In the Matter of

CERTAIN COAXIAL CABLE CONNECTORS AND COMPONENTS THEREOF AND PRODUCTS CONTAINING SAME

Investigation No. 337-TA-650

SUBMISSION OF CISCO SYSTEMS, INC., GOOGLE, INC., AND VERIZON COMMUNICATIONS INC. IN RESPONSE TO THE COMMISSION’S DECEMBER 14, 2009 NOTICE TO REVIEW-IN-PART A FINAL DETERMINATION FINDING A VIOLATION OF SECTION 337

January 13, 2010

Michelle Lee
Google, Inc.
1600 Amphitheatre Parkway
Mountain View, CA 94043
Ph: (650) 253-5957
michellel@google.com
Counsel for Google, Inc.

Mallun Yen
Vice President, Worldwide Intellectual Property
Cisco Systems, Inc.
170 W. Tasman MS 10/2
San Jose, CA 95134
Ph: (408) 527-4213
myen@cisco.com
Counsel for Cisco Systems, Inc.

John Thorne
Gail Levine
Verizon Communications Inc.
1320 N. Courthouse Road
Arlington, VA 22201
Ph: (703) 351-3900
john.thorne@verizon.com
gail.f.levine@verizon.com
Counsel for Verizon Communications Inc.
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Christopher Cotropia & Mark Lemley, Copying in Patent Law,
87 N.C. L. Rev. 1421 (2009) ................................................................. 4
INTRODUCTION

Commenters Cisco Systems, Inc., Google, Inc., and Verizon Communications Inc. make the following submission in response to the Commission’s December 14, 2009 Notice To Review-in-Part A Final Determination Finding a Violation of Section 337, etc. That Notice invited written submissions from the parties and the public on the interpretation of section 337(a)(3)(C), 19 U.S.C. § 1337(a)(3)(C), as it pertains to licensing, specifically on the following:

(10) The statute provides, in part, that “an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by [the] patent, copyright, trademark, or mask work concerned ... (C) substantial investment in its exploitation, including engineering, research and development, or licensing.” In determining whether “investment” in “licensing” is “substantial,” is all spending in connection with licensing efforts by an intellectual property owner … properly considered “investment” and, if so, do some kinds of spending in connection with licensing efforts merit full weight in the Commission’s analysis of whether total investment is “substantial” while others merit less weight?

(A) Does Congress’s use of the term “exploitation” in section 337(a)(3)(C) require the Commission to give greater weight to licensing efforts directed to bringing the protected article to market as opposed to, for example, efforts seeking to require an existing producer to take a license for a product it already makes? Is it significant that Congress grouped “licensing” with “engineering” and “research and development” in describing exploitation in section 337(a)(3)(C)?

(B) To what extent do legal fees paid by an intellectual property rights holder in litigation with targeted licensees and/or infringers represent investments in the exploitation of an intellectual property right within the meaning of section 337(a)(3)(C)?

In the view of Commenters, a patent-holding complainant in the ITC may rely on the “licensing” provision of section 337(a)(3)(C) to satisfy the “domestic industry”
requirement only to the extent that it has made substantial investments in urging adoption of its patented technology by others who it does not believe or allege are already practicing the patent. Expenditures on enforcement and licensing arising out of litigation should not count at all (i.e., should be assigned no weight) in satisfying the standard of licensing as “exploitation,” which refers to developing, promoting, or otherwise using the technology, not the legal exclusivity right. Litigation against, and negotiations for money from, accused infringers do not count: such activities use the legal right and seek either to stop or to tax use of the technology, not promote it.

The required investments must be substantial. A patent owner cannot meet the statutory standard of “licensing” by engaging in token or otherwise insubstantial efforts to sign up licensees who as yet have no real interest in using or adopting the patented technology. If “licensing” is invoked to satisfy the domestic industry requirement, what must be substantial is investment by the complainant in propagation of the technology, not in enforcing the patent’s protection against alleged users of the technology – i.e., in exploiting the technology, not the legal exclusivity right. The ITC is a special forum dedicated to protecting domestic industries; the “licensing” standard should not be expanded to admit patent holders who have done nothing more than seek to extract royalties based on others’ existing products. That understanding follows from the statutory language and purpose.¹

¹ We limit our comments here to the questions posed in Question 10 of the Notice. As a result, we do not address other questions about what may satisfy the domestic industry requirement, such as substantial domestic research efforts that give rise to the
ARGUMENT

Section 337 aims to encourage domestic industry, and in particular, the domestic adoption of new technologies. It does not aim to encourage patent litigation. Indeed, as explained below in Section II, Congress retained the domestic industry requirement in 1988 to ensure that the ITC not become a litigation forum for mere patent owners. The “licensing” requirement of paragraph (a)(3)(C) must be understood in that light.

