

No. 12-1352

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IN THE  
**Supreme Court of the United States**

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NOKIA INC., ET AL.,  
*Petitioners,*

v.

INTERNATIONAL TRADE COMMISSION, ET AL.,  
*Respondents.*

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**On Petition for a Writ of Certiorari  
to the United States Court of Appeals  
for the Federal Circuit**

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**BRIEF OF  
DELL INC. AND FORD MOTOR COMPANY  
AS *AMICI CURIAE* IN SUPPORT OF  
PETITION FOR A WRIT OF CERTIORARI**

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LAURA COLEMAN  
ANTHONY PETERMAN  
MARC VOCKELL  
MICHELE CONNORS  
LEGAL DEPARTMENT  
DELL INC.  
One Dell Way  
Round Rock, Texas 78682  
(512) 723-4208

JOHN THORNE  
*Counsel of Record*  
AARON M. PANNER  
CHRISTOPHER C. FUNK  
KELLOGG, HUBER, HANSEN,  
TODD, EVANS & FIGEL,  
P.L.L.C.  
1615 M Street, N.W.  
Suite 400  
Washington, D.C. 20036  
(202) 326-7900  
(jthorne@khhte.com)

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### RESTATED QUESTION PRESENTED\*

Section 337(a) of the Tariff Act of 1930, as amended, grants the International Trade Commission jurisdiction over claims that a respondent has engaged in an unfair trade practice by importing “articles that infringe” a valid U.S. patent only if “an industry in the United States, relating to the articles protected by the patent, . . . exists or is in the process of being established.” 19 U.S.C. § 1337(a)(1)(C), (a)(2). Section 337(a)(3) provides that such a domestic industry “shall be considered to exist if,” among other things, “there is in the United States, with respect to the articles protected by the patent . . . concerned – . . . substantial investment in its exploitation, including engineering, research and development, or licensing.” *Id.* § 1337(a)(3)(C).

The question presented is:

Whether a domestic industry with respect to “articles protected by the patent” exists – even though no manufacturer has exploited the patent in developing and manufacturing any product – merely because the patent-owner has sold licenses to the patent.

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\* *Amici* do not address Nokia’s second question which relates to deference to the fact-finding aspect of claim construction.

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## INTEREST OF *AMICI CURIAE*<sup>1</sup>

*Amicus* Dell Inc. is a leading global information technology company that offers its customers a broad range of computer and data products and services. Dell employs 40,000 people in the United States and invests more than one billion dollars in research, development, and engineering of computer system products annually.

*Amicus* Ford Motor Company is a one-hundred-year-old automobile manufacturing firm that has a long record of innovation and quality. Ford employs 80,000 people in the United States and invests more than five billion dollars in research, development, and engineering annually.

These firms collectively hold tens of thousands of U.S. patents and have a strong interest in a patent system that rewards innovation. They also are being targeted in numerous patent suits. Dell was among the top five companies most often sued by patent enforcers during the period 2008 to 2012. *See* PatentFreedom, Most Pursued Companies (Jan. 2013), *at* <https://www.patentfreedom.com/about-npes/pursued/> (accessed June 10, 2013).

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<sup>1</sup> Pursuant to Supreme Court Rule 37.6, counsel for *amici* represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than *amici* or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Rule 37.2(a), counsel for *amici* represent that all parties were provided notice of *amici*'s intention to file this brief at least 10 days before its due date. Written consent of the parties to the filing of this brief is being submitted contemporaneously with the filing of this brief.

## INTRODUCTION

Nokia's petition is important because the International Trade Commission has become the Nation's most popular patent forum, based on an improper expansion of its jurisdiction to encompass claims by entities that neither manufacture patented products nor enable others to develop such products but that instead extract license payments from companies using technology developed independently.

Patent assertion has become a big business. Patent Assertion Entities or "PAEs" are companies that buy patents and assert them against operating companies. Prior to 2006, no ITC investigation had been initiated by a PAE. By 2012, PAEs were responsible for almost half the respondents named in ITC cases.<sup>2</sup> Largely because of the growth of PAE activity, the ITC "now accounts for a substantial share of the patent infringement trials conducted in the United States." USITC, *Budget Justification: Fiscal Year 2013*, at 24, available at [http://www.usitc.gov/press\\_room/documents/budget\\_2013.pdf](http://www.usitc.gov/press_room/documents/budget_2013.pdf). The ITC is building more courtrooms to handle the growing number of trials. USITC, *Budget Justification: Fiscal Year 2014*, at 17, available at [http://www.usitc.gov/press\\_room/documents/FY2014CongressionalBudgetJustification.pdf](http://www.usitc.gov/press_room/documents/FY2014CongressionalBudgetJustification.pdf).

