

**UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, DC 20436**

**Before The Honorable E. James Gildea
Administrative Law Judge**

In the Matter of

CERTAIN WIRELESS CONSUMER ELECTRONICS
DEVICES AND COMPONENTS THEREOF

Investigation No. 337-TA-853

**RESPONDENTS SIERRA WIRELESS, INC.'S
AND SIERRA WIRELESS AMERICA, INC.'S
MOTION TO TERMINATE FOR COMPLAINANTS'
VIOLATION OF THEIR DUTY OF CANDOR TO THE COMMISSION**

Pursuant to Commission Rules 210.15 and 210.21(a)(1), and Ground Rule 2 (Order No. 3), Respondents Sierra Wireless, Inc. and Sierra Wireless America, Inc. ("Sierra Wireless") hereby move to terminate this investigation on the grounds that Complainants Technology Properties Limited, LLC, Phoenix Digital Solutions, LLC, and Patriot Scientific Corporation ("Complainants") violated their pre-institution duty of candor by withholding material information from the Commission

At the time they filed their ITC Complaint, Complainants were fully aware that Complainant Technology Properties Limited, LLC ("TPL") is a named defendant to a state court litigation in which ownership of the patent asserted in this Investigation is challenged. Specifically, in that suit, a named inventor alleges that TPL and its executives wrongfully converted ownership of the patent asserted in this Investigation by filing assignment papers with the USPTO without his permission and pursuant to the terms of a fraudulently procured contract. Complainants, therefore, violated their duty of pre-institution candor when they, or their counsel, deliberately withheld information about these allegations from the Commission, despite an

obligation to do so pursuant to the Commission's Rules. *See* Commission Rule 210.12(a)(5) (the complaint shall ... "[i]nclude a statement as to whether the alleged unfair methods of competition and unfair acts, or the subject matter thereof, are or have been the subject of any court or agency litigation, and, if so, include a brief summary of such litigation"). Sierra Wireless submits that the appropriate sanction for this violation of Complainants' duty of candor is termination of the investigation.

Pursuant to Ground Rule 2.2, Sierra Wireless contacted Complainants, the other Respondents and the OUII Staff Attorney in advance of filing this motion. Complainants and the OUII Staff Attorney oppose the motion. The other Respondents to this investigation reserve their positions until after review of the papers.

Dated: September 28, 2012

Respectfully submitted,

/s/ Tom M. Schaumberg

Tom M. Schaumberg, Esq.

David H. Hollander, Jr., Esq.

Katherine R. Lahnstein, Esq.

ADDUCI, MASTRIANI & SCHAUMBERG, LLP

1133 Connecticut Avenue, NW, Twelfth Floor

Washington, DC 20036

Telephone: 202.467.6300

R. Mark Halligan, Esq.

NIXON PEABODY

300 S. Riverside Plaza, 16th Floor

Chicago, IL 60606

Telephone: 312.425.3900

Facsimile: 312.425.3909

Christopher Mooney, Esq.
NIXON PEABODY
2 Palo Alto Square
3000 El Camino Real, Suite 500
Palo Alto, CA 94306-2106
Telephone: 650.320.7700
Facsimile: 650.320.7701

*Counsel for Respondents Sierra Wireless, Inc.
and Sierra Wireless America, Inc.*

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**RESPONDENTS SIERRA WIRELESS, INC.'S AND SIERRA
WIRELESS AMERICA, INC.'S MEMORANDUM IN SUPPORT
OF THEIR MOTION TO TERMINATE FOR COMPLAINANTS'
VIOLATION OF THEIR DUTY OF CANDOR TO THE COMMISSION**

Termination of this Investigation is warranted because Complainants Technology Properties Limited, LLC, Phoenix Digital Solutions, LLC, and Patriot Scientific Corporation ("Complainants") violated their pre-institution duty of candor by withholding material information from the Commission required by the Commission's Rules. Complainants filed a complaint with the Commission under Section 337 of the Tariff Act of 1930, as amended, on July 23, 2012, ("ITC Complaint"). The Commission instituted this Investigation on August 21, 2012, and published a Notice in the Federal Register on August 24, 2012, (77 Fed. Reg. 51,572).