The backdrop for the statutory analysis of (a)(3)(C)’s “licensing” provision is an important fact about the present world of patent litigation. There is no reliable basis to assume that litigation-based licenses are actually being used for any product-creation purpose even by the party paying license fees, let alone by the patent owner. Justice Kennedy observed in his concurring opinion in eBay v. MercExchange, L.L.C. that “[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” 547 U.S. 388, 396 (2006) (citing FTC, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, ch. 3, pp. 38–39 (Oct. 2003), available at www.ftc.gov/os/2003/10/innovationrpt.pdf). And litigants frequently, and rationally, make a decision to take a license and pay a royalty simply to end the litigation (or its asserted patent, or such efforts if they were related to the development of a substantial domestic business (regardless of whether the business happens to practice the patent). Nor is there a question here about what persons must make the substantial investment in the domestic activities identified in paragraph (a)(3). Indeed, we do not address any activities other than “licensing” in paragraph (a)(3), which is the sole subject of the Notice’s question. Like that question, we focus exclusively here on whether a complainant’s enforcement’s efforts to secure licenses of already alleged infringers suffice as “licensing” under (a)(3)(C).
threat), not to begin practicing a new technology covered by the patent.

In this now-common class of cases, the license promotes no process of innovation or new product development. Still more broadly, in a litigation setting, it is frequently the case that the accused infringer (potential licensee) has already developed a product independent of any knowledge of the asserted patent. The settlement license is nothing more than a contractual right not to be sued. Thus, it cannot be assumed that even those taking licenses in settlement are actually using the patented technology, rather than paying to avoid litigation costs and risks, or that their activities grew out of the patent. See, e.g., Christopher Cotropia & Mark Lemley, Copying in Patent Law, 87 N.C.L. REV. 1421, 1465 (2009) (concluding empirical study of patent infringement litigation by noting that “patent litigation today is not about policing failed efforts at technology transfer, but rather about efforts by patent owners to enforce their right of exclusivity or to collect revenue from independent creators.”).

With this reality of contemporary patent enforcement and licensing in mind, the Commission should conclude from the statutory language and its history that section 337(a)(3)(C), in listing “licensing,” refers to licensing designed to promote adoption of the technology, not merely to collect a fee from those who may already be practicing the patent.

I. Investments in Enforcing Patents Against Alleged Infringers Should Not Count When Determining If There Is a Substantial Investment in “Licensing” Under Section 337(a)(3)(C)

The patent-infringement ground for an ITC remedy, section 337(a)(1)(B),
applies, under paragraph (a)(2), “only if an industry in the United States, relating to
the articles protected by the patent . . . , exists or is in the process of being
established.” 19 U.S.C. § 1337(a)(2) (emphasis added). Paragraph (a)(3) then states:

For purposes of paragraph (2), an industry in the United States shall be considered
to exist if there is in the United States, with respect to the articles protected by the
patent . . . concerned —
(A) significant investment in plant and equipment; (B) significant employment
of labor or capital; or (C) substantial investment in its exploitation, including
engineering, research and development, or licensing.

19 U.S.C. § 1337(a)(3) (emphasis added). Several aspects of the text indicate that
“licensing” in paragraph (a)(3)(C) should be limited to activities to get others to adopt
the technology.

1. “Licensing” counts under the provision only to the extent it is a form of
“exploitation”: Subparagraph (a)(3)(C) refers to “substantial investment in its [the
patent’s] exploitation, including … licensing.” And in this statutory setting, the
natural meaning of “exploitation” is to develop or use the technology covered by the
patent, not use the legal-exclusivity right granted by the patent to obtain money by
threatening to enforce it. That is not just one standard meaning of “exploiting a
patent”; it is the most usual one – as shown in numerous cases. E.g., Ethicon, Inc. v.
U.S. Surgical Corp., 135 F.3d 1456, 1468 (Fed. Cir. 1998) (using phrase in that way);
Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1569 (Fed. Cir. 1995) (same); see Propat
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v. Kuzmak, 249 F.3d 1356, 1362 (Fed. Cir. 2001) (same).

