

# CORPORATE COUNSEL

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## STILL THE ONE

Patent law changes have only upped the ITC's cachet as the hot forum.

BY LISA SHUCHMAN

**EVERY NOW AND THEN, SOME LAWYER** proclaims that the U.S. International Trade Commission is losing its luster as the go-to forum for international trade disputes. But the evidence belies that claim. In fact, the once-obscure federal trade agency has become such a popular venue for patent disputes over the past five years that it acquired additional space in its Washington, D.C., building and completed construction of a new courtroom last fall. Lawyers say that its attractiveness, due in large part to its speed and ability to offer powerful injunctive relief, will continue. And law firms who represent clients before it will continue to bring in the business [see charts, following pages].

In fact, federal court decisions and recent changes in patent law brought about by the America Invents Act may have inadvertently made the ITC an even hotter forum for companies looking to keep infringing products from entering the country and being sold in the United States.

To be sure, the number of cases instituted at the ITC in any given year is small compared to the number of pat-



ent suits filed in district courts. And the number of cases filed each year at the ITC fluctuates, so that in pure numbers, filings have actually dropped since their big spike in 2011. But it's not just about the numbers, it's what the agency does that draws litigants, lawyers say. "The ITC continues to interest a lot of our clients," says Christine Lehman, a partner at Finnegan, Henderson, Farabow, Garrett & Dunner who specializes in patent litigation and used to be an investigative attorney at the ITC. "The International Trade Commission is not going away."

The ITC investigates cases related to allegations of unfair competition and unfair acts involving imported products. Most of these cases, called Section

337 investigations after the section of the Tariff Act of 1930 that first authorized them, concern infringement of patents or other intellectual property rights. In recent years, these investigations have, not surprisingly, revolved around high-tech products. In 2011 computer and telecommunications products accounted for about 25 percent of new investigations, and in 2012 they accounted for about 30 percent, according to the ITC's data. Other consumer electronic products accounted for about 15 percent of new investigations in 2011 and about 20 percent in 2012, the agency says.

While smartphone wars and disputes between high-profile companies seem to attract the most attention,

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these are not always the typical parties in an ITC investigation. Frequently an investigation involves small manufacturers—operating companies engaged in a patent dispute. In 2012, for exam-

#### OVERALL

Law Firm	Mentions
Adduci, Mastriani & Schaumberg	11
Perkins Coie	11
Finnegan, Henderson, Farabow, Garrett & Dunner	9
Sidley Austin	9
Foster, Murphy, Altman & Nickel	8
Fish & Richardson	7
Kirkland & Ellis	7
Alston & Bird	6
Cooley	6
Kenyon & Kenyon	6
Mayer Brown	6
Covington & Burling	5
Jones Day	5
Morrison & Foerster	5
Orrick, Herrington & Sutcliffe	5
Quinn Emanuel Urquhart & Sullivan	5
Stephens & Johnson	5
Brinks Hofer Gilson & Lione	4
King & Spalding	4
Agility IP Law	3
Arent Fox	3
<b>Banner &amp; Witcoff</b>	<b>3</b>
DLA Piper (US)	3
Goodwin Procter	3
Greenberg Traurig	3
H.C. Park & Associates	3
K&L Gates	3
McDermott, Will & Emery	3
O'Melveny & Myers	3
Pepper Hamilton	3
Reed Smith	3
Sughrue Mion	3
Weitzman Law Offices	3
White & Case	3

ple, U.S. medical device manufacturer Covidien LP filed a Section 337 case against Pajunk Medizintechnik GmbH, a German company with operations in the United States. Covidien alleged that Pajunk imported and sold a balloon dissection device that infringes its patent covering a method for performing laparoscopic hernia repairs, and asked the ITC to issue an exclusion order as well as a cease-and-desist order for current sales. Within weeks, the German company had signed a consent order saying that it would not import or sell the device in the U.S. except under consent or license from Covidien.

"The ITC is powerful because it has the potential to issue an exclusion order—an injunction-style remedy," says Smith Brittingham, a partner at Finnegan who has been involved in more than 50 ITC investigations and is a former senior investigative attorney with the ITC's Office of Unfair Import Investigations. "That threat also pushes parties toward settlement."

**THE THREAT OF AN INJUNCTION** CAN be a useful tool, and that is what has in recent years made the ITC a particularly popular venue for licensing companies—often called nonpracticing entities (NPEs) or, disparagingly, "patent trolls." Their increased presence is drawing scrutiny and criticism from many ITC observers.

Intellectual property owners that do not manufacture products have had the right to seek remedies at the ITC since 1988, when Congress amended the statute empowering the agency. Like all complainants, these licensing companies must show that they have a domestic industry related to the intellectual property being asserted. At that time, Congress noted that universities, inventors, start-ups, and other entities that conduct research and development, engineering, or licensing activities are just as entitled to relief from the ITC as manufacturers.

This wasn't a major issue until after the U.S. Supreme Court's 2006 ruling in *eBay Inc. v. MercExchange LLC*, which made

it more difficult for plaintiffs to obtain injunctions in district courts. Critics say that NPEs, which had been successful largely because they could threaten injunctive relief in district court suits, started moving toward the ITC, where they could still benefit from the threat of an exclusion order. The discretionary test that needs to be met to obtain injunctive relief in district court post-*eBay* does not apply at the ITC. As a result, NPEs started "flocking to the ITC," according to a 2012 study by Santa Clara University School of Law assistant professor Colleen Chien, an expert on the ITC, and Mark Lemley, a professor at Stanford Law School who specializes in intellectual property, anti-trust, and computer and Internet law.

