

No. 12-1352

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

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NOKIA INC. AND NOKIA CORPORATION,

*Petitioners,*

v.

INTERNATIONAL TRADE COMMISSION; INTERDIGITAL  
COMMUNICATIONS, LLC; INTERDIGITAL TECHNOLOGY  
CORPORATION,

*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 FOR SAMSUNG ELECTRONICS CO. LTD. AS  
AMICUS CURIAE SUPPORTING PETITIONERS**

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## INTEREST OF AMICUS CURIAE

Samsung Electronics Co., Ltd. (“Samsung”) is a South Korean company, headquartered in Suwon, South Korea.<sup>1</sup> Samsung Electronics is the flagship company of the Samsung Group, which comprises more than 78 different companies and affiliates in a wide range of businesses. Samsung leads the global market in high-tech electronics. Samsung designs, manufactures, and sells a diverse array of products and product components, including televisions, LEDs, mobile phones, flash memory chips, tablet PCs, Blu-ray players, flat panel display assemblies, home theaters, and home appliances, among many others.

Samsung has a significant interest in the questions presented in this case because the Federal Circuit’s interpretation of the “domestic industry” requirement of Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, directly affects its rights both as a patentholder and as an importer of foreign-manufactured products.<sup>2</sup> Samsung has been a party in numerous Section 337 investigations before the United States International Trade Commission (“ITC”),

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<sup>1</sup> Pursuant to Rule 37.6, Samsung affirms that no counsel for a party authored this brief in whole or in part and that no person other than Samsung made any monetary contributions intended to fund the preparation or submission of this brief. Counsel of record for all parties received notice at least 10 days prior to the due date of Samsung’s intention to file this brief, and their letters consenting to the filing of the brief have been filed with the Clerk.

<sup>2</sup> Although Samsung has an interest in both questions presented, this brief addresses only the first question: whether “licensing alone” can satisfy Section 337’s “domestic industry” requirement.

including a pending investigation initiated by respondents InterDigital Communications, LLC and InterDigital Technology Corporation. See *Wireless Devices With 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868 (Feb. 5, 2013). In that investigation, involving two of the same patents at issue in this case, Samsung is contesting InterDigital's claims of a domestic industry. Samsung was also a respondent in an earlier InterDigital case that was resolved by settlement. See *3G Wideband Code Division Multiple Access (WCDMA) Handsets and Components Thereof*, Inv. No. 337-TA-601.

## STATEMENT

1. Congress enacted Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, to protect “American production, American jobs, and American capital from unfair competition from imports.” *Hearing Before the S. Subcom. on Int’l Trade on S.1860 and S.1869 of the S. Comm. on Finance* (“Senate Hearing”), 99th Cong., S. Hrg. 99-759, at 63 (1986) (Statement of Hon. Paula Stern, Chairman USITC). In so doing, Congress authorized the ITC “to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad.” S. Rep. No. 100-71, at 129 (1987). If the ITC determines that a product has been unfairly imported, and that a requisite domestic industry has been proven, it must block imports of the product unless public interest considerations weigh against doing so. 19 U.S.C. § 1337(d).

Because the importation of products that infringe U.S. patents can result in unfair competition, the ITC frequently resolves patent disputes when

adjudicating claims under Section 337. But Section 337 was not intended to provide an alternative forum for patent litigation. Instead, it provides an important and powerful trade remedy available only to domestic industries that themselves invest in the use of the intellectual property that is being unfairly used in foreign imports. This limitation on the ITC’s authority—known as the “domestic industry” requirement—ensures that the agency remains “fundamentally a trade forum, not an intellectual property forum.” *John Mezzalingua Assocs., Inc. v. USITC*, 660 F.3d 1322, 1327-28 (Fed Cir. 2011), *cert. denied*, 133 S. Ct. 422 (2012).