At all times prior to institution, and even prior to filing the ITC Complaint, Complainants were fully aware that Complainant Technology Properties Limited, LLC ("TPL") is a named defendant in a state court litigation in which ownership of U.S. Patent No. 5,809,336 (the "'336 Patent" or "Asserted Patent"), the sole patent asserted in the ITC Complaint, is challenged. Specifically, Charles H. Moore (one of the named inventors of the '336 Patent) alleges that TPL and its executives wrongfully converted ownership of the Asserted Patent by filing assignment papers with the USPTO without his permission and pursuant to the terms of a fraudulently

procured contract. *See* Ex. A (containing *Moore v. Technology Properties Limited, LLC, et al.*, No. 5:10-cv-04747-JW, Order Granting Plaintiff's Motion to Remand (N.D. Cal. Jan. 20, 2011)) at 3. Complainants violated their duty of pre-institution candor when they, or their counsel, did not disclose information about Moore's allegations to the Commission, despite a clear obligation to do so. *See* Commission Rule 210.12(a)(5) (the complaint shall . . . "[i]nclude a statement as to whether the alleged unfair methods of competition and unfair acts, or the subject matter thereof, are or have been the subject of any court or agency litigation, and, if so, include a brief summary of such litigation"). Not only did Complainants withhold this information, but they asserted that, outside of the numerous litigations identified in their ITC Complaint, "[t]here have been no other court or agency actions, domestic or foreign, involving the Asserted Patent." *See* Complaint, ¶ 155.

I. BACKGROUND FACTS

In September 2010, Moore filed a complaint in the Superior Court of California, Santa Clara County ("State Court Complaint"), alleging that TPL and its executive, Attorney D. Leckrone ("Attorney Leckrone"), had essentially stolen his patent portfolio including the Asserted Patent. *See* Ex. B (containing *Moore v. Technology Properties Limited, LLC, et al.*, Case No. 110-cv-183613, Complaint (Santa Clara Super. Ct. Sep. 27, 2010)) ¶¶ 19-43, 47, 52, 53-119.

In his State Court Complaint, Moore alleges that TPL was granted only a limited assignment of minority rights, but then wrongfully converted "the most valuable of the MMP Portfolio."¹ Moore states that he remained unaware of this act until August 2008, when he

¹ "MMP Portfolio" means the Moore Microprocessor Patent Portfolio. *See* ITC Complaint ¶ 5.

independently reviewed USPTO records. *Id.* Moore asserts that this wrongful conversion occurred when TPL and Attorney Leckrone filed an assignment with the USPTO without his knowledge or permission, which transferred "all right, title and interest" in, *inter alia*, the Asserted Patent. *Id.* ¶¶ 53-62. Additionally, Moore alleges that TPL and Attorney Leckrone falsely represented the terms of an agreement he signed with them and thereby wrongfully took rights to his patent portfolio (including the Asserted Patent) by deceit. *Id.* ¶¶ 63-77. Moore also accuses the defendants of fraud, breach of contract and conspiracy to commit fraud and seeks a constructive accounting to recover misappropriated monies. *Id.* ¶¶ 78-119.

On October 20, 2010, the defendants (including TPL) removed the Superior Court action to the U.S. District Court for the Northern District of California, alleging original jurisdiction under 28 U.S.C. §§ 1331 and 1338. Ex. A at 3. Moore moved to remand the action to state court on the ground that none of his eight causes of action arises under federal patent law. *Id.* at 4. The District Court agreed with Moore, finding that disputes over patent ownership do not in themselves give rise to federal jurisdiction, and remanded the case to the Superior Court on January 20, 2011. *Id.* at 5-6 (citing *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997)).

Defendants then filed a demurrer to the State Court Complaint on February 5, 2011. An amended complaint was filed and was answered with a demurrer. *See* Ex. C (containing *Moore v. Technology Properties Limited, LLC*, et al., Case No. 110-cv-183613, Defendant's Demurrer to First Amended Complaint (Santa Clara Super. Ct. July 29, 2011)). An answer to the First Amended Complaint was filed earlier this year. *See* Ex. D (containing *Moore v. Technology Properties Limited, LLC*, et al., Case No. 110-cv-183613, Defendant's Answer to First Amended Complaint (Santa Clara Super. Ct. (Jan. 17, 2012))).

