

Pursuing Equitable Patent Defenses As ITC Gains Popularity

By **Cody Reeves and Daniel Valencia** (March 9, 2023, 5:57 PM EST)

The U.S. International Trade Commission is one of the most popular venues for adjudicating patent infringement disputes and growing even more so.

The number of active cases at the ITC essentially doubled between fiscal year 2006 and fiscal year 2022, and most center around allegations of patent infringement.[1] The commission oversaw 142 active investigations in fiscal year 2022 — the most ever in its history.[2]

The commission is on track for another busy year this year, with 70 active investigations — the same number it oversaw in all of 2006 — recorded in just the first quarter of fiscal year 2023.[3]

Patentees are increasingly drawn to the forum for its unique brand of injunctive relief, speedy case resolution and broad geographic jurisdiction.

When it comes to litigating the merits of a claim for patent infringement, the ITC functions much like federal district court. By statute, the ITC must allow accused infringers to present "[a]ll legal and equitable defenses" to such claims.[4]

In practice, accused infringers do just that: Our study of responses to the complaints in 10 recently instituted investigations revealed that at least one equitable defense was asserted by at least one respondent in seven out of those 10 cases.

Those asserted defenses include equitable estoppel, inequitable conduct, unclean hands, patent misuse and prosecution laches.

Despite the popularity of equitable defenses in pleadings, history shows that they rarely go the distance. We found two cases in the last 20 years in which the commission held that equitable defenses had been successfully proven.

In its 2004 Certain Ammonium Octamolybdate Isomer decision, the commission found one of the asserted patents unenforceable for inequitable conduct.[5] In its Certain Recordable Compact Discs and Rewritable Compact Discs case later that year, the commission initially found that patent misuse rendered the asserted claims unenforceable, but it was ultimately reversed by the U.S. Court of Appeals for the Federal Circuit after several appeals and remands.[6]



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In 2012, the commission found the asserted patents unenforceable because the complainant engaged in spoliation that resulted in unclean hands.[7] In a handful of other investigations throughout the 1990s, 2000s and 2010s, the commission addressed the merits of equitable defenses like inequitable conduct, unclean hands, equitable estoppel, implied waiver and laches, finding each time that those defenses had not been proven.[8]

There are a number of factors that may explain why the commission has confronted equitable defenses in so few cases. One is that meritorious, provable equitable defenses are simply rare — the bar for proving up an equitable defense is high, and often requires proving that the patentee has committed some serious — often fraudulent — wrongdoing.

Some equitable defenses — e.g., equitable estoppel — need only be proven by a preponderance of the evidence. But most — e.g., implied waiver, unclean hands and inequitable conduct — require proof by clear and convincing evidence.[9]

Another factor is that the ITC is a particularly challenging forum to assert equitable defenses in. Not only is the bar for proving these defenses high, but proving them usually requires mustering a significant number of facts.

These defenses may require a respondent to seek discovery from third parties, including those that reside abroad. Given the ITC's fast-paced procedural schedules — where fact discovery must usually be completed within four to six months — it may simply be impractical for litigants to gather the discovery they need to prove these defenses in the time that they have.

Or, litigants may instead decide to focus their limited time and resources on more familiar defenses like noninfringement and prior art invalidity.

For a respondent who believes that there may be a viable equitable defense available in their case at the ITC, there are several considerations that should be kept in mind as the case proceeds. For complainants, there may be opportunities to eliminate equitable defenses early in the investigation.

Plead With Particularity

As in district court, affirmative defenses at the ITC must be pled in an accused infringer's response to the complaint. But ITC Rule 210.13(b) specifically requires that "[a]ffirmative defenses shall be pleaded with as much specificity as possible," and the commission and its ALJs will not hesitate to strike noncompliant defenses.[10]

For example, in her 2018 Certain LED Lighting Devices, LED Power Supplies, and Components Thereof decision, former Administrative Law Judge Dee Lord struck inequitable conduct and patent misuse defenses, finding that they "lack[ed] factual content" and were "inadequate to sustain the alleged affirmative defense." [11]

Judge Lord cited the commission's Rule 210.13(b) as well as the Federal Circuit's 2009 decision in *Exergen Corp. v. Wal-Mart Stores Inc.*, which held that for inequitable conduct, "[Federal Rule of Civil Procedure] 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission committed before the [U.S. Patent and Trademark Office]." [12]

Judge Lord also denied the respondents' alternative request for leave to replead their defenses, finding that the "[r]espondents have not shown that alternative theories or additional facts could not have been included in their original responses."[13]

Affirmative defenses may survive a motion to strike if they have advanced sufficiently in discovery.

