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Recent ITC decision clarifies and eases domestic industry burden for patent holders

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A recent decision by the International Trade Commission ("ITC" or the "Commission") improves intellectual property holders' ability to prove that they have a "domestic industry" and obtain relief for infringement from the Commission. Specifically, the ITC ruled that investments in "non-manufacturing activities," including engineering and research and development activities related to a domestic industry protected article under section 337(a)(3)(C), can support a finding of domestic industry under sections 337(a)(3)(A) or (B) —the sections traditionally associated with manufacturing. The Commission also ruled that manufacturers could use certain investments in components and contract employees to support a finding of domestic industry. The Commission's opinion removes uncertainty for companies relying upon research and development activities and expenditures to establish a domestic industry. It also helps parties relying on manufacturing expenses to establish a domestic industry.

In Investigation No. 337-TA-1097, *Certain Solid State Storage Drives, Stacked Electronics Components, and Products Containing Same* ("*Solid State Storage Drives*"), Complainant BiTMICRO, LLC ("BiTMICRO") attempted to rely on the domestic activities of its licensee BiTMICRO Networks, Inc. to satisfy the ITC's domestic industry requirement, which is a jurisdictional predicate in the forum. These activities included investments in research and engineering as well as component costs for specially order parts and labor expenses for contract employees related to the domestic industry product. BiTMICRO allocated these activities under sections 337(a)(3)(A) (labor and capital) or (B) (facility and equipment). In the initial determination, the Administrative Law Judge found that investments in "non-manufacturing activities" cannot support a finding of domestic industry under section 337(a)(3)(A) and (B). Under the judge's ruling, BiTMICRO could only have established a domestic industry under section 337(a)(3)(C) and satisfied that provision's additional requirement of proving a nexus between the patents and the research investments. To support its findings, the initial determination conducted an analysis of the statutory intent of the ITC's domestic industry requirement, concluding that Congress understood subsections sections 337(a)(3)(A) and (B) to require exploitation of the patent only through manufacturing whereas the newly added subsection (C) requires exploitation through engineering, research and development, or licensing.

The initial determination was consistent with some earlier Commission decisions which had similarly held that companies wishing to establish a domestic industry at the ITC by relying on their research expenditures could only do so under 337(a)(3)(C). Those decisions also imposed an additional nexus requirement that those relying on manufacturing expenses under 337(a)(3)(A) or (B) did not have to satisfy. This nexus requirement was not trivial, as it sometimes required companies to be able to quantify their investments in research in the patented subcomponents of a product, which many were unable to do.

The Commission opinion in *Solid State Storage Drives* expressly overrules these findings and this precedent, including the ALJ's statutory history analysis. Instead, the Commission concluded that domestic investments in plant and equipment or employment of labor or capitol associated with engineering, research and development,

or licensing *can* support a finding of domestic industry under sections 337(a)(3)(A) and (B). In view of the legislative text and history of the ITC's domestic industry requirement, the Commission found that satisfying subsections (A) and (B) only requires showing that the relied-upon plant and equipment expenses and labor and capital expenses are attributable to the domestic industry product, not the patented feature of the protected article. In other words, with this approach, a complainant need not prove a nexus between the expenses and the patented technology as is required under subsection (C).

This ruling alleviates confusion for practitioners regarding what may be credited to establish a domestic industry and allows complainants relying upon engineering, research and development, or licensing activities to prove domestic industry in a manner that aligns with the reality of their business in the context of the 21st Century economy. In particular, as research and development, as opposed to manufacturing, has been an increasingly important part of corporate activity in the U.S., this decision will help more companies take advantage of the ITC as a forum.

In addition, the Commission provided welcome clarity to the application of the Federal Circuit's opinion in *Lelo Inc. v. Int'l Trade Comm'n*, in which the Federal Circuit determined that the purchase of "off-the-shelf" component parts from a third party could not support a finding of domestic industry under subsection 337(a)(3)(B) absent "evidence that connects the cost of the components to an increase of investment or employment in the United States." As component costs can be a substantial portion of manufacturing investments, the *Lelo* decision hurt the ability of manufacturers to establish a domestic industry. In *Solid State Storage Drives*, however, the Commission found that payments to "third-party contract manufacturers" who make specialized components purchased and used in the domestic industry products and/or providing specialized services, should be credited under subsection (B). Additionally, the Commission also credited labor expenses paid to independent contract employees in connection with specialized portions of the production process for the domestic industry products.

This opinion resolves the question whether engineering, research and development, or licensing activities can be used to demonstrate a domestic industry under sections 337(a)(3)(A) and (B). They can.

Moreover, complainants at the ITC no longer need provide a nexus between those expenditures and the patented technology. The Commission also finally resolved that purchases of custom components and services from third parties and payments to contractors can be credited under 337(a)(3)(B). Contextually, this holding makes sense in today's global economy. Products are often researched, developed, and designed in the United States—but manufactured overseas or with the assistance of third parties within the U.S. This opinion better aligns the ITC statutory purpose of the domestic industry requirement with contemporary business practices. It also helps more patentees seek relief from unfair trade practices through patent infringement at the ITC.