Section 337’s “domestic industry” requirement is imposed by two provisions of the statute. Section 337(a)(2) provides that the ITC may block the importation of an infringing product “only if an industry in the United States, *relating to the articles protected by the patent . . .* concerned, exists or is in the process of being established.” 19 U.S.C. § 1337(a)(2) (emphasis added).<sup>3</sup> Relatedly, Section 337(a)(3) provides:

[A]n industry in the United States shall be considered to exist if there is in the

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<sup>3</sup> The “process of being established” clause provides access to the ITC for industries that do not already exist at the time an ITC complaint is filed, but for which a complainant (or its licensees) is taking necessary and tangible steps so that an industry with respect to articles protected by the patent will exist in the future. See *Certain Stringed Musical Instruments and Components Thereof* (“*Stringed Instruments*”), Comm’n Op., Inv. No. 337-TA-586, 2008 WL 2139143, at \*7-8 (May 16, 2008). That clause is not at issue in this case.

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.

*Id.* § 1337(a)(3) (emphasis added).

2. In proceedings where licensing is not the asserted basis for proving a domestic industry, the ITC applies a two-part test to determine whether an industry exists. In these cases, a complainant must prove that: (1) it has made significant investments in the United States involving plant and equipment or labor and capital (the “economic prong” of the domestic industry test); and 2) that those investments are related to an article protected by the asserted intellectual property (the “technical prong”). *See, e.g., Certain Ground Fault Circuit Interrupters and Prods. Containing Same (“GFCI”), Comm’n Op., USITC Inv. No. 337-TA-739, 2012 ITC LEXIS 1458, at \*127-28 (June 8, 2012).*<sup>4</sup> If a complainant fails to satisfy either

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<sup>4</sup> In patent-based investigations, the “technical prong” showing is essentially a patent infringement analysis that examines whether the complainant’s (or a licensee’s) products practice at least one (continued...)

prong, the ITC will terminate the investigation with a finding of no violation, regardless of whether unfair imports are found to exist. *See, e.g., Stringed Instruments*, 2008 WL 2139143, at \*1; *Certain NAND Flash Memory Circuits and Products Containing Same*, Comm’n Det., USITC Inv. No. 337-TA-526, 2007 WL 4861334, at \*2 (Dec. 2007).

In recent years, the ITC has taken a different approach for cases involving licensing investments under Section 337(a)(3)(C)—the provision at issue in this case. In the agency’s view, “[a] complainant may satisfy the domestic industry requirement by demonstrating that it has invested a substantial amount of money in a licensing program to exploit the asserted patents.” App. 386. Put another way, in licensing cases, the ITC requires a complainant to satisfy only the “economic prong” of the domestic industry test. Unlike in non-licensing cases, the ITC does not require a complainant that relies on licensing investments to prove the “technical prong”— *i.e.*, that its U.S. licensing investments are related to an article protected by the intellectual property.<sup>5</sup>

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valid claim of each patent asserted in the investigation. *See GFCI*, 2012 ITC LEXIS 1458, at \*128-29. The “economic prong” showing refers to the quantity and quality of the investments and personnel used to assess whether domestic investments rise to the requisite level required by Section 337(a)(3). *Id.*

<sup>5</sup> The ITC has not decided whether the “technical prong” applies to cases involving engineering or research and development investments under subparagraph (C), and the Commission’s ALJs are divided on the issue. *Compare, e.g., Certain Microprocessors, Components Thereof, and Products Containing Same, Comm’n Op.*, USITC Inv. No. 337-TA-781, at 18 n.11 (Mar. 4, 2013) (continued...)

3. In this case, the ITC concluded that InterDigital established the requisite domestic industry under Section 337(a)(3)(C) based on its licensing investments related to the asserted patents. App. 386a.<sup>6</sup> Licensing activity alone can satisfy the domestic industry requirement, in the ITC's view, because it shows the existence of a "domestic licensing industry." *Id.* Having construed the statute in this manner, the ITC did not consider whether InterDigital or its licensees had actually manufactured any articles that practiced the licensed patents.

