

NOVEMBER/DECEMBER 2023

VOLUME 29 NUMBER 6

DEVOTED TO
INTELLECTUAL
PROPERTY
LITIGATION &
ENFORCEMENT

*Edited by Gregory J. Battersby
and Charles W. Grimes*

IP *Litigator*®

Non-Practicing Entities at the International Trade Commission: Statistics, Legal Updates and Tactics for Respondents

Hunter Keeton

Hunter Keeton is a Shareholder in Wolf Greenfield's Litigation practice. Mr. Keeton focuses his practice on litigation in the areas of patent, trademark, trade dress, copyright, domain name disputes, and Internet cases. He has extensive experience representing clients in federal district court and state court, and before the International Trade Commission (ITC).

If you practice before the International Trade Commission (ITC), you have likely noticed an increase in investigations initiated by entities that do not actually use the patent involved in the claim. Responding to these suits brought by non-practicing entities (NPEs) involves nuances, and an understanding of who NPEs typically are, how they are funded, and ways to counter their attacks is essential for ITC practitioners and respondents.

Who are the NPEs Asserting Patents at the ITC?

Like in federal district court, NPEs that bring complaints at the ITC fall into two broad categories: 1) entities that have a genuine, pre-existing relationship to the patents they own or have rights to but that do not themselves manufacture products that practice the asserted patents (for example, inventors, universities, or operating companies that wound up going into a different line of business); and 2) classic patent trolls whose business model focuses primarily on purchasing and asserting patents.

Category 1 NPEs are often inventors or related people who may have conducted research and development, or built prototypes, but who do not then go on to manufacture the patented product, such as research institutions, universities, laboratories, start-ups, and garage inventors. Because they do not make the products that practice the patent, they rely on licensing to meet the domestic industry requirement. For example, a “garage inventor” may

be working on a new computer technology in her garage, and she comes up with something completely new, applies for, and is granted a patent. But she does not want to or cannot afford to build a business around this product, and so licenses it to a third party who builds the products in the United States. A few years later, she learns that a software giant is now practicing her patent and importing products into the US. To get paid for the software giant's use of her patent—or perhaps even to stop its user—the inventor might consider bringing a complaint at the ITC.

Category 2 NPEs are entities that likewise do not manufacture products covered by the patent, but they were not involved in the invention or development of the patent or a covered product. Instead, such NPEs are simply trying to get licensing fees, and are traditionally referred to as “patent trolls.” These are often businesses who focus on purchasing and asserting patents by trying to obtain fees from the entities practicing the patent.

Traditionally, most investigations at the ITC are competitor v. competitor: entities who make and sell products in an industry bringing investigations against others in the same industry for patent infringement. While that is still the case today, in the past few years there has been a slight downtick in competitor v. competitor suits, and a corresponding uptick in infringement complaints brought by both Category 1 and 2 NPEs.

In the federal district courts, which do not have the domestic industry rule (the requirement that the entity have made significant investments in the US pertaining to the product at issue), NPE-initiated suits are often brought by Category 2 NPEs, who do not need to prove anything about their or their licensees' practice of the patents in the US to file suit.¹ Indeed, leaving aside its potential impact on lost profits damages, an NPE could succeed in a patent infringement lawsuit in district court where the only entity in the world practicing the patent is the defendant. The domestic industry requirement at the ITC means the NPE must show that someone other than the respondent (i.e., the NPE's licensee) is practicing the asserted patent in the US, creating a potential hurdle that

can trip up NPE complainants – which will be discussed in more detail below.

Nonetheless, NPEs have found it increasingly worthwhile in the past few years to file at the ITC, possibly in the hope of using the threat of exclusion and cease and desist orders to drive favorable settlements. Yet in the past 16 years at the ITC, more than 130 investigations have featured NPEs as the sole or lead complainant, but none of these 130 investigations have actually successfully led to an exclusion order at the end of the investigation. It seems that the ITC overall, and perhaps the Commissioners in particular, are skeptical of NPE investigations, and are aware that such claims can be used as a threat by the NPE to attempt to obtain a settlement before the investigation concludes.

