

Intellectual Property Advisory

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Federal Circuit Affirms ITC Jurisdiction for Non-Practicing Entities

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On January 10, 2013, the Federal Circuit reaffirmed broad ITC jurisdiction for non-practicing patent enforcement entities by denying Nokia Corp.'s petition for rehearing of *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n* (2010-1093). In denying rehearing, the Federal Circuit also issued a new opinion to address more fully Nokia's argument that InterDigital's licensing activities were insufficient to satisfy Section 337's domestic industry requirement. The court restated that non-practicing entities can satisfy the domestic industry requirement through substantial domestic investment in licensing activities, and that there is no need to prove that any licensed products are actually made in the United States.

The statutory foundation for the ITC's domestic industry requirement is found in Section 337(a)(2), which requires "an industry in the United States, relating to the articles protected by the patent." Section 337(a)(3) provides that "an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent...

- 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."

In its petition for rehearing, Nokia argued that the Commission and the Federal Circuit panel misconstrued the statutory language "relating to the articles protected by the patent" in Section 337(a)(2) and "with respect to the articles protected by the patent" in Section 337(a)(3). Nokia argued (1) that there must be "articles protected by the patent," (2) that licensing investments only counted for licensing activity "with respect to the articles protected by the patent," and (3) that the patented technology must be put to practical use in the United States. Nokia argued that InterDigital failed to meet the domestic industry requirement because there were no domestic articles protected by the patent. The Federal Circuit disagreed.

In a 2-1 ruling, the majority relied heavily on the 1988 amendment to Section 337, which permitted patent holders to satisfy the domestic industry requirements by showing they had made a substantial investment in licensing. "Under the clear intent of Congress and the most natural reading of the 1988 amendment, Section 337 makes relief available to a party that has a substantial investment in exploitation of a patent through either engineering, research and development, or licensing," wrote Judge William C. Bryson, who authored the majority opinion. "It is not necessary that the party manufacture the product that is protected by the patent, and it is not necessary that any other domestic party manufacture the protected article."

Based on this reading of the law, the majority held that InterDigital's investments in its licensing activities alone were sufficient to satisfy the domestic industry requirement—even though no licensed products were produced domestically. The Court rejected Nokia's arguments, including the assertion that licensing activities must be tied to domestically manufactured products. The majority concluded that "[a]s long as the patent covers the article that is

the subject of the exclusion proceeding, and as long as the party seeking relief can show that it has a sufficiently substantial investment in the exploitation of the intellectual property to satisfy the domestic industry requirement of the statute, that party is entitled to seek relief under Section 337.”

Judge Pauline Newman disagreed. In a 30-page dissent, Judge Newman contended that the majority opinion actually contradicted Congress’s intent in adopting the 1988 amendment. Liberally citing the legislative record, Judge Newman stated that the purpose of the 1988 amendment was not to remove the requirement that “articles protected by the patent” be produced domestically, but to “enlarge the incentive for domestic production” by allowing universities and others that perform research or engineering but do not themselves manufacture their patented products to have access to the ITC. “My colleagues hold that it is irrelevant that no domestic industry is producing, or planning to produce, the patented articles,” Judge Newman wrote. “However, that is the purpose of Section 337. The legislative record is clear that the ‘licensing’ amendment to Section 337 was enacted to encourage and support domestic production of patented products.”

Implications

The majority opinion makes it clear that non-practicing entities are still welcome at the ITC so long as they can show a substantial investment in licensing activities covering the articles subject to the investigation. There need not be any domestically produced articles protected by patents-in-suit to satisfy the domestic industry requirement.

This is a significant loss for those in the industry who have been advocating against non-practicing entities. In fact, Judge Newman’s dissent cites a number of passages from the July 2012 congressional hearing on Section 337 actions at the ITC, including one passage from Neal A. Rubin, Vice President of Cisco Systems, who proffered that “patent assertion entities often rely upon unwilling licensees [to satisfy the domestic industry requirement].... But this statutory language, added by Congress in 1988, should not apply to the ‘revenue-driven licensing’ model.” Given the current environment and increased lobbying efforts by these detractors, it would not be surprising to see Nokia file a petition for certiorari with the U.S. Supreme Court.

U.S. Circuit Judges William C. Bryson, Haldane Robert Mayer and Pauline Newman sat on the panel for the Federal Circuit that considered Nokia’s rehearing request.

The patents-in-suit are U.S. Patent Numbers 7,190,966 and 7,286,847.

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