent license. After reviewing the argument, ITC staff attorneys suggested that the full six-member commission consider the issue. The commission agreed to do so late last year, and asked for public comment from interested parties.

In January, top tech industry patent lawyers, including Mallun Yen of Cisco Systems, Michelle Lee of Google, and Verizon's John Squires, wrote to the ITC to ask that the commissioners interpret "licensing" in the appropriate historical context, and not allow non-practicing patent holders to use the ITC as a hammer to extract royalty payments.

In the view of these tech-sector commenters, the option of meeting the domestic-industry requirements via licensing should only be available to a licensor who is actually "urging the adoption of its patented technology," not just enforcing a legal right of exclusion to try to make money. "The ITC is a special forum dedicated to protecting domestic industries; the 'licensing' standard should not be expanded to admit patent holders who have done nothing more than seek to extract royalties based on others' existing products," the lawyers wrote. [Cisco/Google/Verizon comments, [PDF](#).]

The trio's comments further argued that when Congress amended the statutes governing the ITC in 1988, its goal was for the ITC to enforce patent rights for patent-holders engaged in "affirmatively enabling and expanding use of technology." And patent trolling, the three in-house lawyers maintained, doesn't qualify: "Merely suing others who are already practicing the patent is a way of trying to stop or tax the activity, not to spread it. Such suits, accordingly, are on their face the antithesis of trying to encourage the adoption of the technology." (Five other tech companies—Hewlett-Packard, Dell, Samsung, ASUS Computer, and Transcend Information—also submitted comments containing similar arguments. [PDF](#).)

That point of view was opposed in lengthy comments submitted by Tessera, a publicly held, California-based, patent-licensing company with 416 employees, a vocal lobbying presence in Washington on behalf of patent rights, and a heavy docket of patent suits—in district court and at the ITC—against large technology companies.

Tessera argued that the ITC should use its power on behalf of an "innovation community," which, it said, includes "universities, research institutions, small businesses, and individual inventors." The "licensing" standard, Tessera's lawyers argued, is indeed a low bar that allows many types of entities to come to the ITC—and appropriately so. Various ITC administrative law judges have already allowed Tessera to prove it meets the domestic-industry requirement based on its licensing activities, and those judges "afforded equal weight to all licensing investments"—including the money Tessera pays its patent attorneys. [Tessera comments, [PDF](#).]

In the end, the commission ruled that PPC can indeed qualify as a domestic industry based on its legal bills, as long as they're related to patent licensing. It was a decision that embraced Tessera's argument, rejected Big Tech's, and potentially gave momentum to a trend that is already underway.

"We in the private ITC bar have been watching this [domestic industry] issue percolate, and this is the first commission decision squarely addressing whether litigation expenses count," says Brian Busey, an ITC lawyer at Morrison & Foerster who recently co-authored a paper about the *Coaxial Cable* ITC decision. Busey notes that the ruling was not an unqualified win for NPEs because it specified that only litigation costs incurred as part of a larger "licensing campaign" should be a factor in determining whether a company deserves domestic industry protection. Still, given that almost every NPE patent assertion can be seen as part of a

"licensing campaign," that sets the bar fairly low. It's likely, Busey says, that all an administrative law judge will require is that a patent-holder have one or two signed licensees prior to coming to the ITC. "While they don't explicitly say you absolutely have to have a signed license, generally that's what they're looking for," he says. The only type of patent-holder that can still expect to be barred from the ITC? An NPE that hasn't managed to secure a single license.

Posted at 05:43 PM in [Company: Altitude Capital](#), [Company: Cisco Systems](#), [Company: Google](#), [Company: Tessera](#), [International Trade Commission](#), [Patent Licensing Companies](#), [Patent Litigation Weekly](#) | [Permalink](#)

Comments



I would like to address some of the comments made in your May 26th Patent Litigation Weekly article, "International Trade Commission Rebuffs Big Tech, Keeps Door Open to NPEs."

First, your characterization of Tessera. Tessera develops and licenses technologies that enable electronic devices -- such as cell phones, computers and cameras -- to be smaller and less expensive. We also manufacture and sell products based on this technology. We operate two manufacturing facilities, spend \$65 million a year on R&D, and employ 470 people -- of whom more than 60 percent are technologists.

Second, this article doesn't differentiate between "licensing companies" and "patent trolls." By using the terms interchangeably, you confuse the genuine harm sometimes caused by "patent trolls" with the beneficial effects of "non practicing entities" (or NPEs) that invent and license valuable new technologies rather than manufacture these themselves.

In the research for my upcoming book from Harvard Business School Press -- entitled "Great Again!" and coauthored by journalist David Kline -- we discovered that it was precisely the ability of innovators to specialize in invention while leaving manufacturing and sales to others that enabled America to become the most innovative and successful economy in history.

The founders of our nation deliberately designed the American patent system to do what no other patent system in the world had ever done before -- namely, stimulate the inventive genius and entrepreneurial energy of the common man. And they succeeded at that task brilliantly.

Of the 400 iconic "great inventors" of the nineteenth century, more than 70 percent had only a primary or secondary school education. Half had little or no formal schooling at all. And many of the most famous names in American invention -- including Thomas Edison -- had to leave school early to support their families.

Without wealth of their own, these innovators could not commercialize their inventions. Instead, aided by publications such as Scientific American that were founded for the purpose of facilitating a market in new technology, they licensed their discoveries to enterprises or groups of investors that could.

Such licensing by 19th century NPEs, say economic historians B. Zhorina Khan and the late Kenneth Sokoloff, "made it possible for creative individuals to specialize more fully in inventive work." And this in turn, they say, produced "higher rates of productivity in the generation of new technological knowledge."

Only 13 years after the first patent law was enacted by Congress, the per capita patenting rate in the U.S. had far surpassed Britain's -- until then the undisputed leader of the industrial revolution -- even though Britain still had more than twice America's population. By 1860, the number of new inventions patented in the United States was an astonishing seven times the number in Britain, although our populations were by then approximately equal in size.

Patent assignment records from the 19th century show that 2/3 of all of America's "great inventors" -- from Thomas Blanchard to Thomas Edison -- were actually NPEs who licensed their inventions rather than manufacture them themselves.

Without these innovators, there would have been no industrial revolution. And America would not have become the global leader in innovation that it is today.

Sincerely,

Henry R. Nothhaft
CEO
Tessera

Posted by: [Hank Nothhaft](#) | [May 27, 2010 at 10:28 AM](#)

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