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INTERNATIONAL TRADE COMMISSION PATENT LITIGATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
COURTS, INTELLECTUAL PROPERTY,
AND THE INTERNET

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

APRIL 14, 2016

Serial No. 114–67

Printed for the use of the Committee on the Judiciary

Available via the World Wide Web: http://judiciary.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE

99–782 PDF WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
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INTERNATIONAL TRADE COMMISSION PATENT LITIGATION

THURSDAY, APRIL 14, 2016

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET

COMMITTEE ON THE JUDICIARY

Washington, DC.

The Subcommittee met, pursuant to call, at 10 a.m., in room 2141, Rayburn House Office Building, the Honorable Darrell E. Issa, (Chairman of the Subcommittee) presiding.

Present: Representatives Issa, Goodlatte, Collins, Franks, Jordan, Marino, Farenthold, DeSantis, Walters, Nadler, Conyers, Lofgren, Johnson, Chu, DelBene, Jeffries, and Peters.

Staff Present: (Majority) Vishal Amin, Senior Counsel; Eric Bagwell, Clerk; and (Minority) Jason Everett, Minority Counsel.

Mr. ISSA. The Committee will come to order. The Subcommittee on Courts, Intellectual Property, and the Internet will come to order. Without objection, the Chair is authorized to declare a recess of the Subcommittee at any time. We welcome everyone here today to a hearing specifically on the role of the International Trade Commission (ITC) in patent litigation.

Imagine, if you will, a scenario under current law. A foreign patent assertion entity has their lawyer file a lawsuit against a domestic entity in order to have them take a license and pay some type of royalty. Under current law, once receiving even one dollar in royalty, they then sue a U.S. company for patent infringement in Federal court, and concurrently file a case in the ITC.

The defendant also files an interparty review before the Patent and Trademark Office, alleging, in validity, or at least substantial differences between the assertion and the product being produced. You now have, under current law, three separate adjudications at the same time. Under the law—and by the way, you do not have to imagine, this has happened—there can be discovery, oft times it is simple form discovery by the plaintiff; and for purposes of my opening statement, plaintiff and troll will be interchangeable.

Now, under current law, the PAE could succeed in getting an exclusion order against the defendant. Well, the alleged infringer could win, at PTAB, the claims that the patent is ruled invalid. But still, under current law would be prevented from manufacturing that product, since the exclusion order would be in effect until the

Federal circuit gets around to reversing the ITC. And under current law, the Federal circuit reversals, you could be back in district court going through the whole trial process again. Again, if the PTO only rules that some patent claims are invalid or limited, but allows a few limited patent claims to remain, you get to do this all over again.

The International Trade Commission exists for one purpose: it is a necessary exclusion organization that protects American industry, industry being a broad term, from unfair competition; from, in fact, products coming through our border for a myriad of reasons.

It is a protectionist trade organization by definition. And I use that not in a pejorative way, but I use it in a fair way; that in fact, often, U.S. industries need protection from unfair trade practices.

When, in 1988, patents became part of it, most envisioned that you were simply talking about an entity that could not be reached in the Federal courts, that was sending in a product that was a knockoff of an American patent. And in that situation, it would be no different than, in fact, if you were sending counterfeit goods into the United States with somebody else's trademark on it.

The ITC exists, and will continue to exist, for those kinds of protections under any reform. However, in an era in which this Committee, on a broadly bipartisan basis, has recognized that troll activity needs to be prevented, we need to recognize that non-practicing entities are using the ITC not often, but often effectively, to extort additional dollars.

Plus, to be candid, it is our responsibility to preserve the constitutional right of an American entity to have their claims, whether plaintiff or defendant, adjudicated within the court constitutionally established, or often called an Article III court. Under the current law, Article I adjudication is occurring far too often. And not by the PTO, but rather, by the ITC.

I will just touch for a moment on two notable events. Several years ago, *Kodak v. Apple* in the ITC. Now there was a foreign importer somewhere there; an entity that could not be reached; an entity who had assets that were beyond the Federal court. The problem is, I cannot figure out which one it would be. Kodak was not, in fact, a domestic company to any greater extent than Apple. Both of them relied on extensive use of imported parts. Oddly enough, Apple had enough cash in the bank to buy Kodak in a moment's notice. And yet, Kodak went to the ITC asserting that they needed to get injunctive relief, or, if you will, trade relief, against Apple, as though the Federal court could not give them sufficient remedy.

Prior to the eBay decision, we could all have had a discussion about—an injunction is an injunction, whether it is called an exclusion or not. And in the 1990's, when I found myself in the ITC and in Federal court, they really were a question of how fast you got to the question of whether or not you were guilty and whether or not you were—the patent was valid, and whether or not, quite frankly, you were going to be enjoined. But that is not the case today.

Post-eBay, it is not an effective or honest case to exclude a product that ultimately, if they failed in district court, would not be excluded, but rather, would be adjudicated for monies. Obviously, in

the case of Apple, Apple could have not only paid all the damages, but could have bought Kodak on the open market.

