

## **Why Patent Assertion Entities Are Transitioning To The ITC**

**Law360, New York (January 25, 2013, 12:27 PM ET)** -- Some practitioners and academics perceive a growing trend in patent infringement suits brought by patent assertion entities (“PAEs”) in the U.S. International Trade Commission. For example, in 2012, Colleen Chien, a professor at the Santa Clara University School of Law testified before the House Subcommittee on the Judiciary that “PAEs and product-producing companies alike have flocked to this once-obscure trade agency.”[1] She also noted that today “nearly every patentee is a potential ITC complainant and nearly every patent defendant is a potential ITC respondent.”[2]

While to say that there is a dramatic shift would be an overstatement, some statistics do seem to suggest a moderate shift. For example, in the ITC, PAEs initiated five investigations against 18 respondents in 2010, 16 investigations against 140 respondents in 2011, and 12 investigations against 88 respondents from January through Oct. 10 of 2012.[3] What may be motivating this perceived strategic shift in venue? This article examines some of the factors that may be contributing to PAEs favoring actions in the ITC rather than in district court.[4]

### **Time to Trial**

The ITC offers a relatively fast “time to trial” (or better put, “time to hearing,” as the proceedings in the ITC are in essence evidentiary bench trials). From 2008 through the end of 2012, the average time to trial for patent infringement cases in the Northern District of California was 29.9 months, and similarly in the District of Delaware, 28 months. Even the former “Rocket Docket” in the Eastern District of Texas has slowed to an average of 28.4 months during this time period.[5]

In comparison, the ITC strives to complete investigations in less than 15 months. In recent years, the complexity of certain investigations and the increased workload for the administrative law judges has resulted in slightly longer investigations. Nonetheless, ITC investigations are often completed in less than 18 months, which is still significantly faster than the time to trial in the vast majority of our district courts. The accelerated time frame generally gives a respondent less time to search for prior art, or implement a workaround, than in a district court proceeding.

### **Injunctions and Exclusion Orders**

The availability of exclusion orders in the ITC. It is now extremely difficult for a PAE to obtain an injunction in district court after the U.S. Supreme Court’s 2006 decision in *eBay Inc. v. MercExchange LLC*. [6] In *eBay*, the Supreme Court overturned a Federal Circuit decision that applied that court’s “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”[7]

The court held that the lower courts should have applied the traditional four-factor test historically employed by courts of equity.[8] That four-factor test requires the party seeking an injunction to “demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for the injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is

warranted; and (4) that the public interest would not be disserved by a permanent injunction.”[9] PAEs typically have more difficulty satisfying this test — especially the second factor — than, for example, product-producing entities, since any injury can normally be satisfied by money damages.

In contrast, in the ITC, the primary remedy available to complainants is the exclusion order, which directs U.S. Customs and Border Protection to stop infringing products from entering the United States. From the PAE’s standpoint of providing settlement leverage, the exclusion order is equivalent to an injunction, in that the respondent is barred from importing and thus selling infringing products in the United States. For many manufacturing entities, even a brief interruption in the target products’ supply lines can be highly disruptive, if not crippling. In her 2012 testimony to Congress, Chien noted that, in the six years since the eBay decision, PAEs obtained only one contested injunction in district court.[10] Chien notes that, in contrast, the ITC “still routinely awards injunctions to all comers.”[11]

## **Recovery**

The downward pressure on damages awards in district courts. In recent years, there has also been a downward pressure on large, speculative damage awards in district courts.[12] In keeping with decisions that emanated out of the Court of Appeals for the Federal Circuit, district courts have more frequently been exercising their “gate-keeper” function and scrutinizing the bases on which damages experts are relying for their conclusions. For example, in August of 2012, in *LaserDynamics Inc. v. Quanta Computer Inc., et al.*, the Federal Circuit indicated that, “in any case involving multicomponent products, patentees may not calculate damages based on sales of the entire product, as opposed to the smallest salable patent-practicing unit, without showing that the demand for the entire product is attributable to the patented feature.”[13]

There are no damages available at the ITC. However, the mere threat of an exclusion order in the ITC may result in a significantly larger payout for a PAE in the form of a settlement, as compared to a damages award in the district court that a defendant may now be more emboldened to contest both before and after trial. For example, in 2012, IP counsel for Ford Global Technologies LLC, a wholly owned subsidiary of the Ford Motor Company, testified before Congress about a PAE (Beacon Navigation) that in his view brought a case in the ITC in order “to obtain exorbitant royalties far beyond a reasonable value.”[14]

The PAE sued Ford and other automotive companies claiming that they infringed its patents, which allegedly covered a feature of the GPS navigation systems used in those vehicles. The PAE sought an exclusion order against certain Ford vehicles manufactured in Mexico and Canada and imported into the U.S. despite the fact that “the navigation component that [the PAE] claimed was covered by its patents was a relatively small percentage of the total vehicle value.”[15] In the words of Ford’s counsel “the PAE demands royalties that are large not because the patent is valuable, but because the target is vulnerable.”[16] In essence, the PAE can use the remedy available in the ITC as leverage to obtain a payout from a respondent that it may not have been able to obtain in district court.

## **Joinder**

A PAE can still join multiple defendants from across the country in a single suit. Prior to the enactment of the America Invents Act on Sept. 16, 2011, PAEs routinely joined multiple defendants into a single patent infringement suit. For example, prior to the enactment there were instances of 90 or more defendants named in a single suit. Frequently the only thing the defendants shared in common in these multidefendant suits was that they were being accused by the same plaintiff of infringing the same patent(s).

