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SHOW ME THE ARTICLE: THE "ARTICLES" REQUIREMENT FOR DOMESTIC INDUSTRY BASED ON LICENSING

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Until 2014, the ITC's domestic industry requirement had a counter-intuitive feature—those who manufactured a patented article in the United States faced a greater burden of proving their domestic industry than those who relied on their United States licensing activities. While the former were required to prove that their article practiced the patent-in-suit (known as the "technical prong" of a domestic industry showing), the latter had no such burden. Traditionally, the ITC did not require a complainant to meet the "technical prong" in the form of articles practicing the asserted patents for a licensing-based domestic industry.

That distinction disappeared as a result of a pair of Federal Circuit decisions in 2013 (*InterDigital v. ITC* and *Microsoft v. ITC*) and several Commission opinions in 2014. As confirmed by the Federal Circuit this year, establishing a domestic industry based on licensing (Subsection C of 19 U.S.C. § 1337(a)(3)) now requires proof of an article that practices the patent-in-suit. While the complainant is not required to make the practicing article itself, it is required to show that someone (e.g., a licensee) is making or developing the article and that the complainant's U.S. investment in licensing or R&D is related to the article.

The following discussion traces these developments in domestic industry law at the Federal Circuit and ITC.

I. Section 337(a)(3): Domestic Industry

Section 337 requires a complainant to establish that a domestic industry relating to the patented technology exists or is in the process of being established in the United States. This requirement is divided into an **economic prong** (requiring proof that the domestic industry exists) and a **technical prong** (requiring proof that the articles produced in connection with the domestic industry practice the patent-in-suit). Complainants may satisfy the economic prong by showing, with respect to the patented articles: (A) significant investment in plant and equipment ("Subsection A"); (B) significant employment of labor and capital ("Subsection B"); or (C) substantial investment in their exploitation, including engineering, research and development, or licensing ("Subsection C"). 19 U.S.C. § 1337(a)(3)(A)-(C). Subsection C is often divided into two categories: (1) engineering and R&D investments; and (2) licensing investments.

II. The Federal Circuit Clarifies the "Articles" Requirement

Before 2014, Commission precedent did not "require a complainant to demonstrate for purposes of a licensing-based domestic industry the existence of protected articles practicing the asserted patents." *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same*, Inv. No. 337-TA-841, Comm'n Op. at 27-28 (Jan. 9, 2014) ("*Certain Computers*"). But that changed following two decisions by the Federal Circuit in 2013— *InterDigital Commc'ns, LLC v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013) ("*InterDigital II*") and *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013).

Interdigital II

In *InterDigital II*, 707 F.3d at 1303, the Federal Circuit evaluated the domestic industry showing made by complainant InterDigital under Subsection C. The court noted that "InterDigital has engaged in some production of products, but it is principally dedicated to research and licensing intellectual property in the cellphone industry." *Id.* at 1299. The record showed that InterDigital made substantial investments in "licens[ing] its wireless technology and patents to significant handset and device manufacturers throughout the world," and the patented technology was found in the licensed products. *Id.* Further, the ITC "record reveals substantial investment by InterDigital in the research and development that led to the patents in suit." *Id.* However, there was no indication that either InterDigital or its licensees manufactured the patented articles in the United States.

In considering the domestic industry requirement under Subsection C, the Federal Circuit held that "it is not necessary that the party manufacture the product that is protected by the patent, and it is not necessary that any other domestic party manufacture the protected article." *Id.* at 1303-04. Rather, a party is entitled to seek relief under Section 337 "[a]s long as the patent covers the article that is the subject of the exclusion proceeding, and as long as the party seeking relief can show that it has a sufficiently substantial investment in the exploitation of the intellectual property to satisfy the domestic industry requirement of the statute." *Id.* at 1304. Importantly, while the manufacture of the patented article need not occur in the United States, the court observed that "a sufficiently substantial domestic licensing industry will need to license its technology to *a manufacturer somewhere*." *Id.* at 1303 n. 4 (emphasis added). In other words, the licensing must relate to a protected article manufactured somewhere, even if the manufacture occurs outside of the U.S.

Microsoft Corp.

In *Microsoft Corp.*, the Federal Circuit affirmed the ITC's determination that Microsoft failed to prove the existence of a domestic industry for some of the patents-in-suit. 731

F.3d at 1361-63. To make its domestic industry showing before the ITC, Microsoft relied on mobile devices allegedly loaded with the Microsoft Windows mobile operating system, in which Microsoft invested substantial resources in the United States. The ALJ found, however, that "Microsoft failed to prove that the mobile devices on which it relied actually implemented" three of the four patents-in-suit. *Id.*at 1358.