Indeed, this was the usage of “exploit” with “patent” as the object in the key
That language plainly treated the technology, not the legal exclusion right, as the object of “exploit” when referring to a patent. Of course, Congress in 1988 rejected Schaper’s limitation of the kinds of exploitation of the technology a complainant itself must engage in: it no longer required actual production and associated activities. But when Congress used the prominently featured language of “exploit” with “patent” as the (implied) object, it was embracing the usage of “exploiting a patent” to refer to the patented technology, not the legal right of exclusion.

2. That is clearly the meaning that fits with the other two terms in the three-item enumeration of paragraph (a)(3)(C): “engineering” and “research and development” (which precede “licensing”). Both of those terms refer to exploiting (e.g., developing, using, etc.) the technology, not exploiting the legal right of exclusion. “Licensing” should have the same meaning.

“Engineering” and “research and development” clearly are not directed to the act
of wielding a legal right as a tool to demand money, but instead focus on using the claimed technology by refining the know-how for product creation, i.e., on commercial implementation. The *noscitur a sociis* maxim counsels that words in a list typically should be read to be like in kind. *See United States v. Williams*, 128 S. Ct. 1830, 1839 (2008) (“the commonsense canon of *noscitur a sociis* . . . counsels that a word is given more precise content by the neighboring words with which it is associated”). Under that common sense principle, “licensing” too is naturally construed to relate only to exploiting the technology, not the legal exclusion right.

Indeed, the other two terms in subparagraph (a)(3)(C) refer to acts directed toward affirmatively enabling and expanding use of technology. Merely suing others who are already practicing the patent is a way of trying to stop or tax the activity, not to spread it. Such suits, accordingly, are on their face the antithesis of affirmatively trying to encourage adoption of the technology. “Licensing” cannot sensibly be read to achieve the opposite of what the rest of the subparagraph promotes.2

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2 Similarly, the overwhelming emphasis of the statute on “articles” as the central feature of the “domestic industry” requirement for obtaining the ITC remedy makes most sense if licensing means promotion of technology embodied in those articles. Thus, paragraph (a)(3) requires all of the enumerated activities (in (A), (B), and (C)) to be “with respect to the articles protected by the patent.” The “articles” focus is part of the fundamental requirement of paragraph (a)(2), which makes the section 337 patent remedy available “only if an industry in the United States, relating to the articles protected by the patent . . . , exists or is in the process of being established.” (Emphasis added.) Paragraph (a)(3) is tied to (a)(2): it begins by stating that it is explicitly implementing the prior paragraph, with its articles-based requirement, then adds yet further “articles” language, reiterating that the enumerated investment/employment activities must be “with respect to the articles . . . .” (Congress stressed the centrality of (a)(2)’s articles-focused requirement when, in the
II. Evidence of Congressional Intent Supports This Reading

This reading is supported by the legislative history of the 1988 amendment adding the “licensing” language (and, indeed, all of (a)(3)). From the beginning, the ITC patent remedy of section 337 included a domestic industry requirement because the ITC was not intended as a general alternative to federal courts for patent enforcement. Rather, the patent remedy was merely one part of a trade statute, whose aim was to protect American productive industries. The 1988 Congress, in softening the “injury” requirement but retaining the domestic industry requirement, did not change that fundamental limitation and focus. Rather, the 1988 Congress sought to ensure that section 337 would not be available to mere patent owners seeking money, and the new licensing provision was intended merely to bring under section 337 certain patent owners who were actively promoting adoption of their technology. The construction of “licensing” urged here, unlike a broader construction, accords with that intent.

A. Section 337 Is a Trade Statute Focused on Protecting Domestic Productive Industries, Not Mere Legal Rights

From the start, section 337 provided an ITC remedy only as part of a statute concerned with protecting a domestic industry. Rather than be a full-fledged

first paragraph of section 337, defining the unfair acts addressed by the statute, it expressly stated without limitation that all of section 337’s provisions are “subject to paragraph (2).” 19 U.S.C. § 1337(a)(1) (emphasis added). Paragraph (a)(2) itself, in contrast, has no “subject to paragraph (a)(3)” language.)
alternative to federal-court suit as a patent-enforcement remedy, section 337 has focused on protecting a domestic (existing or, as later amended, emergent) industry in the usual sense – one in some way involved in “producing and selling goods,” not merely “obtaining licensing fees” (to borrow Justice Kennedy’s common-sense distinction in eBay, 547 U.S. at 396).