The Federal Circuit agreed with the ITC's interpretation of the domestic industry requirement. According to the court of appeals, a complainant need not prove the existence of any articles protected by the patent, much less any nexus between the complainant's licensing investment and those articles. App. 23a. Rather, "the required United States industry can be based on patent licensing alone." *Id.* Over Judge Newman's dissent, the panel majority reiterated this view in denying Nokia's petition for rehearing. *Id.* at 39-55. Judge Newman would have

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(noting that ALJ did not require technical prong analysis), *with Certain Electronic Devices, Including Wireless Comm'n Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Initial Det., USITC Inv. No. 337-TA-794, 2012 WL 4752221, at \*322 (Sept. 14, 2012) (requiring technical prong analysis).

<sup>6</sup> The ITC administrative law judge issued an Initial Determination in this case holding that the domestic industry requirement was satisfied. App. 381. Because the Commission declined to review this order, the Initial Determination became a final decision of the ITC. 19 C.F.R. § 210.42(h).

held that, to satisfy the domestic industry requirement, a complainant must show that articles protected by the patent are manufactured in the United States. *Id.* at 56a-88a.

## SUMMARY OF ARGUMENT

The Court should grant the petition to provide clarity regarding the scope of Section 337's domestic industry requirement.

I. The Federal Circuit's interpretation of Section 337 is contrary to the text of the statute. In enacting Section 337, Congress twice used the phrase "articles protected by the patent" in imposing a "domestic industry" requirement. Yet, under the Federal Circuit's construction of the statute, a complainant can satisfy the domestic industry requirement based on "licensing alone," and thus there need not be any articles protected by the patent. This interpretation should be rejected because it fails to give effect to the statutory language enacted by Congress.

Judge Newman's dissent correctly concludes that "licensing alone" is insufficient, but she errs in interpreting the statute to impose a domestic manufacturing requirement. This reading of the statute finds no support in either the statutory text or legislative history. The statute requires "articles protected by the patent," but it does not specify where those articles must be manufactured. And the legislative history states that Section 337 "does not require actual production of the article in the United States." S. Rep. No. 100-71, at 129. Rather than imposing a domestic manufacturing limitation, the

statute requires a complainant to show: (1) significant domestic investments in licensing the asserted intellectual property, and (2) that the licensing investments are related to an article (wherever manufactured) protected by the intellectual property.

II. The question presented is critically important to ensuring that the ITC remains a forum for trade disputes, and does not become a patent court. In recent years, particularly since this Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the ITC has seen a dramatic increase in patent infringement complaints based on purported domestic licensing industries. Many of the complaints were filed by patent assertion entities ("PAEs")—firms that make no domestic investments other than using their patents to obtain licensing fees from existing producers, rather than as a basis for advancing the production and sale of products that actually exploit the invention at issue. If the court of appeals' decision is permitted to stand, the ITC will increasingly become the forum of choice for PAEs, and the threat of the ITC's mandatory injunctions will more frequently force manufacturers to settle cases at inflated amounts, irrespective of their merits, to avoid the possibility of having their products excluded from the U.S. market.

## ARGUMENT

### **I. The Federal Circuit's Interpretation Of The Domestic Industry Requirement Cannot Be Squared With The Statutory Text.**

In enacting Section 337, Congress authorized the ITC to block the importation of products that

infringe a U.S. patent “only if an industry in the United States, relating to the articles protected by the patent . . . concerned, exists or is in the process of being established.” 19 U.S.C. § 1337(a)(2). In this case, the panel majority held that this “domestic industry” requirement may be satisfied by “licensing alone,” and thus whether the complainant or its licensees has ever manufactured any articles protected by the patent is irrelevant. App. 24a. In dissent, Judge Newman disagreed that licensing alone could satisfy the domestic industry requirement. She interpreted the statute to require not only the existence of articles protected by the patent, but also that these articles be manufactured in the United States. App. 77a.

Both interpretations of the domestic industry requirement are incorrect. The majority’s approach fails because it reads the “articles protected by the patent” language out of the statute. The dissent’s approach fails because it reads into the statute a domestic manufacturing requirement that has no support in the statutory text. Properly interpreted, the statute requires domestic investment in licensing activity and the existence of “articles protected by the patent,” but those articles need not be manufactured in the United States.