When the ITC Complaint was filed and at the time of institution of this Investigation, *Moore v. Technology Properties Limited, LLC* was an active case.² Complainants violated their duty of pre-institution candor when they, or their counsel, withheld the existence of the *Moore v. Technology Properties Limited, LLC* litigation from the Commission, despite the Commission Rule requiring such disclosure. 19 C.F.R. § 210.12(a)(5).

II. COMPLAINANTS VIOLATED THEIR PRE-INSTITUTION DUTY OF CANDOR

Complainants have violated the pre-institution duty of candor articulated in *Certain Concealed Cabinet Hinges and Mounting Plates*, Inv. No. 337-TA-289, Comm'n Op., 1990 WL 10608981 (Jan. 8, 1990) ("*Hinges*"). The appropriate sanction for this violation at the inception of the investigation is termination of the investigation – the same sanction imposed on the offending complainants in *Hinges*. See Comm'n Op., 1990 WL 10608981, at *6.

A. The Significance of the Pre-Institution Phase

The pre-institution phase of a Section 337 investigation is vital to the proper administration of Section 337. "Since the Federal Circuit has interpreted 19 U.S.C. § 1337(b)(1) to mean that the Commission must investigate alleged violations of Section 337, institution of an

² Additionally, in his State Court Complaint, Moore asserts that there are multiple other related litigations, none of which Complainants disclosed to the Commission. See, e.g., *D. Leckrone, et. al. v. P. Marcoux, et. al.* Case No. 1-09-cv-159593 (Santa Clara Super. Ct. Dec. 17, 2009) (TPL is alleged to have withheld licensing profits regarding the Chipscale portfolio, which may have been commingled with the MMP portfolio, including the '336 patent. Ex. B ¶ 49-50); *Brown v. Technology Properties Limited, et. al.* Case No. 1-09-cv-159452 (Santa Clara Super. Ct. Dec. 15, 2009) (TPL is alleged to have withheld licensing profits from an investor. Ex. B ¶ 50); *PTSC v. TPL*, Case No. 10-cv-169836, (Santa Clara Super. Ct. Oct. 21, 2010) (TPL is alleged to have commingled an MMP Portfolio license with another portfolio (Chipscale) in which TPL had no rights, and then licensed the combined portfolio. Ex. B ¶ 52); see also Ex. F (containing Plaintiff Moore's Case Management Statement, Case No. 1-10-cv-183613 (Aug. 13, 2012)).

investigation turns on whether the complaint sufficiently complies with the relevant rules set forth in the Code of Federal Regulations." *See* Ex. E (containing *Evaluation of Pre-Filing and Pre-Institution of Section 337 Investigations*, OIG-ER-11-013 (Sep. 12, 2011)) at 6 (citing *Amgen, Inc. v. U.S. Int'l Trade Comm'n.*, 902 F.2d 1532 (Fed. Cir. 1990)). "Checking the complaint for sufficiency and compliance with the rules is a highly involved process which takes a considerable amount of staff time. The process ensures that the complaint adheres to the Commission's rigorous pleading standards in order to make sure that only properly pled complaints are instituted." *Id.* at 7.

This pre-institution phase is so critical that Section 603 of the Trade Act of 1974 authorizes the Commission to conduct its own pre-institution investigation, and delay institution until the Commission is satisfied that the complaint is ripe for investigation. 19 U.S.C. § 2482. The Commission uses this authority to ensure that all the facts necessary to an investigation are at least initially laid out in the complaint, so that the scope of the investigation is properly understood. For example, in *Certain Recombinantly Produced Human Growth Hormones*, Inv. No. 337-TA-358, the Commission voted to institute a preliminary investigation under Section 603 to examine proposed respondents' activities related to the target products. Notice of Preliminary Investigation, 58 Fed. Reg. 26,796 (May 5, 1993). Only after this preliminary investigation did the Commission vote to institute and to provisionally accept the complainant's TEO motion. Notice of Investigation; Termination of Preliminary Investigation, 58 Fed. Reg. 50,954 (Sept. 29, 1993).