Section 337 and its predecessor were enacted as *trade* statutes aimed at protecting the “‘rights of domestic manufacturers’” where imports are improper for any of a variety of reasons, of which patent infringement is merely one. Frischer & Co. v. Bakelite Corp., 39 F.2d 247, 260 (CCPA 1930) (discussing 1922 predecessor to 1930 enactment of section 337), cited in Schaper, 717 F.2d at 1372. Just before the 1988 amendments, the Federal Circuit explained in Schaper:

\[
\text{Both the legislative history of section 337 and past Commission decisions on those section 337 investigations that have been based on claims of patent infringement indicate that, in order to constitute an “industry ... in the United States,” the patent must be exploited by production in the United States. See Part III, supra. As quoted above, the House report accompanying the Trade Act of 1974 states that “the patent must be exploited by production in the United States, and the industry in the United States generally consists of the domestic operations of the patent owner, his assignees and licensees devoted to such exploitation of the patent.” H. Rep. No. 93-571, 93d Cong. 1st Sess. 78 (1973).}
\]

717 F.2d at 1372 (footnote omitted). The Federal Circuit cited agency and court decisions, dating to the earliest years of the trade statute, to the same effect. *Id.* The court explained the longstanding application of section 337 to mean that, while domestic *design* efforts could count, marketing and advertising would not suffice (even an importer could and presumably would engage in those activities domestically). *Id.* at 1373. The Court stressed the statutory focus on “production and
As noted next, Congress in 1988 clearly superseded certain aspects of Schaper (not all of which are at issue here). But what it did not displace is the history, recited in Schaper, of section 337’s core focus on domestic productive activities – a focus that, whatever it might include (see note 1, supra), excludes mere patent enforcement against alleged infringers. See also Lannom Mfg. Co. v. ITC, 799 F.2d 1572, 1577-78 (Fed. Cir. 1986) (because ITC decides patent issues only insofar as needed to resolve fundamental trade issue, no preclusive effect of patent ruling in district court litigation); Tandon Corp. v. ITC, 831 F.2d 1017, 1021 (Fed. Cir. 1987) (“the Senate Report accompanying the Trade Act of 1974 made clear that the Commission’s primary responsibility is to administer the trade laws, not the patent laws”).

B. In Amending the “Injury” Requirement and Adding Section 337(a)(3) in 1988, Congress Retained the “Industry” Requirement To Avoid Section 337’s Use by Mere Patent Owners Seeking Money

Congress amended Section 337 in 1988 to, inter alia, soften the “injury” requirement, particularly for patent cases, and to refine the domestic industry requirement. Under the earlier requirement, complainants had to prove injury to an “industry, efficiently and economically operated, in the United States.” 19 U.S.C. § 1337(a) (1985) (amended in 1988). In amending the statute, however, Congress was careful not to expand the ITC remedy into one generally applicable to any patent owner.

Specifically, Congress retained the requirement that an “industry” exist in the United States, rejecting contrary suggestions. H.R. Rep. No. 100-40, pt. 1, at 22

And it then set forth an “expanded definition” of this requirement in paragraphs (a)(2) and (a)(3), which (as explained above) are written in “article” terms. That retention of the domestic industry requirement was driven by a concern that the ITC not become a litigation forum for mere owners of a United States patent. S. Rep. No. 100-71, at 130 (1987); see 132 Cong. Rec. at 30816 (“the ‘domestic industry’ requirement will serve as a gatekeeper to prevent the excessive use of the ITC under section 337”); id. at 30816 n.5 (opposition to eventually rejected proposal to drop domestic industry requirement explained that the proposal “would transform the ITC into an intellectual property court”).