PAE cases are filed at the ITC to evade three reforms of patent law in federal district courts. First, the ITC continues to issue virtually automatic exclu-

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<sup>2</sup> In 2012, PAEs were responsible for 30% of the investigations and 48% of the total respondents accused of patent infringement. Colleen V. Chien, *Patent Trolls by the Numbers*, Patently-O Blog (Mar. 14, 2013) (reporting data from RPX Corp.), at <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html>.

sion orders – that is, injunctions prohibiting importation of articles found to infringe – notwithstanding this Court’s decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), which overruled the Federal Circuit’s precedents requiring district courts to issue virtually automatic injunctions in patent cases.<sup>3</sup> The Federal Circuit has held that the ITC does not need to follow *eBay* in deciding whether to issue an exclusion order. *See Spansion, Inc. v. ITC*, 629 F.3d 1331, 1359 (Fed. Cir. 2010), *cert. denied*, 132 S. Ct. 758 (2011). Thus, the ITC grants exclusion orders in instances where a district court would deny injunctive relief under *eBay*.<sup>4</sup> The ITC itself recognized that its granting of automatic injunctive relief was a major cause of the influx of PAE cases; it justified its request for a 2012 budget increase explaining that “since the U.S. Supreme Court’s 2006

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<sup>3</sup> Following *eBay*, federal district courts now deny 75% of the injunctions sought by PAEs and deny 90% of such injunctions when the issue is contested. Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 Cornell L. Rev. 1, 9-10 (2012).

<sup>4</sup> *See* Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 Wm. & Mary L. Rev. 63, 98-99 (2008) (ITC issues exclusion orders in 100% of cases with violation); Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Case: Review of International Trade Commission Decisions*, 21 Harv. J.L. & Tech. 457, 485 (2008) (nearly 70% of the pre-*eBay* cases settled at the ITC would not have satisfied the *eBay* factors for an injunction). For example, after a district court denied a PAE an injunction based on *eBay*, the PAE filed an investigation at the ITC seeking an exclusion order. *See Paice, LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006) (denying permanent injunction after considering *eBay* factors); *In re Certain Hybrid Electric Vehicles and Components Thereof*, USITC Inv. No. 337-TA-688, 2010 ITC LEXIS 1083 (June 22, 2010) (seeking exclusion order).

*eBay* decision, which has made it more difficult for patent-holders that do not themselves practice a patent to obtain injunctions in district courts, exclusion orders have increasingly been sought by non-practicing entities that hold U.S. patents.” USITC, *Budget Justification: Fiscal Year 2012*, at 21, available at [http://www.usitc.gov/press\\_room/documents/budget\\_2012.pdf](http://www.usitc.gov/press_room/documents/budget_2012.pdf).

Second, PAEs use the ITC to circumvent Federal Circuit decisions limiting excessive damages awards in district court cases, even though the ITC itself cannot award monetary damages. The ITC is willing to grant an exclusion order when a patent covers only a small aspect of a complex product,<sup>5</sup> a circumstance where the Federal Circuit has ruled that money damages in federal court should be correspondingly limited.<sup>6</sup> An exclusion order that threatens to disrupt a company’s business allows the PAE to extract “hold-up” settlements that far exceed what would be allowed as damages in federal court. *See* Federal

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<sup>5</sup> *See* Carl Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, 12 Am. L. & Econ. Rev. 280, 282 (2001); *compare eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring) (“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”).

<sup>6</sup> *E.g.*, *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67-68 (Fed. Cir. 2012) (“in any case involving multi-component products, patentees may not calculate damages based on sales of the entire product . . . without showing that the demand for the entire product is attributable to the patented feature”); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1319-20 (Fed. Cir. 2011) (limiting damages based on “entire market value”); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1338 (Fed. Cir. 2009) (vacating jury damages award).

Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 225-27, 241 (Mar. 2011) (“FTC 2011 Report”), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

Third, PAEs use the ITC to join large numbers of accused infringers in a single case, evading the recent congressional reform in the federal district courts prohibiting joinder of multiple defendants in a suit solely on the basis that they all are accused of infringing the same patent.<sup>7</sup> The ITC applies no such limit on joinder of unrelated respondents. In 2011, the year that Congress enacted the America Invents Act, PAEs filed a surge of new ITC investigations, and by 2012 had named an unprecedented number of respondents – as many as 45 respondents in a single investigation. Chien, *Patent Trolls by the Numbers*, *supra* note 2; USITC, *Facts and Trends*

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<sup>7</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 19(d), 125 Stat. 284, 332-33 (2011) (codified as amended at 35 U.S.C. § 299(a)); Bryan T. Yeh, Cong. Res. Serv., R42668, *An Overview of the “Patent Trolls” Debate* 13 (Aug. 20, 2012), available at <http://www.nationalaglawcenter.org/assets/crs/R42668.pdf>. The Act forbids “accused infringers [from being] joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.” 35 U.S.C. § 299(b). Congress enacted this provision in response to joinder of large numbers of patent defendants in the Eastern District of Texas: “Section 299 legislatively abrogates the construction of Rule 20(a) adopted in *MyMail, Ltd. v. America Online, Inc.*, 223 F.R.D. 455 (E.D. Tex. 2004).” H.R. Rep. No. 112-98, pt. 1, at 55 n.61 (2011), reprinted in 2011 U.S.C.C.A.N. 67, 85. The bill’s sponsors made clear that the joinder provision “effectively codifies current law as it has been applied everywhere *outside of the Eastern District of Texas*.” 157 Cong. Rec. S5402, S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (emphasis added).

*Regarding USITC Section 337 Investigations 4* (Apr. 15, 2013 update), available at [http://www.usitc.gov/press\\_room/documents/featured\\_news/337facts.pdf](http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf) (accessed June 10, 2013).

PAEs do not use the ITC instead of filing patent cases in district court; they often do both. Approximately two-thirds of ITC investigations have parallel district court cases.<sup>8</sup> The duplication of forums leads to duplicative effort. For example, if a PAE's infringement theory fails or its patent is found invalid by the ITC, the PAE is permitted by the Federal Circuit to try a second time in district court. See *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996) (affirming "the rule that decisions of the ITC involving patent issues have no preclusive effect in other forums"); *In re Convertible Rowing Exerciser Patent Litig.*, 721 F. Supp. 596, 598, 602-03 (D. Del. 1989) (finding that the ITC's invalidation of a patent – which was affirmed by the Federal Circuit – did not preclude the patentee from asserting the patent's claims in district court, although the district court ultimately accepted the ITC's factual basis for invalidity). The lack of preclusive effect of ITC judgments on district

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<sup>8</sup> See Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 Santa Clara Computer & High Tech. L.J. 169, 171 (2011) ("Around two-thirds of ITC cases have a district court counterpart."); 2011 FTC Report at 239 (65% of ITC cases have concurrent district court counterparts); Chien & Lemley, 98 Cornell L. Rev. at 26 & n.134 (approximately two-thirds of the named respondents in PAE investigations are domestic companies that PAEs can sue in district courts). Almost all respondents named in PAE cases at the ITC could be sued in district court. *Amici's* own review of 192 unique ITC respondents named in PAE investigations from 2006 to 2012 shows that at least 189 (or 98%) of them could have been sued for patent infringement in federal district court.

court proceedings enables PAEs to test their claims and arguments prior to asserting them in district court. Dual litigation against a PAE is a long, drawn-out process because district court actions typically are stayed pending ITC investigations. *See* 28 U.S.C. § 1659.

PAEs base their ITC cases on Section 337(a)(3)(C), which requires them to show “substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing.” 19 U.S.C. § 1337(a)(3)(C). The typical PAE shows only investment in licensing activity, which typically consists of accusing existing producers of infringement, and filing and settling lawsuits. *See John Mezzalingua Assocs., Inc. v. ITC*, 660 F.3d 1322, 1325-26 (Fed. Cir. 2011), *cert. denied*, 133 S. Ct. 422 (2012); *Motiva, LLC v. ITC*, No. 2012-1252, 2013 WL 1943205, at \*2-3 (Fed. Cir. May 13, 2013). The “domestic industry” is comprised of lawyers and licensing staff that assert the legal-exclusivity rights conferred by the patents.