**A. The Domestic Industry Requirement Cannot Be Satisfied By Licensing Alone.**

1. In amending Section 337 in 1988, Congress made clear that licensing alone is not enough to satisfy the domestic industry requirement. *See* S. Rep. No. 100-71, at 129. Section 337(a)(2) authorizes the ITC to prohibit the importation of allegedly infringing

products “only if an industry in the United States, *relating to the articles protected by the patent . . .* concerned, exists or is in the process of being established.” 19 U.S.C. § 1337(a)(2) (emphasis added). Similarly, Section 337(a)(3)(C) provides that, for licensing investments, “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, . . .* substantial investment in its exploitation, including . . . licensing.” *Id.* § 1337(a)(3)(C) (emphasis added). As these provisions demonstrate, the domestic industry requirement cannot be satisfied unless there are “articles protected by the patent.”

The Federal Circuit departed from the statutory text in holding that “licensing alone” can satisfy the domestic industry requirement. This interpretation fails because it does not give effect to the “articles protected by the patent” language. *See, e.g., United States v. Jicarilla Apache Nation*, 131 S. Ct. 2313, 2330 (2011) (refusing to “adopt an interpretation of a congressional enactment which renders superfluous another portion of that same law”) (internal quotation marks and citation omitted). The court of appeals’ construction is particularly problematic given the important role that the “articles protected by the patent” language plays in the statutory scheme. Section 337 is an international trade law, and this language ensures that the ITC’s authority is invoked only when there is a trade dispute involving existing articles protected by a patent and imported products allegedly infringing that patent. Allowing the agency to adjudicate patent disputes in the absence of articles protected by the patent would “transform the ITC into

an intellectual property court.” 132 Cong. Rec. 30,816, 30,816 n.5 (Oct. 14, 1986) (remarks of Rep. Kastenmeier). Congress did not intend such a result.

Contrary to the court of appeals’ interpretation, a complainant’s licensing activity cannot by itself establish that there are in fact articles protected by the patent. Because a manufacturer could obtain a license and not manufacture any product at all, or could manufacture a product that does not actually practice the patent, the license itself is not evidence of an article that is protected by the patent. Indeed, parties frequently take nuisance settlements with non-practicing entities to avoid or end costly litigation. A manufacturer may even license an entire portfolio, but not admit that the license of any specific patent actually covers an article it is manufacturing. *Cf.* Colleen V. Chien & Mark A. Lemley, *Patent Holdup, The ITC, and The Public Interest (“Patent Holdup”)*, 98 *Cornell L. Rev.* 1, 34-35 (Nov. 2012) (discussing role of injunctions in forcing settlements related to complex multicomponent products, even where most patents are likely invalid or not infringed); *see also infra* Part II. It is thus entirely possible that a patentholder could license its patents even though neither it nor its licensees manufacture products that actually implement the invention claimed in the patent.

After finding InterDigital to have engaged in a sufficient amount of licensing activity related to the patent, the ITC and court of appeals should have considered whether there are any products, covered by

those licenses, that practice the patent.<sup>7</sup> If no such articles exist, there cannot be a domestic industry relating to those non-existent covered articles, regardless of how much was invested to obtain the licenses. Thus, the domestic injury requirement would not be satisfied.

The analogue in a traditional Section 337(a)(3)(A) case would be for a patentholder to build an expensive factory in the United States, but never use the factory to manufacture products practicing the patent. In that case, the failure to produce a patented product would make the investments in the factory irrelevant. *See Certain NAND Flash Memory Circuits*, 2007 WL 4861334, at \*2, \*91. Likewise, under Section 337(a)(3)(C), it is not enough that InterDigital spent money to license its patents. It also must show that the licensed parties have products practicing the patents. The ITC and court of appeals ignored the second half of this test, and the text of the statute does not provide any justification for doing so.