In the *Certain Mobile Phones and Tablet Computers, All with Switchable Connectivity* case, Administrative Law Judge Cameron Elliot declined to strike a patent misuse defense, finding, on Aug 2, 2022, that "the investigation has proceeded beyond the pleading stage and the parties have exchanged at least two rounds of relevant contention interrogatory responses" and, as a result, summary determination is the appropriate mechanism after the pleading stage.[14]

Our research suggests the following guidance for litigants as they prepare to litigate their affirmative defenses:

First, consistent with the commission's Rule 201.13(b), litigants should place as much factual content in their response to the complaint as they can muster — boilerplate allegations will not suffice, and may even be sanctionable under Rule 11 of the Federal Rules of Civil Procedure and commission rules.[15]

Although discovery may be required to prove some defenses, others like inequitable conduct based on misrepresentations to the PTO may be provable — at least in part — by examining public records. Thus, at least some work can be done pre-institution to gather facts in support of certain defenses.

On the flip side, complainants should move early to strike defenses that may be improperly pled. Although respondents may be able to revive stricken defenses by moving for leave to supplement their responses to the complaint, striking those defenses early will slow down those respondents and hobble their ability to embark on fishing expeditions during discovery.

After all, the scope of discovery is bounded by "[t]he claim or defense of the party seeking discovery" under Title 19 of the Code of Federal Regulations, Section 210.27(b)(1).[16]

Complainants may also consider invoking the commission's version of Rule 11 — i.e., Title 19 of the Code of Federal Regulations, Section 210.4 — to push respondents to withdraw a baseless defense or face a potential sanctions motion.[17]

Second, litigants should move quickly to gather support for their defenses after institution. As the *Certain Mobile Phones* ruling demonstrates, once a party has advanced its contentions beyond the pleadings and into contention discovery, motions to strike may not be appropriate.

Instead, a complainant may be forced to move for summary determination to eliminate an affirmative defense, which makes it more likely the defense will survive.

While a complainant moving to strike an equitable defense need only establish that the facts, as pled by the respondent, are insufficient to support the defense akin to a motion to dismiss, a complainant moving for summary determination would need to establish that there are no material disputes of fact — a higher standard that is rarely satisfied in the ITC for contested motions.[18]

Pursue Discovery Early

As noted above, proving an equitable defense may require a respondent to pursue third-party discovery. For example, a party asserting a defense based on fair, reasonable and nondiscriminatory, or FRAND, terms may want to seek discovery from a standards-setting organization.

If a patent has changed hands multiple times — a common occurrence when litigating against nonpracticing entities, or NPEs — a respondent may seek discovery against former assignees to explore potential defenses.

Third-party discovery — especially if it is being sought from a party that resides abroad — can take many months to come to fruition. The ITC's docket is littered with examples of the delays that can be incurred due to third-party discovery.[19]

Taking third-party discovery from foreign entities in the ITC typically involves either using the Hague Convention or letters rogatory to seek assistance from a foreign jurisdiction to procure discovery.

These processes are time-consuming insofar as they require approval by the ALJ, followed by approval by the local district court, followed by transmission of the letters to the judicial authority in the foreign jurisdiction. These processes almost never bear fruit in time for it to matter in an ITC investigation.

Further complicating matters, motions to extend deadlines at the ITC must be justified by good cause, and ALJs will deny motions that fail to sufficiently justify their requested extensions. For example, in *Certain Wireless Communications Devices*, complainant Linex moved to extend the deadline for completing fact discovery, citing delays in receiving discovery from third parties.[20]

The ALJ denied the motion, finding that:

Linex's troubles ... are of its own making. ... It was mid-October, three months after being put on notice that it needed third party discovery, before Linex began any real efforts to schedule depositions with the subpoenaed third-parties.

The lesson to be gleaned from this case is clear: litigants should aim to serve third-party subpoenas as soon as fact discovery begins, or as soon as they become aware of a potential defense.