Upholding the ITC's finding, the court recognized that there was "no question about the substantiality of Microsoft's investment in its operating system or about the importance of the operating system to the mobile phones on which it runs." 731 F.3d at 1361.[1] Nonetheless, the Federal Circuit held that this was not enough under the statute—the investment must be tied to actual "articles protected by the patent." *Id.* Thus, the Federal Circuit found that a complainant must "provide evidence that its substantial domestic investment—e.g., in research and development—relates to an actual article that practices the patents, regardless of whether or not that article is manufactured domestically or abroad." *Id.* at 1362.

III. The Commission's Response: Protected Articles are Required for Subsection C

Certain Computers

Based on the Federal Circuit rulings in *InterDigital II* and *Microsoft*, the Commission reassessed its domestic industry requirements under Subsection C in *Certain Computers*. In contrast with previous rulings, the ITC held that proof of "articles protected by the patent" is required even where the domestic industry is based on licensing investments under 19 U.S.C. § 1337(a)(3)(C).

Relying on the legislative history surrounding the 1988 amendments that added Section 337(a)(3), the Commission's previous practice had "been not to require a complainant to demonstrate for the purposes of licensing-based domestic industry the existence of protected articles practicing the asserted patents." *Certain Computers*, Inv. No. 337-TA-841, Comm'n Op. at 27-28. But following the Federal Circuit's decisions in *InterDigital II* and *Microsoft*, the Commission held that "a complainant alleging the existence of a domestic industry under 19 U.S.C. § 1337(a)(3)(C) must show the existence of articles," and that "the substantial investment, once protected articles have been shown, is in the exploitation of the intellectual property rights, 'including engineering, research and development, or licensing.'" *Id.* at 40.[2]

Following *Certain Computers*, the Commission provided additional guidance on Subsection C domestic industry in *Certain Integrated Circuit Chips and Products Containing the Same*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014) ("*Integrated Circuit Chips*") and *Certain Optical Disc Drives, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-897, Remand Order (Sept. 3, 2014) ("*Optical Disc Drives*").

Integrated Circuit Chips

A "Nexus" Is Required Between the Asserted Patent and the U.S. Investment in "Exploitation" of the Patent for Subsection C

The Commission explained that the domestic industry requirement demands a nexus between the asserted patent and the United States investment in that patent. Comm'n Op. at 37. The Commission clarified that "to the extent there was any question, under subparagraph (C), the complainant must establish that there is a nexus between the claimed investment and the asserted patent, regardless of whether the domestic-industry showing is based on licensing, engineering, or research and development." *Id.* at 38.

Looking at how to establish "exploitation" of the patent, the Commission recognized "'exploitation' is a generally broad term that encompasses activities such as efforts to improve, develop, or otherwise take advantage of the asserted patents." *Id.* at 39. The Commission noted that "[t]he difficulty arises when the complainant points to an investment in an article without offering evidence of a nexus between that investment and the patented technology." *Id.* at 40. While this may not be an issue in some circumstances—for example, when the claimed investment is in the domestic industry article, which itself is the physical embodiment of the asserted patent—the Commission clarified that "there may be circumstances in which the domestic investment is so unrelated to the asserted patent that no nexus can be imputed." *Id.* at 41-42.

Patent-by-Patent Showing Is Not Required

The Commission also clarified that the nexus requirement does not mandate a patent-by-patent allocation of investment. In *Integrated Circuit Chips*, the Respondents contended that the nexus requirement demanded that complainants demonstrate a patent-by-patent allocation of investment. The Commission noted that it "recently rejected" such a requirement "in the licensing context under subparagraph (C)," and "[s]imilarly, no patent-by patent allocation is required for research and development investment under subparagraph (C)." *Id.* at 41.

Considering the realities of doing business, the Commission attempted to strike a balance as to the required proof. Where the complainant relies upon the licensing of a portfolio with non-asserted patents, proof of firm-wide expenditures for licensing or R&D may be insufficient, but "a qualitative discussion of the relationship between the patented [article] and the domestic investment can suffice." *Id.* at 49-50. The Commission made clear that it was not looking for a "precise numerical allocation." *Id.* at 50.

Three-Step Analysis for Subsection C Domestic Industry Based on R&D

Having reviewed the case law relevant to Subsection C, the Commission set out a three-question framework for analyzing domestic industry based on R&D:

(1) Is there a domestic industry with regard to articles protected by the patent?

(2) Has a domestic investment in exploitation of the patent by engineering or R&D been shown?

(3) Is that investment in exploitation of the patent "substantial?"

Id. at 47.

Providing some additional guidance, the Commission noted that "if complainant cannot demonstrate the existence of articles protected by the patent, the complainant must instead show a domestic industry 'is in the process of being established'" pursuant to 19 U.S.C. § 1337(a)(2). *Id*. at 47 n.22.