Legislative and Policy Issues

Some recent action in Congress might have an impact. Identical bills introduced in the most recent three Congresses have sought to reduce the use of the ITC by NPEs. The latest bill, introduced during the 118th Congress on September 7, 2021, by Representatives David Schweikert and Don Beyer, the “Advancing America’s Interests Act,” H.R. 5184, seeks to limit the ability of patent holders to bring complaints before the ITC by tightening the domestic industry standards, and by strengthening the requirement that the ITC consider the public interest when determining whether to exclude articles that are under investigation. Today, NPEs can—and often do—meet the ITC’s domestic industry requirement through licensing activity, but H.R. 5184 would specifically prohibit a complainant from relying upon activities by a licensee to demonstrate domestic industry, unless the license leads to the adoption and development of articles that incorporate the claimed patent for sale in the US. The bill has not yet gained much traction in Congress, and it remains to be seen if it will do so.

Litigation Funding at the ITC

Litigation funders can find ITC investigations to be a favorable investment because most cases proceed past the complaint stage, the overall statistics for (non-NPE) complainants give them a reasonable chance of winning, injunctive relief is all that the ITC can do, and there is often a speedier resolution than there would be in federal district court. At the ITC, about half of investigations settle before the Commission’s decision, and the majority of cases that proceed to a final determination on the merits result in a finding of a violation (again, for non-NPE complainants). At the district court level, even if

things go well for an NPE, they’re unlikely to get injunctive relief, and the process often takes years from initiation to the point where they’d see any actual damages. Consequently, the ITC has some real potential upsides for litigation funders.

But pursuing an investigation at the ITC is not without significant risk for NPEs and the litigation funders who back them. Litigation funders are often sensitive to becoming public, which can be a risk at the ITC; for example, via the ITC’s requirement that redacted versions of settlement agreements be filed publicly (something few district courts, if any, require). Pursuing an ITC investigation requires intensive market analysis, which means spending money earlier. And as mentioned, so far not a single NPE has prevailed in a final Commission decision at the ITC. Furthermore, even if the NPE does prevail, the funder is not guaranteed a return on their investment because the ITC does not award damages. Instead, the funder must rely on the threat or reality of remedial orders as leverage to get a settlement. A respondent may also engage in a design-around, and then the respondent is importing a redesign that does not infringe on the patent and so has sidestepped the remedial orders.

In addition to the risk of being identified, funders who go before certain administrative law judges at the ITC may be required to disclose the identity of parent companies. ALJ Elliot has in certain instances required NPE complainants to “file a corporate disclosure statement identifying any parent corporation of Complainant and any publicly held corporation possessing an ownership interest in Complainant, or state that there is no such corporation.”²

This requirement largely mirrors Federal Rule of Civil Procedure 7.1 in district court. While there is no current indication that a similar rule will be adopted at the ITC, these disclosures pose a potential publicity problem for litigation funders and NPEs, and could disincentivize NPEs from proceeding at the ITC.

Despite these risks, litigation funders like Longford Capital Management, Fortress Investment Group, and Woodsford have announced they will fund ITC investigations, or already are.

What Can We Learn from Recent Investigations?

A few investigations over the past few years highlight several defensive tactics respondents might consider in responding to NPE-filed investigations.

One highlights the potential benefits of defensive patent pool licensing—even post-complaint patent pools—in fending off NPE patent assertions. In *Certain*

Capacitive Touch-Controlled Mobile Devices, Computers, and Components Thereof, Inv. No. 337-TA-1193, an NPE called Neodron asserted four patents against unrelated respondents, with Neodron relying on its licensee Microchip for domestic industry purposes. The respondents initially did not have a licensing defense. But around the time of expert reports, a defensive patent pool named RPX signed a license with Neodron, one which covered the asserted patents and respondents. That license led to a joint motion to terminate, which the ALJ granted, ending the investigation.