Balance Discovery Burdens

Equitable defenses also present an opportunity for respondents to go on the offensive during discovery. Since the U.S. Supreme Court's decision in *eBay Inc. v. MercExchange LLC* in 2006, which raised the bar for seeking injunctive relief in district court, there has been a rise in the number of investigations brought by NPEs at the ITC.[21]

Many NPEs primarily monetize their patent portfolios by seeking to license their patents to willing licensees and, where that fails, using litigation to gain settlement payments. For these NPEs, Section 337 actions are particularly potent settlement leverage because of the intense, asymmetrical nature of the parties' discovery burdens.

In a case where the complainant practices its patents, the respondent's burden of producing discovery regarding the accused products is balanced by the complainant's burden of producing discovery regarding its domestic industry investments and domestic industry products.

But NPEs largely rely on the investments of their licensees to support their domestic industry contentions; as a result, they can externalize their discovery burden and instead focus their attention on putting pressure on the respondents.

Equitable defenses may offer a path to rebalancing the scales, at least in part. For example, equitable estoppel defenses may rely on the knowledge of the patentee at the time the patentee made a particular statement. Other business misconduct may give rise to an unclean hands defense.[22]

These hooks can allow a respondent asserting an equitable defense to seek discovery, including depositions, of the patentee.

Public Interest: A Second Bite at the Apple?

Even if a respondent does everything in its power to plead, discover, and contend in support of an equitable defense, it may still fail. But even then, all is not lost — there is an additional reason to try to develop equitable defenses.

Respondents may be able to use certain facts in the context of the statutory public interest factors because, sometimes, these factors can overlap with an equitable defense inquiry.

By way of background, the commission is charged by statute with considering certain public interest factors before ultimately issuing a remedy in an investigation. Those factors are "public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers" under Title 19 of the U.S. Code, Section 1337(d)(1).[23]

After considering these factors, the commission may issue modified relief or no relief at all, even if it finds that the respondents have committed an unfair act in violation of Section 337. For example, the public interest factors have persuaded the commission to delay enforcement of its remedial orders to minimize the impact on U.S. consumers.[24]

Although the commission rarely invokes the public interest factors to modify remedial orders, the factors are broad enough to permit parties to make a variety of arguments using facts that may have been gathered in support of an equitable defense.

For example, a party may demonstrate anti-competitive behavior that does not rise to the level necessary to support a patent misuse defense, but that behavior may still affect "competitive conditions in the United States economy" or "United States consumers," according to the commission.

For at least one equitable defense, ALJs have expressly endorsed this strategy. Although the commission stated in its 2013 Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Device, and Tablet Computers decision that the public interest factors do not provide a per se prohibition on exclusion orders for FRAND-encumbered patents, the commission's ALJs have continued to suggest that FRAND obligations should be considered in the context of the public interest factors.[25]

For example, in Certain Mobile Telephones, Administrative Law Judge Bryan F. Moore struck the respondent's defenses related to FRAND obligations, finding that "consideration of FRAND-related argument should be limited to the public interest phase of the investigations." [26]

In 2015, Judge Lord suggested otherwise in *Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers*, where she found that "adjudication of the parties' FRAND dispute in the context of the public interest ... would be a significant departure from precedent." [27]

The ALJ noted, however, that "the Commission may wish to consider whether it should withhold or modify the statutory remedies in cases involving standards-essential patents."

As a result, the ALJ allowed the parties to present evidence "which can be obtained without burdensome discovery" on the issue. Judge Lord's ruling may have hinged on the fact that the respondent based its affirmative defenses on the complainant's failure to license its patents at FRAND rates, as opposed any specific conduct during the standard-setting process.

Regarding the public interest, the respondent in that case merely pled that an exclusion order on a FRAND-encumbered patent was not in the public interest, rather than analyzing the impact of an exclusion order on any specific public interest factors.

Pressure is mounting on the ITC to consider FRAND issues as a matter of the public interest. In a recent investigation, Lina M. Khan, chair of the Federal Trade Commission, and Rebecca Kelly Slaughter, an FTC commissioner, submitted a public interest statement urging the ITC not to issue an exclusion order where the patent at-issue is a standard essential patent subject to FRAND obligations. [28]

The commissioners argued that enforcing SEPs "harms consumers in the short term by depriving them of desired products" and "in the longer run through reduced innovation, competition, quality, and choice."

