

PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION

Washington, D.C.

In the Matter of

CERTAIN DEVICES WITH SECURE
COMMUNICATION CAPABILITIES,
COMPONENTS THEREOF, AND
PRODUCTS CONTAINING SAME

Inv. No. 337-TA-858

**ORDER NO. 20: INITIAL DETERMINATION GRANTING MOTION TO
TERMINATE; AND**

ORDER DENYING MOTION FOR SANCTIONS

(April 22, 2013)

On March 4, 2013, Complainants VirnetX, Inc. (“VirnetX”) and Science Applications International Corporation (“SAIC”) (collectively, “Complainants”) filed a motion seeking to terminate the Investigation in its entirety based upon withdrawal of the Complaint so that Complainants may focus on their district court litigation. (Motion Docket No. 858-018.) Respondent Apple Inc. (“Apple”) opposed the motion in part on March 14, 2013. On March 19, 2013, Complainants sought leave, which is hereby GRANTED, to file a reply in support of their motion. (Motion Docket No. 858-019.)

On March 26, 2013, Apple filed a related motion seeking sanctions against Complainants. (Motion Docket No. 858-020 (“Sanctions Motion”).) On April 15, 2013, Apple withdrew its Sanctions Motion with respect to SAIC. On the same day, VirnetX opposed Apple’s motion.

After a careful review of the arguments and materials submitted by the parties, the Administrative Law Judge finds as follows.

Turning to the Sanctions Motion first, Apple argues *inter alia* that VirnetX has engaged in

PUBLIC VERSION

sanctionable conduct pursuant to Commission Rule 210.4(c). (Sanctions Mot. at 1.) According to Apple, VirnetX's first investigation, the 818 Investigation, was dismissed after the exchange of expert reports based on a lack of standing. (Sanctions Mot. Mem. at 1-2.) Apple explains that VirnetX filed this Investigation (along with SAIC), reasserting infringement of the '181 patent, and also instituted other district court litigation on the '181 and other patents, all for the goal of obtaining a license from Apple. (*Id.* at 4.) Apple asserts that VirnetX has been forum shopping and has caused the waste of public and private resources in its efforts to obtain a license. (*Id.* at 7-8.) Therefore, Apple requests that, prior to termination, the Administrative Law Judge should grant sanctions in the form of Commission fees, Apple's costs and fees related to Commission-specific activity such as expenses related to the domestic industry portion of the Investigation, and a heightened showing of good cause prior to institution of any new Section 337 investigations with VirnetX as complainant. (*Id.* at 9, 11-12, 14.)

VirnetX responds, *inter alia*, that efforts to license a patent are common and not a basis for sanctions. (Sanctions Mot. Opp. at 6.) VirnetX also argues that it is inappropriate to seek sanctions after a complaint has been withdrawn. (*Id.* at 7.) VirnetX disputes Apple's claim that the Commission should impose heightened scrutiny on VirnetX before instituting any further investigations it files. (*Id.*) According to VirnetX, this is tantamount to finding that an investigation be terminated with prejudice, which Commission precedent does not permit. (*Id.* at 8 (citing *Certain Bar Clamps, Bar Clamp Pads, and Related Packaging, Display, and Other Materials*, Inv. No. 337-TA-429, Commission Opinion (U.S.I.T.C., Feb. 2001) ("*Bar Clamps*")).) With respect to Apple's request for monetary sanctions, VirnetX argues that Apple's reliance on the Commission Order in the 524 Investigation¹ is misplaced and that Apple has failed to set forth

¹ *Certain Point of Sale Terminals and Components Thereof*, Inv. No. 337-TA-524, Commission Order (U.S.I.T.C., Sept. 2007) ("*Point of Sale Terminals*").

PUBLIC VERSION

the requisite specificity needed for sanctions under Commission Rule 210.4. (*Id.* at 9-12.)

As an initial matter, the Administrative Law Judge notes that VirnetX's motion to withdraw the Complaint has not yet been granted and therefore the Administrative Law Judge rejects VirnetX's argument (Sanctions Mot. Opp. at 7) that Apple's sanctions motion is somehow improperly timed under the circumstances. Indeed, it is the *withdrawal* of the Complaint that Apple seems to find improper because it lays the foundation for claiming in hindsight that VirnetX was allegedly not serious about its second litigation here.

Turning to the merits of the Sanctions Motion, the Administrative Law Judge has looked at the 818 Investigation and notes that the Administrative Law Judge in that case made specific findings that a portion of VirnetX's complaint lacked candor. *Certain Devices with Secure Communication Capabilities, Components Thereof, and Products Containing the Same*, Inv. No. 337-TA-818, Order No. 9 at 4-6 (U.S.I.T.C., 2012) ("*Secure Communication Devices*"); *id.*, Order No. 14 at 2-3. For example, Administrative Law Judge Shaw said

The original complaint and the proposed amended complaint both state: "VirnetX owns by assignment all right, title, and interest in and to the '181 patent." Compl., ¶3; Proposed Amended Compl., ¶3 (Mot. Ex. B). That statement cannot be accurate if SAIC is a necessary party, which would be the case if the District Court's ruling applies in equal force to the '181 patent. In some parts of the proposed amended complaint, SAIC is identified as a complainant, yet in other parts it appears as some sort of unspecified party. *Compare* Proposed Amended Compl., cover sheet (which on the same page both includes and excludes SAIC as a complainant) and ¶1 (which lists SAIC in the introduction but refers only to VirnetX and the "Complainant") with ¶7 (which lists SAIC in the section discussing "Complainants"). In summary, either SAIC has rights or an interest in the '181 patent (in which case the original and proposed amended complaint erroneously state that VirnetX has "all right, title and interest"), or SAIC has no right or interest in the '181 patent (in which case the pending motion has failed to show that SAIC would be a proper party in this investigation).