The Senate Report stated that, when Congress dropped the “injury” requirement for patent cases, it retained the domestic industry requirement “in order to preclude holders of U.S. intellectual property rights who have no contact with the United States other than owning such intellectual property rights” from invoking section 337. S. Rep. 100-71, at 129. Describing the expansion of coverage in (a)(3)(C) and in (a)(2) (which embraced certain emergent industries as well as existing ones), the Senate Report explained: “The mere ownership of a patent or other form of intellectual property rights would not be sufficient to satisfy this test.” Id. at 130. Rather, “[t]he owner of the property right must be actively engaged in steps leading to the exploitation of the intellectual property, including application engineering, design work, or other such activities” – work, that is, involving development of the technology, not work involving assertion of the legal exclusivity right. Id.
Allowing litigation-based licenses and associated fees and costs, or other investments in enforcement efforts, to support a domestic industry finding would bring about the outcome Congress sought to avoid. As a factual matter, merely preparing an ITC case may involve a significant investment in enforcement, which, for a non-manufacturing entity, will often be simply a way of trying to induce taking of a license. Viewing “licensing” as encompassing enforcement efforts would undermine congressional intent that mere patent owners seeking enforcement not be covered by the new (a)(3)(C) and the core principle, retained in 1988, that section 337 is a trade statute focused on protecting domestic production and associated activities, not an alternative patent-enforcement remedy. See S. Rep. 100-71, at 129 (“The ITC is to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad. Retention of the requirement that the statute be utilized on behalf of an industry in the United States retains that essential nexus.”).

C. Congress Acted in 1988 To Embrace Certain Complainants That Come Within This Understanding of “Licensing”

The particular focus of the Congress that amended the statute in 1988 is consistent with its aim to avoid making section 337 available to mere patent owners. Congress was focusing only on bringing under section 337 certain patent owners that certain Commission decisions under the pre-1988 statute had excluded, and those patent owners were in fact involved in active commercial implementation to create articles, either themselves or through licensing others to encourage them to do so. See S. Rep. No. 100-71, at 129. The construction of “licensing” we urge fits that
congressional focus.

In legislative debates, Representative Kastenmeier articulated why Congress needed to amend Section 337’s domestic industry requirement. He stated:

The proposed amendment . . . clarifies the results of previous ITC decisions and corrects some recent incorrect applications of the Commission in more recent cases. The amendment makes clear that a “domestic industry” can exist through development of a “licensing” industry. The amendment also makes certain the availability of section 337 relief to universities who have made substantial investment in engineering, or research and development in connection with the exploitation of an intellectual property right.


Notably, whatever else those three cases involved, in all three the complainants propagated what they had created or invented by engaging in, or arranging for, manufacture of articles. In Gremlins, the complainant, Warner Bros. Inc., extensively promoted use of its Gremlin image by licensing it for mass-marketed products. See Stringed Instruments, supra, at text after fn. 4. In Culture Microcarriers,
complainants Massachusetts Institute of Technology (“MIT”) and MIT’s exclusive licensees, Flow General, Inc. and Flow Laboratories, Inc., were affirmatively putting the relevant patent into practice, engaging in substantial research and development (domestically) as well as manufacturing (in Scotland). *Culture Microcarriers* at 36, 38, 40. And in *Schaper*, complainant Goldfarb invented and designed toy vehicles and arranged with exclusive licensee Schaper to manufacture and sell them. 717 F.2d at 1370.

The construction of “licensing” urged here covers firms that – like those in the cases Rep. Kastenmeier cited – are promoting technology, but it also recognizes that the congressional aim was pointedly not to embrace all patent owners, including those engaged simply in litigation-based licensing of alleged infringers. The “licensing” present in the situations Rep. Kastenmeier cited was not the result of enforcement activity, but involved affirmatively trying to develop or spread the use of the patented technology beyond that which was already occurring. Congress did not intend, in adding “licensing,” to give a section 337 remedy to mere patent owners seeking money from alleged infringers.
CONCLUSION

The Commission should rule that “licensing” fails to satisfy the domestic industry requirement if it is merely the result of efforts to enforce the asserted patent against alleged infringers.

January 13, 2010

Respectfully submitted,

/s/ Mallun Yen
Mallun Yen
Vice President
Worldwide Intellectual Property
Cisco Systems, Inc.
170 W. Tasman MS 10/2
San Jose, CA 95134
Ph: (408) 527-4213
myen@cisco.com

Counsel for Cisco Systems, Inc.
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January 13, 2010

Respectfully submitted,

/s/ Michelle Lee
Michelle Lee
Google, Inc.
1600 Amphitheatre Parkway
Mountain View, CA 94043
Ph: (650) 253-5957
michellel@google.com

Counsel for Google, Inc.
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January 13, 2010
Respectfully submitted,

/s/ John Thorne
John Thorne
Gail Levine
Verizon Communications Inc.
1320 N. Courthouse Road
Arlington, VA 22201
Ph: (703) 351-3900
john.thorne@verizon.com
gail.f.levine@verizon.com

Counsel for Verizon Communications Inc.