In addition, the America Invents Act, the major patent reform legislation enacted over the past two years, made changes that unintentionally resulted in NPEs migrating to the ITC, Chien and Lemley's report says. The new law limited the naming of multiple defendants in a patent infringement lawsuit in federal court, so plaintiffs could no longer bring one case against multiple, unrelated defendants—a tactic that had been popular among NPEs. Again, this rule did not apply at the ITC. So while the number of defendants per case declined in district court following passage of the law, it did not decline at the ITC, according to the report.

"In the years following *eBay*, the number of ITC investigations brought by NPEs has grown from two in 2006 to 16 in 2011, and the number of total respondents named in NPE cases has grown from four to 235," the report says. "Growth in ITC NPE cases has outpaced the growth in ITC cases in general during this period, with the NPE shares of all ITC cases growing from 7 percent to 25 percent, and the number of NPE ITC respondents growing to over 50 percent of all ITC respondents."

Further adding to the unintended consequences, the U.S. Court of Appeals for the Federal Circuit in 2008 rejected the ITCs long-standing practice of including as part of its remedy prod-

## RESPONDENT SIDE

Law Firm	Mentions
Perkins Coie	10
Adduci, Mastriani & Schaumberg	9
Finnegan, Henderson, Farabow, Garrett & Dunner	9
Sidley Austin	9
Fish & Richardson	7
Kirkland & Ellis	7
Cooley	6
Foster, Murphy, Altman & Nickel	6
Kenyon & Kenyon	6
Jones Day	5
Mayer Brown	5
Orrick, Herrington & Sutcliffe	5
Steptoe & Johnson	5
Alston & Bird	4
King & Spalding	4
Quinn Emanuel Urquhart & Sullivan	4
<b>Banner &amp; Witcoff</b>	<b>3</b>
DLA Piper (US)	3
Goodwin Procter	3
H.C. Park & Associates	3
K&L Gates	3
Morrison & Foerster	3
O'Melveny & Myers	3
Weitzman Law Offices	3
White & Case	3

ucts containing infringing components that were manufactured by nonparties—companies not named as respondents in its investigations. Since then, observers have noted an increase in the number of respondents named in Section 337 investigations.

The commission has responded with its own data and analysis, coming to somewhat different conclusions. In a report published in April, for example, it notes that there is no agreed-upon definition of what constitutes an NPE, and then breaks down NPE entities into two categories. The first is for licensing compa-

nies that do not manufacture products whose entire business model focuses primarily on purchasing and asserting patents. The second is for all other entities that do not manufacture products, including inventors who have done R&D or built prototypes but do not make a product covered by the asserted patents and therefore rely on licensing; research institutions such as universities and laboratories; and start-ups that hold IP rights but do not yet manufacture products that practice the patent.

According to the ITC's analysis, the ITC instituted 301 investigations between the time of the eBay decision in May 2006 and the end of the first quarter of 2013. Of these, the first group of NPEs—those often referred to as “trolls”—accounted for 33 investigations, or 11 percent. The other group accounted for 27, or 9 percent.

The ITC also says the number of named respondents in an investigation varies substantially from year to year—both in non-NPE investigations and in investigations prompted by NPE complaints.

**NEVERTHELESS, THE COMMISSION IS** showing signs that it has heard its critics' call to limit NPE access, and at least in one case, so far, it has responded with a creative solution, attorneys say.

In February, Lamina Packaging Innovations, an NPE based in Longview, Texas, filed a complaint with the ITC accusing 15 respondents—mostly liquor companies—of infringement on a patent that relates to packaging for bottles. Usually, a company must show that it has a valid domestic industry that needs to be protected in the course of the ITC investigation. But in this case, for the first time, the commission ordered the administrative law judge to hold an early evidentiary hearing, find facts, and issue an early decision within 100 days as to whether the domestic industry requirement had been met.

If this practice becomes commonplace, it could put pressure on NPEs and reduce their leverage to extract settlements, Brittingham says. It also could save respondents money and time if a determination is made that there is no domestic industry, thereby ending the ITC litigation.

It remains to be seen whether a new standard will apply to every case brought by a licensing entity, Brittingham says: “But it appears that the ITC is giving more scrutiny to the domestic industry requirement. The 100 days case is an indication of that.”

Lawyers, of course, are good at adapting, and in the future NPEs may try to prove the domestic industry requirement by showing that their licensees are being hurt by the infringing imports. “Increased scrutiny on the domestic industry requirement doesn't mean that licensing entities will be running away from the ITC,” Brittingham says. “They may just change the nature of their complaints to show that they have a robust and long-standing licensing practice.”

NPEs, in other words, will not be easily deterred. Manufacturers will also continue to seek remedies through the ITC. It's not yet clear whether the number of new cases filed at the agency each year will once again rise or whether it has plateaued. But it's unlikely that the numbers will go down significantly, attorneys say. And new cases, meanwhile—both from manufacturers and from NPEs—continue to be filed. That new courtroom is likely to get a lot of use in the coming years.