Section 299 of the AIA sought to curtail this type of multidefendant action by requiring that the claims against the defendants arise “out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process.”[17] Further, Section 299 of the AIA states that “accused infringers may not be 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.”[18] And if a defendant is improperly joined, it may be easier for that defendant to obtain a severance and/or transfer to another jurisdiction.

In the ITC, however, PAEs can continue to name multiple respondents in a single Complaint even where joinder of the respondents would be impermissible in district court. Further, transfer is not an option in the ITC — a complaint brought in the ITC must be litigated in the ITC.

## **E-Discovery**

There are fewer limits on discovery in the ITC. The recent issuance and widespread adoption of new model e-discovery rules designed to reduce the burden and expense of e-discovery in the district courts may also make the district courts less appealing to PAEs. The Federal Circuit’s Advisory Council issued model rules for electronic discovery in the fall of 2011.[19] These model rules propose and favor limits on the discovery of electronically stored information, such as email, including restrictions on the breadth of discovery requests and the number of custodians from which information can be requested (e.g., five custodians; five search terms).

Some districts popular with PAEs — including the Eastern District of Texas and the Northern District of California — have created model orders, adopted guidelines or revised standing orders with the intent of reducing the burden and expense of e-discovery. For example, the Eastern District of Texas has created a model order that can be conveniently adopted by judges for e-discovery based on the Federal Circuit model rules. And the Northern District of California now requires, among other things, that parties review the court’s new guidelines for electronically stored information and meet and confer and submit a report to the court regarding the parties’ plan for the discovery of ESI. These new requirements will likely mean more work for the PAE upfront, with the end result being that defendants may have to produce less information to the PAE during discovery.

The ITC, however, continues to have broad discovery rules, including rules relating to e-discovery. There are generally no substantive limits on the production of ESI, and it is up to the

attorneys to persuade ITC judges to adopt limitations on the production of ESI in a specific investigation. Moreover, there are fewer limits on discovery in the ITC, and the response time is accelerated (e.g., the default number of interrogatories pursuant to Federal Rule of Civil Procedure 33 is 25 with 30 days to respond; whereas in the ITC there is no limit on the number of Interrogatories and a party has only 10 days to respond).[20]

Moreover, PAEs often have significantly fewer documents to produce in comparison to what may be a multinational respondent corporation with repositories and witnesses worldwide. Given the differences in discovery limitations, response times, and overall burden of discovery between the district courts and the ITC, PAEs may be gravitating to the ITC for this reason as well.

So while the actual extent of any shift in filings by PAEs from the district courts to the ITC is still under scrutiny, some statistics do seem to suggest that PAEs are diverting their attention to the ITC due at least in part to the above-referenced factors.

In tandem, however, there also appears to be enhanced scrutiny by the U.S. Department of Justice, the U.S. Patent and Trademark Office, congressional subcommittees and other observers, who share concerns about the impact of any such shift on our U.S. economy.

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[1] The International Trade Commission and Patent Disputes: Hearing Before the House Committee on the Judiciary, 112th Cong. 2 (2012) (statement of Colleen Chien, Professor of Law, Santa Clara University School of Law) (“Chien Testimony”).

[2] *Id.* at 2.

[3] NPE Filings in the ITC, Presentation by Mallun Yen, Executive Vice President of Corporate Development, RPX Corporation (Oct. 10, 2012); see also Chien Testimony at 1-2.

[4] Notably, the Federal Circuit recently denied a request for a panel rehearing and rehearing en banc on an opinion finding that a complainant (e.g., a PAE) can satisfy the “domestic industry” requirement in the ITC via licensing activity in the U.S. *Interdigital Communs. LLC v. ITC*, 2013 U.S. App. LEXIS 689 (Fed. Cir. Jan. 10, 2013).

[5] LegalMetric Time to Trial District Comparison—Patent Cases (January 2013).

[6] 547 U.S. 388 (2006).

[7] *MercExchange LLC v. eBay Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

[8] *eBay*, 547 U.S. at 394.

[9] *Id.* at 391.

[10] Chien Testimony at 2.

[11] *Id.* Readers may also be interested in the DOJ and PTO's "Joint Policy Statement On Licensing Patents on F/RAND Terms" issued Jan. 8, 2013 and available at: <http://op.bna.com/atr.nsf/r?Open=casm-93rmg8>, which addresses whether "exclusion orders in investigations under section 337 of the Tariff Act of 19301 are properly issued when a patent holder seeking such a remedy asserts standards-essential patents that are encumbered by a RAND or FRAND licensing commitment."

[12] See, e.g., *Lucent Techs. Inc. v. Gateway Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).

[13] 694 F.3d 51, 67 (Fed. Cir. 2012).

[14] The International Trade Commission and Patent Disputes: Hearing Before the House Committee on the Judiciary, 112th Cong. 3 (2012) (testimony of David B. Kelly, Intellectual Property Counsel, Ford Global Technologies, LLC) ("Kelly Testimony").

[15] *Id.*

[16] *Id.* at 2.

[17] 35 U.S.C. § 299 (a)(1)-(2).

[18] *Id.* at § 299 (b).

[19] Advisory Council for the United States Court of Appeals for the Federal Circuit, [Model] Order Regarding E-Discovery In Patent Cases (Sept. 27, 2011), available at: <http://www.cafc.uscourts.gov/the-court/advisory-council.html>.

[20] Fed. R. Civ. P. 33; 19 C.F.R. § 210.29.

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