The Commission must "determine whether the complaint is properly filed" by examining the complaint "for sufficiency and compliance with the applicable sections of this Chapter" and "identify[ing] sources of relevant information" to "assure itself of the availability thereof, and, if

deemed necessary, prepare subpoenas therefore, and give attention to other preliminary matters." 19 C.F.R. §§ 210.9-10. During the pre-institution phase, the Commission necessarily relies on the accuracy and completeness of the information provided by complainants in their complaints. Where, as here, material information is withheld, the Commission is left unaware that the Complaint does not comply with Commission's pleading rules and is deprived of information that it would consider in determining whether to institute the investigation.

In fact, both the United States District Court for the Eastern District of Virginia and the U.S. Court of Appeals for the Federal Circuit have made it clear that Section 337 provides for an investigation by the government, making the duty of candor that much more important in the pre-institution phase.

In determining whether a stay of a Section 337 proceeding was appropriate in a bankruptcy context, Judge Ellis carefully analyzed the structure of Section 337 and concluded:

The procedures attendant to ITC § 337 investigations are codified at 19 U.S.C. §1337 and 19 C.F.R. Part 210 (2010) (Adjudication and Enforcement). Where, as here, the ITC § 337 investigation relies on information submitted in a complaint by a private party, it is noteworthy that the filing of the complaint does not initiate a formal ITC § 337 investigation; rather the action simply results in a "preinstitution proceeding," in which the ITC "examine[s] the complaint for sufficiency and compliance," and performs a preliminary investigation.

U.S. Int'l Trade Comm'n v. Jaffe, 433 B.R. 538, 541 (June 28, 2010). The Court went on to say:

Indeed, 19 C.F.R. § 210.8 defines the filing of the complaint to be a "*preinstitution proceeding*" that simply prompts the ITC to examine the complaint and conduct "*informal* investigatory activity." 19 C.F.R. §§ 210.8 to 210.9 (emphases added). Rather, the ITC § 337 investigation commenced only after the ITC considered the LSI complaint and concluded that an investigation was warranted.

Id. at 543. The district court concluded that:

The argument that LSI's filing the complaint transforms the ITC § 337 investigation into an action by a private party, rather than by a governmental unit, is further foreclosed under *U.S. ex rel. Jane Doe I v. X, Inc.* 246 B.R. 817 (E.D. Va. 2000) (Ellis, J.).

Id.

The district court's reasoning is entirely consistent with well-established circuit court precedent, which has governed Section 337 proceedings for close to thirty years:

It is correct that a § 1337 proceeding is not purely private litigation "between the parties" but rather is an "investigation" by the Government into unfair methods of competition or unfair acts in the importation of articles into the United States.

Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n, 721 F.2d 1305, 1315 (Fed. Cir. Nov. 8, 1983).

B. Complainants Withheld Material Information During the Pre-Institution Phase of This Investigation

In *Hinges*, the Commission formally adopted the standard set out by Commissioners Eckes, Lodwick and Rohr in their concurring opinion in *Certain Indomethacin*, Inv. No. 337-TA-183, ancillary proceeding, Comm'n Order (June 30, 1988) ("*Indomethacin* Concurring Op.").³ "[T]o establish a violation of the duty of candor there must be clear and convincing evidence of (1) a failure to disclose material information, and (2) an intent to mislead the Commission." *Certain Woodworking Accessories*, Rec. Det., 1993 WL 852461, at *3 (citing *Hinges*, Comm'n Op. at 11). The existence of Moore's state court action is material information that was withheld by Complainants, or their counsel, with an intent to mislead the Commission.

³ The duty of candor found in *Indomethacin* and adopted in *Hinges* is a separate standard of conduct from the Commission's requirement under 19 C.F.R. § 210.4. *Hinges*, Comm'n Op., 1990 WL 10608981, at *6.

1. Materiality

Information is material "when there is a substantial likelihood that a reasonable decision maker would have considered the non-disclosed [information] to be important in deciding whether to institute an investigation, not whether the information would have been dispositive," *Indomethacin*, Concurring Op. at 1; *see also Hinges*, Comm'n Op., 1990 WL 10608981, at *4-5. It is unmistakable that the Commission considers information about related litigations to be material. Commission Rule 210.12, governing the detailed contents of a complaint, specifically requires Complainants to include in their complaint "a statement as to whether the alleged unfair methods of competition and unfair acts, *or the subject matter thereof*, are or have been the subject of any court or agency litigation, and, if so, include a brief summary of such litigation." 19 C.F.R. § 210.12(a)(5) (emphasis added).