2. The Federal Circuit also erred in applying the domestic industry requirement by looking to Nokia's allegedly infringing product. Rather than looking to see whether InterDigital or its licensees had manufactured articles practicing the patent, the court focused on InterDigital's licensing activities and on *Nokia's* allegedly infringing products. According to the

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<sup>7</sup> It is well established that whether an article is "protected by a patent" requires an infringement analysis to prove that the article practices at least one valid claim of each asserted patent. *See GFCI*, 2012 ITC LEXIS 1458, at \*128-29.

court of appeals, it is not necessary that the complainant or its licensees manufacture the article “[a]s long as the patent covers the article that is the subject of the exclusion proceeding.” App. 54a-55a. That is incorrect.

The “article that is the subject of the exclusion proceeding” cannot be the “article protected by the patent.” Indeed, by definition, such articles do not enjoy patent protection, which is why the complainant asks the Commission to exclude them. Because an article cannot be both unfairly imported and authorized for importation under a license, the phrase “articles protected by the patent” must refer to articles other than the allegedly infringing products.

In short, the text of Section 1337 plainly requires “articles protected by the patent.” 19 U.S.C. §§ 1337(a)(2) & (3). The court of appeals erred in holding that the domestic industry requirement could be satisfied based on “licensing alone.”

**B. The Articles Protected By The Patent  
Need Not Be Manufactured In The  
United States.**

In her dissent, Judge Newman disagreed with the majority’s view that the domestic industry requirement could be satisfied by “licensing alone.” App. 77a. In her view, not only must there be “articles protected by the patent;” there must also “be a domestic industry to produce the patented articles, whether under its own patents or by license.” *Id.* at 71a. Although Judge Newman was correct that “licensing alone does not satisfy the domestic industry requirement,” *id.*, she erred in interpreting Section

337 to require the protected articles to be manufactured in the United States. The proper test is whether there are sufficient domestic investments in licensing activity related to the intellectual property and, if such investments exist, whether those activities are then linked to an article protected by the intellectual property, regardless of where that article is manufactured.

Neither the statutory text nor the legislative history of the 1988 amendments to Section 337 supports a domestic manufacturing requirement. The statute requires “articles protected by the patent.” It places no limitation on where those articles may be manufactured. And the legislative history confirms that Congress intended no such limitation. For example, the Senate Finance Committee Report expressly states that Section 337 “does not require actual production of the article *in the United States* if it can be demonstrated that substantial investment and activities of the type enumerated are taking place in the United States.” S. Rep. No. 100-71, at 129 (emphasis added).

Requiring domestic manufacturing would also frustrate one of Congress’s objectives in amending the statute in 1988. Congress added subparagraph (C) to Section 337(a)(3) in response to ITC decisions holding that a domestic industry is limited to investments made in products produced domestically. *See* H.R. Rep. No. 100-40, at 157 (1987) (noting that subparagraph (C) arose out of “concern” that the ITC had been “interpret[ing] the domestic industry requirement in . . . [an] unduly narrow manner”). Yet, under the dissent’s interpretation, Congress’s

amendment would have had no effect on most of the investigations that Congress sought to remedy because the products at issue in those cases were manufactured abroad.<sup>8</sup>

Rather than imposing a domestic manufacturing requirement, the Court should interpret Section 337 to impose only those requirements found in the statutory text: (1) there must be articles protected by the intellectual property; (2) the complainant must have made a substantial domestic investment to exploit the intellectual property; and (3) there must be a connection between the articles and those domestic investments in the intellectual property. Under this test, failing to show a sufficient domestic investment, a link between the domestic investments and the asserted patents, or a link between the domestic investments and an article would negate the existence of a domestic industry. But if all three can be shown, then the domestic industry requirement would be satisfied even where the articles protected by the patent are manufactured abroad. This interpretation not only tracks the statutory text, but it also furthers Congress's goal of rejecting "mere ownership of a patent" while "protect[ing] from infringement those holders of [patent] rights who are engaged in activities *genuinely*

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<sup>8</sup> See *Certain Limited-Charge Cell Culture Microcarriers*, Inv. No. 337-TA-129, USITC Publ'n 1486 (Feb. 1984) (no domestic industry where patented cell culture microcarriers were manufactured in Scotland); *Certain Miniature Battery-Operated, Allterrain Wheeled Vehicles*, Inv. No. 337-TA-122, USITC Publ'n 1300 (Oct. 1982) (no domestic industry where patented toy vehicles were manufactured in China and sold domestically).