### STATEMENT OF FACTS

This case illustrates how PAEs take advantage of the ITC’s extra-statutory expansion of jurisdiction to pursue unfair trade practice claims that have nothing to do with protecting any domestic industry.

InterDigital sought to prove that an industry in the United States exists with respect to “the articles protected by the patent” by showing that it had licensed a portfolio of thousands of U.S. and non-U.S. patents – including the four U.S. patents asserted against Nokia – to other manufacturers.<sup>9</sup> InterDigital offered

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<sup>9</sup> Although the Federal Circuit panel majority noted that InterDigital also engaged in research and development related

no evidence that its licensing of the asserted patents had led to the adoption or development of products by the licensed manufacturers or even that the licensed manufacturers were using the technology covered by the asserted patents in any of their products. To the contrary, the ALJ stated that “[t]he statute does not require a complainant ‘to . . . show that a product covered by the . . . patent is made by the complainant’s licensees.’” App. 385 (citations omitted, third alteration in original). “[W]hen a complainant relies on the existence of a licensing program to satisfy subsection (C), the complainant need not show that it or one of its licensees practices the patent-in-suit in order for the Commission to find a domestic industry.” App. 385-86 (citation omitted).

In response to Nokia’s argument that InterDigital had failed to make the required showing because its prior licenses were not specific to the asserted patents but involved bundles of patents, the ALJ held that it was sufficient for the asserted patents merely to be included in the bundle. When a complainant licenses a patent portfolio, the ALJ held, it “is not required to show that it or one of its licensees practices a patent-in-suit in order to find that a domestic industry exists.” App. 390 (citation omitted). The ALJ so ruled even though an operating company that takes a license to a bundle of patents may not intend to practice the relevant patent at all but may instead

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to wireless technology, there was no “evidence of research and development related to the patents in suit, and the record describes no relationship between research and development and licensing of the patents in suit.” App. 86 n.5 (Newman, J., dissenting from denial of reh’g en banc). InterDigital argued that it “satisfie[d] the domestic industry requirement based on its licensing activities alone.” *Id.* (internal quotation marks omitted).

want to license some other patent in the bundle – or, indeed, may simply want to avoid expensive litigation and the risk of disruption to its business if it were to resist a licensing demand.

In both its appeal and its rehearing petition, Nokia argued that InterDigital had failed to show that there is any “article protected by the patent.” The Federal Circuit panel disagreed, holding (in its opinion on rehearing) that InterDigital had established “a classic case for the application of subparagraph (C).” App. 43. The panel stated that ITC jurisdiction was present “because the patents in suit protect the technology that is, according to InterDigital’s theory of the case, found in the products that it has licensed and that it is attempting to exclude.” App. 44. The Federal Circuit panel disparaged as “notably vague” Nokia’s argument that “the technology covered by the patent must be ‘put into practical use.’” App. 44-45 (citation omitted). And the panel majority did not state – because no such finding had been required or made before the ITC – that the products manufactured by Nokia’s licensees actually practiced the asserted patents. To the contrary, the panel apparently endorsed the finding below that licensing activity – if involving a sufficiently substantial investment, *see* App. 45 n.2 – satisfies the domestic industry requirement without more.

## ARGUMENT

The Federal Circuit disregarded the language and structure of Section 337(a) in holding that mere patent-licensing activity – divorced from domestic investment in production of “articles protected by the patent” – provides a sufficient basis to invoke the domestic-industry-protecting jurisdiction of the International Trade Commission. The mere fact that a patent-owner has induced manufacturers to take a license to its patent does not establish that any articles are “protected by the patent.” Still less does the claim that the accused articles infringe the patent suffice to establish the existence of articles protected by the patent. To the contrary, unless there are articles that both (1) embody the patented technology and (2) were developed to exploit that technology, there are no articles “protected by the patent.” This Court’s intervention is needed to ensure that these statutory limitations prevent the ITC’s metastasizing jurisdiction from undermining legal limitations on patent enforcement in cases involving foreign-made products.