This investigation demonstrates the value of obtaining a defensive license, even where the patent pool secures the license after the investigation begins. Defensive patent pools—groups of entities who are being or who might be sued who join together to purchase portfolio patent licenses that cover the patents being asserted—can be less expensive on a per-respondent basis, and less contentious, than entering into a one-off license with a complainant in a single investigation. It's usually least expensive to do so before the dispute starts, but in *Certain Capacitive Touch-Controlled Mobile Devices*, it happened even in the middle of the investigation. For practitioners, it's a helpful reminder that if your client is sued or an investigation starts, it might not be too late to join a defensive patent pool if the price is right.

Another important takeaway from *Certain Capacitive Touch-Controlled Mobile Devices* is the issue of privacy: While the patent pool in this investigation was publicly disclosed, in certain situations, respondents may be able to keep the fact that they are participating in a patent pool private. Doing so can be important to prevent patent trolls from targeting particular respondents.

Licensing also played an important role in the resolution of a different NPE investigation, *Certain Networking Devices, Computers, and Components Thereof and Systems Containing the Same*, Inv. No. 337-TA-1298. The NPE complainant, Proven Networks, asserted one patent against NetApp, and relied solely on its licensee Extreme Networks to establish domestic industry. But this was not the first time Proven had asserted this patent, and the prior actions had been settled via an agreement with RPX. Importantly, in that agreement, Proven waived its ability to rely on Extreme Networks for any domestic industry purposes. Once NetApp worked this out in discovery, it moved to terminate the investigation for lack of domestic industry, and filed a motion arguing that Proven did not have sufficient rights in the patent (i.e., sufficient standing) to file the complaint. Chief ALJ Cheney granted the motion to terminate based on the waiver in the license, and did not reach the standing issue. This decision illustrates the importance to NPEs to set up their licenses to let them get the domestic industry support they need from their

licensees, and a potential defense for respondents if the NPE has not done so.

Standing problems did determine the outcome in another investigation. In *Certain Smart Thermostats, Load Control Switches, and Components Thereof*, Inv. No. 337-TA-1277, the complainant Causam was an NPE formed by the initial patent owner. But years before the initial patent owner formed Causam and filed the investigation, he had conveyed away ownership rights to another entity. Again, the respondent in the investigation worked all this out in discovery, and secured a ruling by Chief ALJ Cheney that Causam did not own the patents and thus had no standing to assert them. That said, the respondent was left wondering why it had spent millions of dollars litigating an investigation against an NPE that had never owned the patents in the first place, and never had standing to assert them. And this determination by the ITC is not legally binding on district court, theoretically leaving Causam free to try again there. At times, such victories can feel hollow for respondents.

In various ways, these cases demonstrate the importance of third-party discovery for both sides in an NPE investigation, especially as to the third party or parties the NPE must rely on to meet its domestic industry requirement. Imagine this fairly common scenario: An NPE brings an investigation relying on an arms-length third-party licensee domestic industry. Importantly, the licensee is not a “willing” one, but only agreed to the license to settle a prior patent infringement assertion. In fact, the licensee would rather never have to hear from the NPE again and has no inclination to help the NPE beyond what the law requires. As a result, the NPE does not gather information or work with the licensee before filing the ITC complaint. Unsurprisingly, the arms-length licensee did not want to cooperate with the NPE and is not willing to voluntarily provide any of the domestic industry evidence the NPE needs to make its case, forcing the NPE to serve a subpoena on the licensee about its US practices to get that evidence.

While the third party has the legal obligation to respond to the subpoena, it has no incentive to help the complainant beyond its legal requirements. While the NPE complainant has the burden of proof on domestic industry, it may not want to push the licensee too hard on the discovery. The licensee is already pretty hostile, and the NPE wants to “play nice” (at least somewhat) with the licensee to get evidence crucial to its case. At the same time, the respondents in the investigation don't want to push too hard either to get this discovery, as it might just fix holes in the NPE's case. Meanwhile, the licensee has no dog in the fight, and no incentive to help the NPE. The result is that the licensee produces some relevant documents but not all of them, and perhaps a declaration on some of its activities, but none of its employees are deposed. Some

evidence is often left on the table because no one is pushing to get more information.