*designed to exploit their intellectual property.”* H.R. Rep. No. 100-40 at 157-58 (emphasis added).

This interpretation is also consistent with the ITC’s construction of the rest of Section 337(a)(3). If a complainant shows either significant investment in plant and equipment or significant employment of labor or capital in the United States, it can satisfy the domestic industry requirement even if the articles protected by the patent are manufactured outside of the United States, provided the domestic investments are sufficiently significant in relation to the foreign articles protected by the patent. *See Certain Printing and Imaging Devices and Components Thereof*, Comm’n Op., Inv. No. 337-TA-690, 2011 ITC LEXIS 2849, at \*50-\*52 (Feb. 17, 2011) (confirming that “in appropriate circumstances, a complainant may satisfy the economic prong of the domestic industry by demonstrating that its [U.S. activities] and investments are significant with respect to the [foreign manufactured] articles protected by its intellectual property rights”); *cf. Certain Personal Data and Mobile Communications Devices and Related Software*, Order No. 102, USITC Inv. No. 337-TA-731, 2011 ITC LEXIS 731 (Apr. 6, 2011) (affirmed in relevant part) (finding subparagraph (C) domestic industry to exist based on domestic investments in research and development related to foreign-manufactured products). By the same reasoning, substantial domestic licensing investments relating to foreign-manufactured articles should be sufficient to satisfy the domestic industry requirement if the licensee’s article is imported and shown to have a connection to the license and the intellectual property.

**C. Interpreting The Statute To Require  
“Articles Protected By The Patent” Is  
Also Consistent With The Purpose Of  
The 1988 Amendments.**

Interpreting Section 337 to require the existence of “articles protected by the patent” not only gives effect to the statutory language, it is consistent with Congress’s intent to ensure that universities, start-ups, and similar entities may pursue ITC investigations in certain circumstances. In amending Section 337, Congress considered proposals to remove the “articles protected by the patent” language. *See* H.R. 3, 100th Cong. § 142 (as introduced, Jan. 6, 1987); *see also Senate Hearing* at 202 (Remarks of ITCTLA). Had Congress done so, licensing entities could bring complaints in the ITC without regard to whether any articles actually practiced their patents. But Congress rejected these proposals, and instead retained the domestic industry requirement, while noting that, as amended, Section 337 would “encompass universities and other intellectual property owners who engage in extensive licensing of their rights *to manufacturers.*” H.R. Rep. No. 100-40, at 157 (emphasis added); *see also* S. Rep. No. 100-71, at 129 (same).

Interpreting Section 337 to give effect to the “articles protected by the patent” language does not prevent universities, start-ups, and small inventors from filing ITC complaints, so long as their licensees manufacture products practicing the patent or are in the process of doing so, and they have made substantial licensing investment in connection with those articles. If a university or start-up can show a substantial investment in licensing a patent to a licensee that is manufacturing articles practicing the

patent, then the plain language of subparagraph (C) would be satisfied. If the “article protected by the patent” has not yet been released, the university or start-up could still seek relief from the ITC by relying on Section 337(a)(2)’s “process of being established” language. *See supra* p. 3 n.3.<sup>9</sup> The test would, however, prohibit the most abusive suits where a patent holder has only solicited licenses covering products developed by others or engaged in litigation against such products, but otherwise failed to advance the use of the invention.

## **II. The Proper Interpretation Of The Domestic Industry Requirement Is A Question Of Exceptional Importance That The Court Should Decide Now.**

The Federal Circuit’s interpretation of the domestic industry requirement warrants this Court’s review because it presents an exceptionally important question that will have a significant impact on patent litigation in the United States. Indeed, the proper construction of Section 337 has become increasingly important in the past few years given the growing

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<sup>9</sup> When the “process of being established” clause applies, it provides for access to the ITC for nascent industries that a complainant (or its licensees) are creating. *See Stringed Instruments*, 2008 WL 2139143, at \*7-8. This provision applies when a complainant “demonstrate[s] that he is taking the necessary tangible steps to establish such an industry in the United States,” and “there is a significant likelihood that the industry requirement will be satisfied in the future.” *Certain Video Game Sys. and Controllers*, Comm’n Op., USITC Inv. No. 337-TA-743, 2011 WL 1523774, at \*4 (Apr. 14, 2011) (internal quotation marks and citations omitted).

frequency with which PAEs have filed complaints before the ITC, and their resulting ability to extract excessive licensing fees in ITC investigations based on the threat of an exclusion order.