### **I. Section 337(a) Treats Licensing Activity as a “Domestic Industry” Only Where Such Activity Leads to “Exploitation” of the Patented Technology with Respect to “Articles Protected by the Patent”**

1. Section 337(a)(3)(C) authorizes ITC jurisdiction in cases where a complainant has made, in the United States, a “substantial investment in [the] exploitation” of a patent – including “licensing” – “with respect to the articles protected by th[at] patent.” 19 U.S.C. § 1337(a)(3)(C). This language makes clear that the only patent-licensing activities that can satisfy the domestic industry requirement are those that

give rise to productive use of the patented technology in (or in uses involving) articles that are “protected” by the patent.<sup>10</sup>

This construction is required to give coherent meaning to each word in the provision. To “exploit” a patent refers to making or using the technology covered by the patent.<sup>11</sup> An “investment in exploitation” of a patent is thus an investment in promoting the productive use of that patent. Mere assertion of a right-to-exclude in litigation or through licensing demands leveled at companies allegedly infringing the patent through pre-existing activities – as explained further below – does not constitute such exploitation. Furthermore, such investment must give rise to the production of “articles protected by the patent” – that is, the articles that the statute protects from competition by infringing imports.

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<sup>10</sup> The statute requires that such domestic industry either “exists or is in the process of being established.” 19 U.S.C. § 1337(a)(2). InterDigital presented its case solely on the basis of an existing licensing industry and made no showing of an industry in the process of being established.

<sup>11</sup> See, e.g., *Brulotte v. Thys Co.*, 379 U.S. 29, 37 (1964) (explaining in patent-misuse analysis that patent-owner “exploits its patents by selling its patented machines rather than licensing others to manufacture them”); *Special Equip. Co. v. Coe*, 324 U.S. 370, 371 (1945) (using phrase “to exploit” as synonym for “to make or use the invention”); *Air Turbine Tech., Inc. v. Atlas Copco AB*, 410 F.3d 701, 711 (Fed. Cir. 2005) (“exploitation” means patented technology is “put into practical use”); *Inamed Corp. v. Kuzmak*, 249 F.3d 1356, 1362 (Fed. Cir. 2001) (licensee enjoys right to “exploit” the patents by selling covered products); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc) (explaining in reasonable royalty analysis that patent-owner “had consistently followed a policy of exploiting its own patents” by selling its own products “rather than licensing to competitors”).

The clarifying list of examples, in Section 337(a)(3)(C), of “investment in [the patent’s] exploitation, including engineering, research and development, or licensing” shows the terms’ common meaning. For example, an inventor of a turbine might engineer a plant for production of the turbines overseas for importation into the United States. A substantial investment in such engineering would qualify under Section 337(a)(3)(C) because it would give rise to productive use (“exploitation”) of the patented technology with respect to the articles protected by the patent – that is, the turbines.

Similarly, in the case of research and development, a patentee might invest or have invested in the investigation of new technologies covered by the patent – without ever making the device itself. Such activity, again, would constitute investment in exploitation, because the U.S. research and development would allow for production of the patented device using the technology – and those devices, once imported, would be protected by the patent.

Comparable licensing activities likewise qualify. See *Jarecki v. G. D. Searle & Co.*, 367 U.S. 303, 307 (1961) (explaining the “[t]he maxim *noscitur a sociis*, that a word is known by the company it keeps”); *United States v. Williams*, 553 U.S. 285, 294 (2008). An inventor might make a substantial investment in activities related to promoting the productive use of a patented invention – for example, by having knowledgeable engineers work with existing companies to promote the purchase and adoption of the new technology. Such activity is “investment in . . . exploitation” of the patent and (when successful) gives rise to articles protected by the patent – that is, to licensed articles practicing the patented invention.

