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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

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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*").

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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

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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.

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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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somewhat misleadingly on a Commission Order in the 524 Investigation. (*Id.* at 11 (citing the Commission Opinion in *Point of Sale Terminals* to assert that the Commission ordered \$30,000 in sanctions after the administrative law judge found that complainant lacked standing).)

Specifically Apple says “[t]he Commission previously ordered that a complainant who moved to terminate an investigation based on withdrawal of its complaint pay fees to the U.S Treasury (after the Administrative Law Judge found that the complainant lacked standing to maintain the investigation without joining another party).” (*Id.*) Apple’s characterization of the facts in the *Point of Sale Terminals* case skirts perilously close to sanctionable conduct in itself under Commission Rule 210.4(c)(2), as the Commission Order dated Sept. 25, 2007 does not provide, as Apple implies, that the sanctions were due to the withdrawal of the complaint after the judge’s lack of standing finding (Sanctions Mot. Mem. at 11). Instead the sanctions were based on the administrative law judge’s remand findings with respect to the complainant’s other objectively unreasonable conduct, including a failure to conduct adequate pre-filing due diligence before bringing the complaint and flagrant misrepresentations of fact in filings before the International Trade Commission. *See, e.g., Point of Sale Terminals*, Order No. 63 at 18-33, 40 (finding that complaint’s pervasive and egregious rule 210.4 violations warranted sanctions payable to the U.S. Treasury that would deter any repetition of such conduct). Thus Apple’s legal contentions, based on its inadequate characterization of *Point of Sale Terminals*, are unwarranted. Even if the *Point of Sale Terminals* case were not so grossly inapposite to the point of whether VirnetX should have withdrawn the 858 Complaint sooner, the Administrative Law Judge questions why Apple did not raise this opinion in front of Administrative Law Judge Shaw in the 818 Investigation at the point when VirnetX’s standing and candor were in fact questioned to some extent. As noted above, there is no suggestion that Apple did so. Apple does not point to new conduct, such as factual errors or misrepresentations in the 858 Complaint, to suggest sanctions under *Point of Sale*

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Terminals here.

Apple also relies on district court precedent for monetary sanctions under district court rules. (Sanctions Mot. Mem. at 12-13.) The Administrative Law Judge finds that this precedent is also unpersuasive and inapposite. *Bar Clamps*, at 8. Accordingly, the Administrative Law Judge orders that Apple's motion for sanctions (Motion Docket No. 858-020) should be DENIED.

Turning to the motion for termination, the Commission's Rules permit a motion to terminate an investigation as to any or all respondents based upon withdrawal of the complaint before issuance of the initial determination on violation of section 337. 19 C.F.R. § 210.21(a)(1). Such a motion must identify any agreements between the parties concerning the subject matter of the investigation, or contain a statement that there are no such agreements, written or oral, express or implied. *Id.* The Administrative Law Judge may grant said motion upon such terms and conditions as he deems proper. *Id.* Further, the Commission has held that "in the absence of extraordinary circumstances, termination of an investigation will be readily granted to a complainant during the prehearing stage of an investigation." *Certain Ultrafiltration Membrane Systems, and Components Thereof, Including Ultrafiltration Membranes*, Inv. No. 337-TA-107, Comm'n Action and Order, at 2 (U.S.I.T.C., Mar. 11, 1982).

Here, Complainants have identified all agreements between the parties concerning the subject matter of the Investigation and have attached them to their motion papers. (Mot. at 3; Mot. Exs. 1-6.) In addition, the Administrative Law Judge, in view of the order denying Apple's Sanctions Motion, knows of no extraordinary circumstances to prevent Complainants' withdrawal of their Complaint. Likewise, while Apple has sought conditions (rejected in the above order), no party objects to the withdrawal of the Complaint and termination of the Investigation. (Reply at 1; Opp. at 1.) Granting the pending motion will result in the immediate conservation of public and

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private resources. The Administrative Law Judge does note, however, that termination here will not involve resolution of the overall dispute between the parties, and should Complainants file again on the same facts, there is the danger of duplicated expenditure of public and private resources, not to mention other concerns which are outlined in the above order. The Administrative Law Judge finds, however, that these concerns should not be a bar to termination now, but should instead be addressed by the Commission or the presiding administrative law judge, as may be appropriate, should Complainants later file an additional complaint against Apple on the same operative facts.

Accordingly, it is the Administrative Law Judge's Initial Determination that Motion Docket No. 858-018 should be GRANTED and that this Investigation be terminated in its entirety.

This Initial Determination is hereby certified to the Commission. Pursuant to 19 C.F.R. § 210.42(h), this Initial Determination shall become the determination of the Commission unless a party files a petition for review of the Initial Determination pursuant to 19 C.F.R. § 210.43(a), or the Commission, pursuant to 19 C.F.R. § 210.44, orders on its own motion a review of the Initial Determination or certain issues herein.

Within seven days of the date of this document, each party shall submit to the Office of the Administrative Law Judges a statement as to whether or not⁴ it seeks to have any portion of this document deleted from the public version. Any party seeking to have any portion of this document deleted from the public version thereof must submit to this office a copy of this document with red brackets clearly indicating any portion asserted to contain confidential business information.

The parties' submissions may be made by facsimile and/or hard copy by the aforementioned date. In addition, an electronic courtesy copy is required pursuant to Ground Rule

⁴ This means that parties that do not seek to have any portion redacted are still required to submit a statement to this effect.

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1.3.2. The parties' submissions concerning the public version of this document need not be filed with the Commission Secretary.

SO ORDERED.

A handwritten signature in black ink, reading "E. James Gildea". The signature is written in a cursive style with a horizontal line extending from the end of the name.

E. James Gildea
Administrative Law Judge

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337-TA-858

PUBLIC CERTIFICATE OF SERVICE

I, Lisa R. Barton, hereby certify that the attached **ORDER** has been served upon the following parties as indicated on APR 30 2013



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337-TA-858

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