The ITC provides an attractive forum for PAEs because, as the government has acknowledged, “a finding of infringement in the ITC has led to a nearly automatic exclusion order.” Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (“*FTC Report*”) 29-30 (2011); see also *Patent Holdup*, 98 Cornell L. Rev. at 5 (“the ITC can’t award damages; it can only exclude products in what might seem to be an all-or-nothing affair”). In contrast, following this Court’s decision in *eBay*, PAEs that file patent suits in federal court have little chance of excluding a product even if they prove infringement. As a recent study found, following *eBay*, district courts have denied injunction requests made by PAEs in more than 90% of the cases in which the defendant opposed the request. *Patent Holdup*, 98 Cornell L. Rev. at 10.

The ITC’s virtually automatic exclusion orders benefit PAEs because “PAEs assert patents as a business model, traditionally using the threat of an injunction to reach a favorable settlement with the defendant.” *Id.* at 2. As Justice Kennedy has explained, an “injunction . . . can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.” *eBay*, 547 U.S. at 396 (Kennedy, J., concurring). Moreover, “[b]ecause the manufacturer risks its investment if it cannot obtain a license, the threat of an injunction allows a patentee to demand and obtain a higher

royalty payment than it could have obtained prior to costs being sunk, when alternatives were available.” *FTC Report* at 222-23; *see also* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 *Tex. L. Rev.* 1991, 2009 (2007) (patent defendants commonly settle for more than a potential damages award “simply to avoid threat of an injunction shutting down a core product”). These excessive royalty payments not only harm the companies that feel compelled to pay them, but they also “harm innovation and competition.” *FTC Report* at 30; *see also* Executive Office of the President, *Patent Assertion and U.S. Innovation* 12 (June 2013), at [http://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf) (PAE’s litigation strategies “result in economic ‘dead weight loss’ in the form of reduced innovation, income, and jobs for the American economy.”).

Given the importance of injunctions to their business model and their inability to get injunctive relief in federal courts, “PAEs are flocking to the ITC.” *Patent Holdup*, 98 *Cornell L. Rev.* at 26. According to a recent study, “[i]n the years following *eBay*, the number of ITC investigations brought by NPEs [non-practicing entities]<sup>10</sup> has grown from two in 2006 to

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<sup>10</sup> The term “non-practicing entity” (“NPE”) is frequently used instead of PAE; PAEs are considered a sub-type of NPEs. The Federal Trade Commission “uses the term ‘patent assertion entity’ (PAE) rather than the more common ‘non-practicing entity’ (NPE) to refer to firms whose business model focuses on purchasing and asserting patents that they typically purchase. Taken literally, the term NPE encompasses patent owners that primarily seek to develop and transfer technology, such as (continued...)”

sixteen in 2011, and the number of total respondents named in NPE cases has grown from eight to 235 within the same time period.” *Id.* at 17.<sup>11</sup>

This recent increase in ITC investigations has had a dramatic impact on Samsung and other electronics manufacturers, as virtually every major electronics manufacturer has been named as a respondent at the ITC in the past few years. *See Patent Holdup*, 98 Cornell L. Rev. at 4 (“In 2011, every major smartphone maker was embroiled in an ITC dispute”).<sup>12</sup> The erosion of the domestic industry requirement, by permitting PAEs to show a domestic industry based on licensing alone, has only helped fuel this trend. Requiring complainants to establish the existence of an article protected by the asserted patent

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universities and semiconductor design houses. Patent assertion entities do not include this later group.” *FTC Report* at p.50 n.2.