There are countervailing pressures at play here. The NPE wants to “play nice” and not press unwilling licensees for fear they will dig in their heels and refuse to produce anything, potentially torpedoing the NPE’s case. The respondent wants to take advantage of the complainant’s burden, and not press licensees for fear of fixing holes in the complainant’s case that would help the NPE to meet its burden. Being aware of these pressures, it’s worth thinking through whether to push back. If you are the complainant, it may be worth taking the risk of pressing the licensee so that you do not leave holes in your case. If you are the respondent, you should consider whether the licensee may have more information that will actually disprove the domestic industry case.

Strategies and Tactics for Fighting Back Against NPE Assertions

It is possible to build a successful defense against NPE assertions at the ITC by acting early, and carefully considering standing and the domestic industry requirement.

1) Tackle Pleadings Early

After a complaint is filed at the ITC, there is typically at least one month before anything is scheduled, giving respondents an opportunity to take action early. Respondents should begin by requesting the 100-day program, which authorizes the ITC to resolve the investigation within 100 days due to dispositive issues like standing or the domestic industry requirement. While initiating the 100-day program is rarely successful, it can have some important advantages for respondents, including highlighting specific important issues for the ALJ. For example, a license defense which might quickly dispose of the investigation could be worth a short 100-day petition. While respondents might not be accepted for the 100-day program, requesting it can highlight important issues for summary determination later in the investigation.

In certain circumstances, respondents should also consider requesting non-institution, and requesting that the scope of the investigation be narrowed. Recently, the ITC has declined to institute in several investigations as to certain respondents based on deficient pleadings. In *Certain Location-Sharing Systems, Related Software, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-1347, the complainant sued a large number of entities, including both manufacturers and customers. The complainant had a difficult time identifying who

the proper respondents were, and included a trademark licensee who did not sell any product named in the complaint. Because this company was a licensee for the trademark only, and was uninvolved in any possibly-accused product, the complainant voluntarily agreed to withdraw the complaint as to that respondent, rather than run the risk of the ITC delaying or denying institution while it resolved the issue.

Respondents can also request that the scope of the investigation be narrowed. For example, in a complaint where the type of products at issue are too broad, i.e., “all computers,” a respondent could send a letter to the ITC requesting that the scope of the investigation be narrowed, as what is actually covered are tablet computers that infringe on one or more claims of the patents. The benefits to this are obvious, especially if the respondent does not manufacture the covered products.

2) Standing

When a complainant that lacks a sufficiently large portion of patent rights brings suit, that complainant does not have standing to sue on its own, and the suit must be dismissed or additional holders of rights under the patent must be joined as parties to the suit. These same principles apply at the ITC. Respondents thus should investigate and seek discovery on all assignments and licenses. In its test for “all substantial rights” in a patent, the ITC will consider:

- (1) the nature and scope of the right to bring suit;
- (2) the exclusive right to make, use, and sell products or services under the patent;
- (3) the scope of the licensee’s right to sublicense;
- (4) the reversionary rights to the licensor following termination or expiration of the license;
- (5) the right of the licensor to receive a portion of the proceeds from litigating or licensing the patent;
- (6) the duration of the license rights;
- (7) the ability of the licensor to supervise and control the licensee’s activities;
- (8) the obligation of the licensor to continue paying maintenance fees; and
- (9) any limits on the licensee’s right to assign its interests in the patent.

While the ITC can be hesitant to grant such fatal relief, it has issued summary determinations based on a lack of standing in situations where the complainants did not have enough patent rights or had signed their rights away. Typically, standing arguments will not allow a respondent to stop an investigation before it starts, because respondents won’t have the evidence to prove a lack of standing until discovery is well underway. But if early discovery

shows that a respondent has a good standing defense, it could get permission for an early summary determination motion. And if the standing argument fails at the summary determination stage due to disputes of material fact, it could still be used as a defense at trial. Standing arguments are particularly attractive because standing is a legal rather than a factual issue, which can provide respondents with a win earlier in an ITC investigation.