* * *

[E]ven if VirnetX had a good faith belief that SAIC lacked "substantial" rights in the '181 patent, based upon the District Court's March 2012 Order as provided in the pending motion, it is undeniable that SAIC has *some* rights or interest in the patent. Thus, assuming that District Court Order applies to the '181 patent, the statement made in the original complaint that VirnetX "owns by assignment all

PUBLIC VERSION

right, title, and interest in and to the '181 patent” could not have been not [sic] accurate when it was made, and cannot be accurate now.^[1]

Secure Communication Devices, Order No. 9 at 4-5, 6 (emphasis in original). As another example, Administrative Law Judge Shaw said

Even if the evidence could be interpreted to suggest that VirnetX had a good faith belief that joining SAIC as a complainant in this investigation was not necessary, VirnetX’s original complaint nevertheless failed to comply with the Commission Rule requiring that a complaint identify the ownership of any asserted patent and include a certified copy of each assignment of the patent. See 19 C.F.R. § 210.12(9).

Secure Communication Devices, Order No. 14 at 2-3 (emphasis in original). However, the prospect of sanctions in the 818 Investigation does not appear to have been raised by Apple or contemplated in the pertinent orders. *Id.*

Here, in the 858 Investigation, VirnetX was not given an opportunity to start over with respect to the '181 patent but instead was expected to resume the litigation as close to where it had left off as practicable.² (Order Nos. 2, 3, 7.) This raises the question as to whether any future complaint filed at the International Trade Commission on the '181 patent against Apple on the same set of operative facts would perhaps be an impermissible attempt to gain a fresh start by judge shopping, not to mention harassing and wasteful conduct. Apple documents that it has already spent { } defending against VirnetX’s allegations with respect to the '181 patent at the International Trade Commission (Sanctions Mot., Ex. D), and therefore Apple is concerned with deterring re-litigation of the same issues here. However, it is premature to reach such an issue at this stage, as there is no support to show that VirnetX’s statement that it wishes to focus solely on its district court litigation also lacks candor. (Mot. at 2. *See also* Sanctions Mot. Opp. at 8, n.7.) Furthermore, the Commission made clear in *Bar Clamps* that it believes that there are “adequate” safeguards in place to protect respondents against “unwarranted, unfair repetitive

² This restriction applied equally to Apple.

PUBLIC VERSION

investigations.” *Bar Clamps*, at 8. Therefore, the Administrative Law Judge finds that Apple’s request to have restrictions placed on termination, such as a heightened showing of good cause prior to institution of any new Section 337 investigation on the same issues with VirnetX as complainant, should be DENIED.

The Administrative Law Judge also finds that Apple’s request for monetary sanctions should be DENIED. Apple has not persuasively shown that VirnetX has already crossed the line into sanctionable conduct under the Commission’s rules. The Administrative Law Judge rejects Apple’s argument that VirnetX inappropriately seeks a license. (Sanctions Mot. at 9.) Many litigants file complaints in district court or at the International Trade Commission in the hopes of licensing their patents. This is not, in itself, an objectively reasonable basis for finding inappropriate conduct under Commission Rule 210.4.³ Furthermore, Apple has not persuasively demonstrated that VirnetX was never interested in an exclusion order. (Sanctions Mot. Mem. at 15; Mot., Ex. C at 49.)

Likewise, two complaints filed on the same patent at this agency, while they have resulted in the significant expenditure of fees and costs by Apple as well as the use of agency and other resources, are not yet enough to become a pattern of harassing behavior. Apple does not propose that VirnetX’s motion to withdraw the Complaint should be denied so that the litigation may continue to proceed on the merits. (Opp. at 7.) Instead, Apple faults VirnetX for failing to withdraw sooner. (Sanctions Mot. Mem. at 10-11.) In justifying its sanctions claim, Apple relies

³ Indeed, this is a common enough rationale for litigation that some court and ITC rules are based on licenses or offers to license. Patent damages calculations in district court are often based upon the “hypothetical negotiation or the ‘willing licensor-willing licensee’ approach[.] attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began.” *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009). As another example of how common the tie between licensing and litigation is, the Commission allows evidence of offers to license prior to filing suit to be a consideration in the determination of whether litigation expenses may be allocated for domestic industry purposes. *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Inv. No. 337-TA-650, Commission Opinion, at 54-56 (U.S.I.T.C., April 2010).

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