<sup>11</sup> This trend of naming multiple respondents in an investigation is also likely to get worse because of the limits placed on joinder of patent defendants in district court cases by the America Invents Act, 35 U.S.C. § 299(a). Those joinder limits do not apply at the ITC. *See Patent Holdup*, 98 Cornell L. Rev. at 15 n.80.

<sup>12</sup> This is not merely an electronics manufacturing problem, but one impacting other industries as well. *See, e.g., Certain Automotive GPS Navigation Systems, Components Thereof, and Products Containing Same*, USITC Inv. No. 337-TA-814 (filed against more than 17 major automobile manufacturers). Manufacturers generally are vulnerable to PAE suits because PAEs are impervious to the manufacturers’ best defense: their own patent portfolios, which under normal circumstances they can assert back against a competitor that engages them in patent litigation. *See FTC Report* at 223 (litigation between manufacturers often results in cross-licenses, but that “this strategy is ineffective when the patent owner is a patent assertion entity”).

would effectively bar the most abusive PAE suits, which typically seek to use the injunctive power of the ITC to protect the PAE's earnings, not to protect authorized competitive articles practicing the patent. This Court's review is warranted because properly construing the domestic industry requirement will help prevent PAE's from using the ITC to avoid this Court's decision in *eBay*.

2. Nokia's petition provides an excellent vehicle for deciding this important question. The "domestic industry" issue was briefed extensively by the parties, and was addressed by the ITC, the original panel decision, and both the majority and dissenting opinions accompanying the court of appeals' denial of rehearing and rehearing en banc. Given the Federal Circuit's extensive analysis of the issue in this case, future decisions are likely to treat the issue as settled and provide no analysis beyond citing the decisions in this case.

The Court is unlikely to see another petition that presents the issue so squarely because respondents in ITC cases are unlikely to continue fully litigating the issue. Section 337 investigations are fast paced, have expansive discovery, and as a practical matter require parties to pick only key issues to litigate to a final determination. If the decision in this case is allowed to stand, a respondent is unlikely to take the discovery necessary to ascertain whether there are "articles protected by the patent," because the argument that such articles are necessary to satisfy the domestic industry requirement would be foreclosed by existing Federal Circuit precedent.

The drastic impact of an exclusion order makes it even more unlikely that a respondent will continue to litigate the “domestic industry” issue in the face of controlling circuit precedent. Because the ITC and Federal Circuit rarely stay exclusion orders pending appeal, even if a respondent preserved the issue throughout the entire ITC investigation, the desire to avoid an exclusion order will often force the respondent to settle the case and take a license for the patent (no matter how unfavorable the terms), rather than appeal the decision.<sup>13</sup> The issue reached the court of appeals in this case only because InterDigital—the patentholder—appealed an adverse decision and Nokia raised the issue as an alternative ground for affirmance. Given that this important issue is squarely presented in this case, the Court should decide the issue now.

In sum, the domestic industry requirement imposes an important limitation on the ITC’s authority by permitting it to adjudicate only those patent disputes that have international trade implications for U.S. industry. The Federal Circuit’s interpretation of this requirement risks transforming the ITC from a trade agency to an intellectual property

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<sup>13</sup> As part of their business model, PAEs count on the fact that exclusion orders can be devastating once issued, even where meritorious grounds of appeal exist. *See supra* pp. 19-20. Indeed, companies have been significantly harmed even by the issuance of an ALJ’s Initial Determination, which is not a final ruling. *See, e.g., ITC’s initial decision for Nidek*, EyeWorld, Dec. 13, 1999 (Initial Determination caused 43% drop in respondent’s share price), <http://www.eyeworld.org/ewweek.php?id=98&strict=&morphologic=>.

court. This Court's review is necessary to ensure that the ITC remains a forum for trade disputes, and does not become the court of first resort for abusive patent litigation.

### CONCLUSION

For the foregoing reasons, as well as the reasons set forth in the petition for writ of certiorari, Samsung respectfully requests that the Court grant the petition.

Respectfully submitted,

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