3) Domestic Industry

A third useful defense relies on the ITC's domestic industry requirement. Where the complainant's domestic industry evidence will be purely by subpoena, as in an investigation brought by an NPE where the third party is an unwilling licensee, the respondent should consider requesting the 100-day program and/or interim ID pilot program on domestic industry issues. In recent years this has been unlikely to be granted, but it is worth taking a shot at because it is an issue that can resolve the entire investigation for the respondent's side.

The respondent should also seek discovery on licenses and agreements that may preclude the NPE's domestic industry theory. As a respondent, it's also important to prepare for third party subpoenas to the licensee early—though without doing the work for the complainant, as it's the complainant's burden. Hence respondents should wait for a complainant to first subpoena licensees for domestic industry-related discovery. Once the NPE does so, the respondent should serve its own subpoena seeking evidence that would undercut the NPE's domestic industry story. For example, see if there is evidence that: 1) some or all of the domestic industry product is not made in the US; 2) the product doesn't actually meet the relevant patent claims; and 3) undercuts the NPE's economic allocation to the product. Pushing for actual evidence on these issues, rather than just sitting back and hoping the complainant fails to meet its burden, can have good results. Uncovering a key piece of evidence here can sometimes win the whole investigation for respondents.

Finally, when possible, respondents should coordinate with an uncooperative domestic industry licensee. This type of licensee has often only taken the license after an

earlier fight with the NPE, and may feel that it was forced into it. There's a chance the licensee isn't happy with that resolution. Such a licensee will feel neutral at best toward the NPE. It may actually feel hostile toward it, and want to help the current respondent stick it to the NPE—within the bounds of the licensee's legal and contractual obligations, of course. The third-party licensee may want to collaborate with the respondent, and may know where the proverbial bodies are buried. Maybe the licensee knows that 99% of the domestic industry product is actually manufactured in Mexico. Maybe the licensee settled the prior dispute early because it couldn't afford to keep litigating, but knows about prior art that could invalidate the NPE's patent and is willing to work behind the scenes to help the respondent do so. This type of situation is not common, but it does happen sometimes, and it is worthwhile for respondents to try reaching out to licensees to see if they are willing to help.

Conclusion: Important Takeaways

Facing an ITC investigation from an NPE is not as rare as it used to be. And it can be costly. Unless Congress steps in soon, respondents are left with the current tools in dealing with these actions. Recent investigations show that there are some good ones. Understanding your opponent is essential. You will begin from a much stronger position with an understanding of issues such as privacy concerns for the NPE or its litigation funders, which can dissuade them from the ITC in the first place. Licensing, standing, and domestic industry defenses can be pain points for any complainant, but NPEs are especially vulnerable. It can be worth pushing those issues early and often in an NPE investigation. It's also important to explore third-party discovery from the respondents' side in such investigations. The NPE's licensee may be willing to help your case, or at the very least may not be willing to help the complainant. Advice from ITC counsel can help respondents navigate these issues and hopefully come out on top.

1. https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm
2. See, e.g., *Certain Video Processing Devices and Products Containing Same*, Inv. No. 337-TA-1323, Order No. 24 (Nov. 17, 2022) (complainant VideoLabs, Inc.); *Certain Semiconductors and Devices and Products Containing the Same*,

Including Printed Circuit Boards, Automotive Parts, and Automobiles, Inv. No. 337-TA-1332, Order No. 9 (Nov. 16, 2022) (Complainant Daedalus Prime LLC); *Certain Electronic Devices, Semiconductor Devices, and Components Thereof*, Inv. No. 337-TA-1340, Order No. 3 (Nov. 16, 2022) (Complainant Bell Semiconductor, LLC).

Copyright © 2023 CCH Incorporated. All Rights Reserved.
Reprinted from *IP Litigator*, November/December 2023, Volume 29, Number 6, pages 3–7,
with permission from Wolters Kluwer, New York, NY,
1-800-638-8437, www.WoltersKluwerLR.com