The Commission also explicitly stated that its previous opinion discussing "three nexuses" in *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing the Same*, Inv. No. 337-TA-694, "remains accurate for all subparagraph (C) domestic industries." *Id*. at 47 n.23. Thus, the Commission specifically endorsed the need for a "(i) nexus to the asserted patents; (ii) nexus to licensing (or the R&D); and (iii) nexus to the United States" in analyzing the investment in exploitation of the patent. *Id*.

In *Integrated Circuit Chips*, the Commission concluded that the requisite nexus between the asserted patent and the domestic industry investment had not been established. The Commission found that the complainant's domestic investment in integrated circuit chips was not related to the patented bond-pad technology used by the chips, and therefore did not demonstrate the required nexus between the research and patented technology at issue. *Id*. at 50.

Optical Disc Drives

Non-Production Driven Licensing May Establish Domestic Industry

Acting on its own initiative, the Commission vacated an Initial Determination in*Certain Optical Disc Drives* that had found no domestic industry based on licensing because the pertinent licenses were revenue-driven, not production-driven.

In *Certain Optical Disc Drives, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-897, Order No. 95 (July 17, 2014) (Lord, ALJ), ALJ Lord ruled that a complainant relying solely on the activities of its licensees to establish a domestic industry must show that the licensing is production-driven—i.e., aimed at facilitating production of the patented technology—not merely revenue-driven. ALJ Lord concluded that complainant Optical Devices failed to establish a domestic industry because its licensing was purely revenue-driven, and it had not attempted to show any substantial, qualifying licensing expenditures of its own.

The Commission rejected the ALJ's Initial Determination, explaining that section 1337(a)(3) only commands "that 'an industry in the United States shall be considered to *exist,*' but does not specify that such industry must be comprised of" the complainant. *Certain Optical Disc Drives, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-897, Corrected Remand Order (Sept. 29, 2014). The Commission noted that the statute has been "consistently interpreted" as "allowing a complainant to rely on the activities of its licensees in attempting to show the existence of a domestic industry." *Id.* at 4. "[W]hether a license is revenue-driven has not been the focus of the Commission's domestic industry analysis." *Id.* at 6.

The Remand Order cited *Certain Computers* favorably, but did not explicitly address the "articles" requirement (technical prong) for licensing-based domestic industry.

IV. The Federal Circuit Confirms the "Articles" Requirement

In March 2015, the Federal Circuit affirmed the Commission's no-violation decision based on lack of domestic industry in *LSI Corp. v. ITC*, 2015 WL 1260672, *1 (Fed. Cir. Mar. 20, 2015). At the ITC, the ALJ "found that LSI had proved the existence of a domestic industry by virtue of LSI's substantial investment in licensing its patents to third parties, thereby satisfying § 1337(a)(2) and (a)(3)(C)." *Id.* at *2. However, "the ALJ did not address *InterDigital II* or identify any licensee-produced articles that practiced the asserted patents." *Id.* The Commission reversed the ALJ's finding, reasoning that there was "no evidence that LSI's licensing activity related to any article practicing" the patent-at-issue, and "without any such article, LSI had not proved the domestic industry required" under the statute. *Id.*

On appeal, LSI argued that the Commission improperly applied the articles requirement under *InterDigital II* and *Certain Computers* retroactively, but the Federal Circuit noted that the *InterDigital II* opinion was issued a month before the close of discovery in the case. *Id.* Thus, complainant LSI had ample notice of the Subsection C "articles" requirement stated by the Federal Circuit in *InterDigital II*. *Id.* The Federal Circuit affirmed the Commission's finding of no domestic industry due to LSI's failure to prove an article practicing the patent-in-suit.

V. Conclusion

Based on Federal Circuit and ITC decisions from the last few years, it is now clear that a domestic industry premised on Subsection C requires satisfaction of both (1) a technical prong—i.e., proof of articles practicing the patent-in-suit (or proof that an industry to manufacture such articles is being developed); and (2) an economic prong—i.e., evidence of substantial domestic investment in exploitation of the patent. Complainants asserting domestic industry under Subsection C must be prepared to make the required showing, including proffering evidence that articles they or their licensees manufacture practice the patent-in-suit.

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[1] The Federal Circuit's opinion only addressed whether domestic industry had been established for two of the three patents for which the ALJ found no domestic industry. The Federal Circuit concluded that the respondent's product did not infringe the third patent without addressing domestic industry as to that patent.

[2] Based on legislative history and congressional intent, Commissioner Aranoff dissented from the Commission's determination that a complainant is required to demonstrate the existence of articles practicing the asserted patents in order to show a domestic industry based on licensing under section 337(a)(3)(C). *Id.* at 6 n.6.