These cases demonstrate that the public interest factors have broad — but not unlimited — breadth. Litigants should think creatively about how they can repurpose the facts from their equitable defenses to make public interest arguments.

Conclusion

Respondents in Section 337 cases at the ITC who are considering asserting equitable defenses should take care to plead those defenses with as much specificity as possible, pursue discovery regarding those defenses diligently, and consider how those defenses can be reframed — if unsuccessful — as public interest arguments.

On the flip side, complainants should move quickly to strike improperly pled defenses to reduce their discovery burden.

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[1] https://www.usitc.gov/intellectual_property/337_statistics_number_new_completed_and_active.htm (73 active cases in 2007 vs 142 in 2022 Q4).

[2] *Id.*

[3] *Id.*

[4] 19 U.S.C. § 1337(c).

[5] See *Certain Ammonium Octamolybdate Isomers*, Inv. No. 337-TA-477, Comm'n Op., 2004 WL 238488 (Jan. 5, 2004).

[6] See *Certain Recordable Compact Discs and Rewritable Compact Discs*, Inv. No. 337-TA-474, Comm'n Op., 2004 WL 7341400 (Apr. 8, 2004). On appeal, the Federal Circuit reversed and remanded, finding faults with the Commission's patent misuse analysis. *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005). On remand, the Commission found the asserted patents infringed and found no patent misuse. *Recordable Compact Discs and Rewritable Compact Discs*, Inv. No. 337-TA-474, Remand Op., EDIS Doc. ID 272427 (Feb. 5, 2007). On appeal, the Federal Circuit reversed again, finding additional faults with the Commission's patent misuse analysis and remanding a second time. *Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301 (Fed. Cir. 2009). But on rehearing en banc, the Federal Circuit affirmed the Commission's finding of no patent misuse. *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1321 (Fed. Cir. 2010).

[7] *Certain Semiconductor Chips and Products Containing Same*, Inv. No. 337-TA-753, Comm'n Op., 2012 WL 13210367 at *32 (Aug. 17, 2012),

[8] See, e.g., *Certain Condensers, Parts Thereof and Products Containing Same, Including Air Conditioners for Automobiles*, Inv. No. 337-TA-334, Comm'n Op., 1994 WL 931450 (Feb. 1994); *Certain CD-ROM Controllers and Products Containing the Same II*, Inv. No. 337-TA-409, Comm'n Op., 1999 WL 956174 (Oct. 18, 1999); *Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices and Products Containing Same*, Inv. No. 337-TA-395, Comm'n Op., 2000 WL 1810084 (Dec. 11, 2000); *Certain Sortation Systems, Parts Thereof, and Products Containing Same*, Inv. No. 337-TA-460, Comm'n Op., 2003 WL 1712556 (Feb. 19, 2003); *Certain Semiconductor Chips and Products Containing Same*, Inv. No. 337-TA-753, Comm'n Op., 2012 WL 13210367 (Aug. 17, 2012); *Certain Ground Fault Circuit Interrupters and Products Containing Same*, Inv. No. 337-TA-739, Comm'n Op., 2012 WL 13171647 (Oct. 2, 2012); *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Comm'n Op., 2013 WL 12410037 (July 5, 2013); *Certain Encapsulated Integrated Circuit Devices and Products Containing Same*, Inv. No. 337-TA-501, Remand Op., 2014 WL 12935964 (Apr. 28, 2014); *Certain Network Devices, Related Software and Components Thereof I*, Inv. No. 337-TA-944, Comm'n Op., 2016 WL 11706641 (July 26, 2016); *Certain UMTS and LTE Cellular Communication Modules and Products Containing Same*, Inv. No. 337-TA-1240, Comm'n Notice (July 6, 2022) (vacating ALJ's finding of implied waiver).

[9] Compare *Certain Network Devices, Related Software and Components Thereof I*, Inv. No. 337-TA-944, Order No. 25, 2015 WL 6566237 at *2 (Sept. 8, 2015) ("To support a finding of implied waiver in the standard setting organization context, the accused must show by clear and convincing evidence that '[the patentee's] conduct was so inconsistent with an intent to enforce its rights as to induce a reasonable belief that such right has been relinquished.") with *Certain Sortation Systems, Parts Thereof*,

and Products Containing Same, Inv. No. 337-TA-460, Comm'n Op., 2003 WL 1712556 at *7 (Feb. 19, 2003) (equitable estoppel must be proven by a preponderance of the evidence); In re Omeprazole Pat. Litig., 483 F.3d 1364, 1374 (Fed. Cir. 2007) (standard for unclean hands is "clear and convincing evidence"); Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1290 (Fed. Cir. 2011) (standard for inequitable conduct is "clear and convincing evidence").