The information withheld in this instance goes directly to the fundamental question of standing – whether Complainants own all rights to the Asserted Patent. The question is not whether knowing about the Moore state court litigation would definitively have persuaded the Commission not to institute this Investigation. The question is, instead, whether a reasonable decision maker would have considered it important to know about the state court action in making a reasoned decision. Here, the Commission was deprived of the opportunity to consider how the state court action in California might affect proceedings at the ITC – including, but not limited to, whether to institute at all, whether the Commission should conduct a preliminary investigation, the timing of institution, the scope of the Investigation, and any instructions regarding the standing issue it might have wanted to give the ALJ. Knowledge of the Moore state court litigation is something a reasonable decision maker would have considered an important factor during the pre-institution phase. *Indomethacin*, Concurring Op. at 1; *Hinges*, Comm'n Op., 1990 WL 10608981, at *4-5.

2. Intent

It is self-evident that Complainants, or their counsel, withheld the existence of the state court proceeding from the Commission. Complainants were well-aware of the Moore state court case at the time they filed the Complaint.⁴ The subject matter of the state court case is highly relevant to this Investigation because it demonstrates that there are serious ownership issues surrounding the Asserted Patent. The only logical conclusion is that Complainants, or their counsel, made a decision to withhold mention of the state court proceeding in their ITC Complaint.

Even if Complainants did not make a deliberate, considered decision to withhold this material piece of information, the requisite intent for a breach of the duty of candor also "includes gross negligence." *Indomethacin*, Concurring Op. at 1; *Hinges*, Comm'n Op., 1990 WL 10608981, at *4. In *J.P. Stevens & Co. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984), cert. denied, 474 U.S. 822 (1985) the Federal Circuit stated that "[g]ross negligence is present when the actor, judged as the reasonable person in his position, should have known of the materiality of a withheld reference." See also *Indomethacin*, Concurring Op. at 2 ("A complainant is not, for example, free to avoid learning of highly material truths through intentional or reckless conduct and then to verify allegations which it could have learned were untrue.")

There is no reasonable explanation for Complainants, or their counsel, withholding the existence of the Moore state court action from the Commission. Not only is the question of patent ownership highly relevant to the underlying investigation, there is a Commission Rule that

⁴ Complainants have acknowledged that there is litigation that should have been disclosed in the Complaint, calling failure to do so inadvertent. See Ex. G (containing Email from Jim Otteson to counsel for Respondents and the Staff (Sept. 26, 2012)).

specifically requires disclosure of all court or agency litigation involving the subject matter of the unfair acts alleged in the Complaint. 19 C.F.R. § 210.12(a)(5). Moreover, this litigation has been quite active, including a recent removal to federal court, subsequent remand to state court, and ongoing discovery. *See* Exs. A and F. Therefore, even if the failure to disclose the fact of the state court litigation was not a deliberate act, one still cannot avoid the conclusion that Complainants, or their counsel, should have known of the materiality of the Moore litigation to the Commission.

III. CONCLUSION

Complainants have violated their pre-institution duty of candor to the Commission and should be held accountable for that act. Accordingly, termination of this Investigation is the appropriate sanction for Complainants' conduct.

Dated: September 28, 2012

Respectfully submitted,

/s/ Tom M. Schaumberg

Tom M. Schaumberg, Esq.

David H. Hollander, Jr., Esq.

Katherine R. Lahnstein, Esq.

ADDUCI, MASTRIANI & SCHAUMBERG, LLP

1133 Connecticut Avenue, NW, Twelfth Floor

Washington, DC 20036

Telephone: 202.467.6300

R. Mark Halligan, Esq.

NIXON PEABODY

300 S. Riverside Plaza, 16th Floor

Chicago, IL 60606

Telephone: 312.425.3900

Facsimile: 312.425.3909

Christopher Mooney, Esq.
NIXON PEABODY
2 Palo Alto Square
3000 El Camino Real, Suite 500
Palo Alto, CA 94306-2106
Telephone: 650.320.7700
Facsimile: 650.320.7701

*Counsel for Respondents Sierra Wireless, Inc.
and Sierra Wireless America, Inc.*

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