2. When a patent-owner merely seeks to extract license payments from businesses that are already producing articles that allegedly infringe the owner's patent, such activity does not constitute a domestic industry under Section 337(a)(3)(C) because any investment by the patent-owner is not an investment in *exploitation* of the patent for productive use but rather in enforcement of the right-to-exclude. A patent-owner who asserts that existing products infringe the patent is not encouraging the exploitation of the patent – such activity *discourages* exploitation of the patent by making an existing use more expensive.<sup>12</sup>

The Federal Trade Commission has recognized, with respect to this very statutory context, the distinction between licensing activity that promotes new use of technology (“ex ante” licensing) and licensing activity that attacks existing use of technology (“ex post” licensing):

[T]he differences between the economic consequences of ex ante licensing, which strives for technology transfer and the creation of new

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<sup>12</sup> The Federal Circuit itself has recognized that merely *litigating* a patent cannot be the basis for a finding that a domestic industry exists unless the litigation helped “to facilitate and hasten the practical application of the inventions of the patents at issue.” *Motiva*, 2013 WL 1943205, at \*2 (quoting ITC decision). The court of appeals held that “litigation could be relevant” in creating a domestic industry through licensing if the patentee was “engaging ‘potential manufacturers, investors, and licensees who were not already involved in existing production.’” *Id.* (quoting ITC decision); *see id.* (“licensing activities [must be] related to the practical application of the patents’ claimed inventions”). The litigation there did not establish a domestic industry because it did not “encourage adoption and development of articles that incorporated [the] patented technology.” *Id.* at \*5, citing *Mezzalingua*.

products, and ex post licensing, which seeks payment from manufacturers already using the technology, are significant. Section 337 requires an “industry” based on “substantial investment” in “exploitation” of the patent through “licensing.” This language can be interpreted as encompassing ex ante ***but not ex post licensing*** because only the former seeks to “exploit” the patent by putting it into productive use to create an industry. This interpretation of the statute is consistent with the legislative history’s concern with promoting innovation in the United States. Importantly, it will limit access to the ITC of those patent owners most likely to be denied an injunction under the *eBay* analysis . . . , while allowing access to firms engaged in invention and technology transfer.

FTC 2011 Report at 242 (footnote omitted; emphasis added).

3. Furthermore, patent-enforcement activity, including ex post licensing, is not “with respect to . . . articles *protected* by the patent.” Rather, any investment devoted to challenging allegedly *infringing* use of the patented technology – and extracting a license for such use – is with respect to articles *unprotected* by the patent.

For the same reason, a domestic industry cannot, as the Federal Circuit suggested, be based on the very articles that the patent owner “is attempting to exclude.” App. 44. Section 337 expressly distinguishes between “articles protected by the patent” (19 U.S.C. § 1337(a)(2)) and “articles that . . . infringe a . . . United States patent” (*id.* § 1337(a)(1)(B)(i)). An article to be excluded because it is found to infringe a patent is not “protected” by the patent,

because “excluding” is not “protection.” To the contrary, exclusion of one article is the means of protecting a different article. Conflating the two is self-defeating: if the case succeeds and the ITC issues an exclusion order, the articles comprising the domestic industry would be eliminated from the market and the jurisdiction-creating industry would disappear.

## **II. The Legislative History of Section 337(a) Confirms the Plain Meaning**

The statutory text clearly excludes mere patent-enforcement activity giving rise to ex post licenses from the scope of domestic industry; that conclusion also is fully consistent with the legislative history.<sup>13</sup> The 1988 amendments – which established the domestic industry requirement in its current form<sup>14</sup> – ensure that the qualifying domestic industry requirement is not limited to the *manufacture* of the protected articles but does nothing to modify the

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<sup>13</sup> Because the statutory text is clear, any contrary interpretation by the ITC would not be entitled to deference. *City of Arlington v. FCC*, Nos. 11-1545 & 11-1547, slip op. at 16, 2013 WL 2149789, at \*11 (U.S. May 20, 2013) (“[w]here Congress has established a clear line, the agency cannot go beyond it”). In its rehearing brief, although the ITC argued that the agency decision was entitled to deference under *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), it based that argument not on any ambiguity in the statutory text, but instead on its reading of the legislative history. There is no precedent to support the argument that legislative history can render clear statutory text ambiguous, freeing the agency to adopt an interpretation inconsistent with the statutory plain meaning. In any event, as explained below, the legislative history provides no support for the conclusion that Congress intended to afford unfair trade practice remedies to entities that were not engaged in promoting the productive use of patents.

<sup>14</sup> See Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1342(a)(1), 102 Stat. 1107, 1212.

requirement that the domestic industry involve productive investment in the use of the relevant intellectual property.