[10] See 19 C.F.R. § 210.13(b).

[11] See Certain LED Lighting Devices, LED Power Supplies, and Components Thereof, Inv. No. 337-TA-1081, Order No. 27, 2018 WL 1110484 (Feb. 20, 2018).

[12] Exergen Corp. v. Wal-Mart Stores, 575 F.3d 1312, 1327 (Fed. Cir. 2009).

[13] Certain LED Lighting Devices, LED Power Supplies, and Components Thereof, Inv. No. 337-TA-1081, Order No. 27, 2018 WL 1110484 at *9 (Feb. 20, 2018).

[14] See Certain Mobile Phones and Tablet Computers, All with Switchable Connectivity, Inv. No. 337-TA-1301, 2022 WL 3573348 (Aug. 2, 2022).

[15] See, e.g., Certain Automotive Fuel Caps and Radiator Caps and Related Packaging and Promotional Materials, Inv. No. 337-TA-319, Order No. 24, 1991 WL 788600 at *17 (Feb. 21, 1991) (striking affirmative defenses with prejudice as a violation of the Commission's analogue for Rule 11, noting that "boilerplate" defenses without any factual basis are plead in violation of Rule 11 as well as Commission interim rule 210.5.) ("Automotive Fuel Caps").

[16] 19 C.F.R. § 210.27(b)(1).

[17] See Automotive Fuel Caps, 1991 WL 788600 at *17.

[18] Certain Mobile Telephones, Tablet Computers with Cellular Connectivity, and Smart Watches with Cellular Connectivity, Components Thereof, and Products Containing Same, Inv. No. 337-TA-1299, Order No. 11, 2022 WL 3700596 at *1 (Aug. 22, 2022) ("Commission practice generally gives respondents an opportunity to supplement insufficiently pled affirmative defenses prior to striking the defenses. However, a motion to strike may be granted where a defense is clearly legally insufficient.") (citing Wright and Miller, Federal Practice & Procedure § 1381 (2019); Fed. R. Civ. P. 12(f)).

[19] See, e.g., Certain Handheld Electronic Computing Devices, Related Software, and Components Thereof, Inv. No. 337-TA-769, Motion to Hold the Record Open, EDIS Doc. ID 469220 (Jan. 19, 2012) (requesting that the ALJ hold the record open to account for delays in acquiring foreign discovery in support of patent misuse defense); Certain Routers, Access Points, Controllers, Network Management Devices, Other Networking Products, and Hardware and Software Components Thereof, Inv. No. 337-TA-1227, Notice of Endorsement, EDIS Doc. ID 740217 (Apr. 16, 2021) (noting nearly four month timespan between motion to seek letters rogatory and order from Canadian court recognizing letters as enforceable).

[20] Certain Wireless Communications Devices and Systems, Components Thereof, and Products Containing Same, Inv. No. 337-TA-775, Order No. 19, 2012 WL 167439 (Jan. 6, 2012).

[21] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.ht

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[22] See *Gilead Sciences, Inc. v. Merck & Co., Inc.*, 888 F.3d 1231 (Fed. Cir. 2018).

[23] 19 U.S.C. § 1337(d)(1).

[24] See, e.g., *Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710, Comm'n Op. at 78–83 (Dec. 19, 2011) (finding that public interest factors weighed in favor of delaying enforcement of remedial orders by four months).

[25] See *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Comm'n Op., 2013 WL 12410037 at *70 (July 5, 2013).

[26] *Certain Mobile Telephones, Tablet Computers with Cellular Connectivity, and Smart Watches with Cellular Connectivity, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-1299, Order No. 11, 2022 WL 3700596 (Aug. 22, 2022).

[27] *Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers*, Inv. No. 337-TA-953, Order No. 33, 2015 WL 9875533 at *7 (Nov. 10, 2015).

[28] *Written Submission on the Public Interest of Federal Trade Commission Chair Lina M. Khan and Commissioner Rebecca Kelly Slaughter*, Inv. No. 337-TA-1240 (May 16, 2022).