Prior to 1988, Section 337(a) defined a trade violation that could be the basis for an exclusion order as follows:

**(a) Unfair methods of competition declared unlawful**

Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sales by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

19 U.S.C. § 1337(a) (1982).

Under governing precedent interpreting this provision, “a complainant was required to show that it was exploiting its IP right ‘by production in the United States.’” ITC Reh’g Br. 2 (filed Oct. 9, 2012), quoting *Schaper Mfg. Co. v. ITC*, 717 F.2d 1368, 1371 (Fed. Cir. 1983) (in turn citing H.R. Rep. No. 93-571, at 78 (1973)).

Former Section 337(a) was deleted in its entirety and replaced by the much longer current version of Section 337(a), which is set out at App. 395-97. Congress thus added for the first time the requirement that there must be “articles protected by the

patent.” Whether a complainant seeks to satisfy the domestic industry requirement by showing “significant investment in plant and equipment”; “significant employment of labor or capital”; or “substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing,” there must be “articles protected by the patent.” While “[t]his definition [of domestic industry] does not require actual production of the article in the United States,” ITC Reh’g Br. 7-8, quoting H.R. Rep. No. 100-40, pt. 1, at 157 (1987), Section 337(a)(3)(C) does require that there *be* articles protected by the patent *and* that, in connection with *those* articles, there be significant investment in exploitation of the patent, *id.* at 8.

The legislative history also suggests that, in adopting this new requirement, Congress was reacting *not* to circumstances where a patent-holder sought to mulct licensing fees from existing productive uses but, instead, where owners of intellectual property had made significant investments in the creation and promotion of use of their patents, only to be undercut by unfair trade. *See* 132 Cong. Rec. 30,810, 30,816 & n.6 (Oct. 14, 1986) (statement of Rep. Kastenmeier) (“[T]he ITC has created an inconsistent set of rules to determine whether an industry exists.”), citing *In re Certain Products with Gremlins Character Depictions*, USITC Inv. No. 337-TA-201, 1986 ITC LEXIS 313 (1986); *In re Certain Modular Structural Systems*, USITC Inv. No. 337-TA-164, 1984 ITC LEXIS 202 (1984); *In re Certain Limited-Charge Cell Culture Microcarriers*, USITC Inv. No. 337-TA-129, 1984 ITC LEXIS 234 (1984); *In re Certain Miniature, Battery-Operated, All Terrain, Wheeled Vehicles*, USITC Inv. No. 337-TA-122, 1982 ITC LEXIS 216 (1982)

(“*Miniature Toy Vehicles*”), *aff’d sub nom. Schaper Mfg. Co. v. ITC, supra*. In each example cited in the legislative history where the ITC had found no domestic industry under the prior statute – that is, the cases that were criticized for defining domestic industry too narrowly – the complainants had arranged for other entities to manufacture articles embodying their IP rights, and in each example, the available records indicate that the licenses were granted *ex ante* and promoted new production of articles.

In the *Gremlins* and *Miniature Toy Vehicles* cases, Warner Bros., Inc. and A. Eddy Goldfarb and Associates, respectively, granted exclusive licenses to other firms to manufacture toys bearing their designs (“*Gremlins*” and “*Stompers*,” respectively). *See Certain Products with Gremlins Character Depictions*, 1986 ITC LEXIS 313, at \*34 (“Complainant has licensed 48 domestic companies to produce products containing GREMLINS character depictions. (FF 190-91). At least 31 of those companies engage in relevant manufacturing activities within the United States. (FF 192-94).”); *id.* at \*112-13 (“Licensees pay licensors royalties for exclusive rights to merchandise a particular product. If others are allowed to produce the same or similar products without having to pay royalties, the economic incentive for licensees to participate in the program diminishes.”); *Schaper Mfg.*, 717 F.2d at 1370 (“[Complainant] Schaper was granted an exclusive license in 1979 to manufacture, use and sell the Stomper toy vehicles and accessories (also created and designed by [complainant] Goldfarb). Goldfarb has continued to develop successive lines of Stomper vehicles and accessories.”) (footnote

omitted), *aff'g Certain Miniature, Battery-Operated, All Terrain, Wheeled Vehicles, supra*.

In the *Cell Culture Microcarriers* case, the Massachusetts Institute of Technology granted Flow General, Inc. an exclusive patent license to manufacture microcarriers (tiny beads that float in a suspension and influence cell behavior), and Flow General's affiliate, Flow Laboratories, Ltd., manufactured the microcarriers in Scotland. *See Certain Limited-Charge Cell Culture Microcarriers*, 1984 ITC LEXIS 234, at \*8 (“[Complainant] Flow General is engaged in the manufacture and sale of products for cell culturing, microtitration, and clinical diagnostic assays. Flow General is the exclusive licensee of [complainant] MIT under the '534 and '654 patents.”); *id.* at \*18 (“All of complainants' SUPERBEAD microcarriers are manufactured in Scotland, by Flow Laboratories, Ltd., and are marked 'Made in U.K.’”) (footnote omitted).

In *Certain Modular Structural Systems*, the complainant was the exclusive licensee of a patent on connectors similar to connectors in an Erector Set that it manufactured in Sweden. *See* 1984 ITC LEXIS 202, at \*5-6, \*13-14. As with the other examples, an ex ante patent license was being productively exploited by the licensee in manufacturing articles that practiced the patented technology.

Congress considered a proposal to eliminate the domestic industry limitation entirely, but rejected the proposal because “such a change would transform the ITC into an intellectual property court.” 132 Cong. Rec. at 30,816 n.5 (statement of Rep. Kastenmeier); *see* S. Rep. No. 100-71, at 130 (1987) (“mere ownership of a patent” not sufficient). Similarly, it would be an error for a trade remedy to start changing substantive IP law. In the view of the chair

of the House Subcommittee on Courts and one of the amendment's principal co-sponsors, "it would be a serious mistake to use legislation relating to international trade as a vehicle for changing the positive law relating to intellectual property." 132 Cong. Rec. at 30,815 (statement of Rep. Kastenmeier). *See Tandon Corp. v. ITC*, 831 F.2d 1017, 1019 (Fed. Cir. 1987) ("the Commission's primary responsibility is to administer the trade laws, not the patent laws"). Yet patent law is being transformed at the ITC to such an extent that the agency needs to build more courtrooms to keep up with demand.

### **III. The Court Should Grant the Petition To Remedy a Significant Problem of the Functioning of the Patent System**

As described above, *supra* pp. 2-7, the Federal Circuit's erroneous reading of the statute is allowing the rapid growth of a duplicative patent forum that is applying increasingly diverging rules. The ITC awards solely injunctive relief, and it does so automatically whenever it finds a violation. As the FTC found, the rapidly expanding use of the ITC and the parallel proceedings in the district courts have raised "concerns about inconsistent results in individual cases and incoherent development of patent policy." FTC 2011 Report at 239. For example, "[a]n injunction or exclusion order granted to a patent assertion entity based on infringement of a patent covering a minor component of a complex product poses the risk of generating hold-up that can harm consumers. An injunction or exclusion order against standardized technology also poses a significant risk of hold-up and consumer harm. Although *eBay* provides an important tool for avoiding these outcomes [in federal district courts], automatic exclusion orders awarded

by the ITC could undermine *eBay's* value in this regard." *Id.* at 241.

This Court has stepped in before to bring patent decisions into line with the rest of the federal system. *E.g., eBay* (correcting standard for injunctive relief); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (correcting standard for declaratory judgment). The Court's intervention is needed here to restore the statutory limits on the ITC's patent function and thereby bring the two patent forums into accord. InterDigital's case, like the numerous PAE cases flooding the ITC, should be heard in the district courts.

### CONCLUSION

The Court should grant the petition.

Respectfully submitted.

LAURA COLEMAN  
ANTHONY PETERMAN  
MARC VOCKELL  
MICHELE CONNORS  
LEGAL DEPARTMENT  
DELL INC.  
One Dell Way  
Round Rock, Texas 78682  
(512) 723-4208

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JOHN THORNE  
*Counsel of Record*  
AARON M. PANNER  
CHRISTOPHER C. FUNK  
KELLOGG, HUBER, HANSEN,  
TODD, EVANS & FIGEL,  
P.L.L.C.  
1615 M Street, N.W.  
Suite 400  
Washington, D.C. 20036  
(202) 326-7900  
(jthorne@khhte.com)