Second case, one that Congressman Schiff and I both participated in with great frustration, was *Broadcom v. Qualcomm* in the ITC. Now, these were two companies whose CEOs could meet, 1 hour drive each, away from their corporate headquarters. Located less than 100 miles apart, they found themselves in the District of Columbia, in court, 3,000 miles—2,700 miles away. Why? Was it because Broadcom believed that Qualcomm, a company listed on the S&P 500, was unable to pay damages? No. It was simply because the leverage of the ITC allowed them to go after, in this case not even Qualcomm directly, but products being imported bearing chips.

The merits of this case do not particularly make any difference. The question is, should Broadcom and Qualcomm been able to be in the ITC, while simultaneously in the district court? They were not in the ITC because they wanted or needed an exclusion order for its own sake. They were in the ITC because they wanted to use it as part of the leverage, hoping it would move quickly and bring about a settlement that they would take perhaps longer to get in district court. But ultimately, the money damages would have been the same.

This Committee has exclusive jurisdiction over patents. This Committee has exclusive jurisdiction over trademarks. This Committee has exclusive jurisdiction over the Article III courts. This Committee has exclusive jurisdiction over the bankruptcy courts. I do not consider that jurisdiction a jurisdictional fight.

In fact, I believe that the ITC has a reason to exist. It appropriately is a trade activity, and should be in the Ways and Means. But it is my hope that, through this hearing and likely legislation, that we can, in fact, straighten out a situation in which, if you should be in one court, another court, or in fact, at the PTO, that you not be simultaneously in all three, or that trolls be able to leverage one against the other. With that, I look forward to our witnesses and recognize the Ranking Member for his opening statement.

Mr. NADLER. Thank you, Mr. Chairman. Today we consider patent litigation at the International Trade Commission. The ITC is not widely known or understood outside of a narrow group of practitioners and interested parties. But it plays an important role in shaping trade policy in the United States. Among its duties is to adjudicate cases involving imports that allegedly infringe intellectual property rights, and to potentially exclude such products from entering the United States.

Because the ITC is becoming an increasingly popular venue for bringing patent infringement claims in recent years, it is appropriate for this Subcommittee to examine how the ITC handles patent litigation, and whether any legislative or regulatory changes are warranted.

When we last considered this topic in 2013, we did so in the context of the ongoing crisis of abusive patent litigation. We heard testimony that patent trolls had identified the ITC as a friendly forum, and were flooding the system with abusive and frivolous

claims, particularly after the Supreme Court's 2006 decision in *eBay v. Merck Exchange*.

Prior to the eBay case, injunctions in patent cases were viewed as almost automatic. However, the court ruled that patent holders in district court cases must satisfy the same four-factor test applied to other plaintiffs seeking an injunction, including showing that monetary damages are insufficient to compensate the plaintiff, and that the plaintiff will suffer irreparable harm without an injunction.

By some estimates, the eBay standard reduced the chances of an injunction being granted to just 1 in 3. Concerns were raised that, after this decision, non-practicing entities, or NPEs, were flocking to the ITC, which does not apply the eBay analysis, and where an exclusion order is almost automatic if infringement is found.

The drastic step of an exclusion order can serve as a death knell for a business. As manufacturing has increasingly moved overseas in recent years, even an American company may find its products excluded from the U.S. if they are found to be infringing. Because the consequences of having one's product prevented from being imported into the U.S. are so great, NPEs were exploiting this risk to pressure defendants into settling even frivolous cases.

Since we last considered this issue, the ITC has taken some steps to attempt to address some of the concerns over NPEs and abusive litigation. For example, as ITC case law continues to evolve, NPEs, whose entire business model depends on litigation, may find it more difficult to establish that there is a domestic industry that would be threatened by the importation of a particular product, as is required under Section 337 of the Tariff Act.

In addition, the ITC has begun a pilot project, which it proposes to codify and expand, allowing the Commission to identify potentially case dispositive issues when the investigation begins, and direct the presiding judge to issue an initial determination of those issues within 100 days. If used to its full extent and made permanent, this may help weed out weak claims at an early stage and discourage many others from even being filed. Indeed, recent statistics indicate that filings by NPEs has dropped from its peak, between 2008 and 2011.

I hope our witnesses will help us to understand whether this reduction in filings is just temporary, or whether the ITC has adequately addressed the concern over abusive litigation through these and other measures. And if further action is necessary, does the ITC have sufficient tools at its disposal? Or is Congressional action required? I also look forward to a discussion of whether patent litigation at the ITC serves as a complement to district court litigation, or whether they conflict with each other.

As an independent, quasi-judicial Federal agency focused solely on trade, the ITC operates under a different set of rules, with a different mandate, than Article III courts. What sorts of incentives do plaintiffs have to pick district court or the ITC as an appropriate forum, or to file parallel litigation in both arenas? Are defendants being treated fairly in this process? And what are the implications for developing a uniform understanding of patent law, when it is being administered and interpreted by two different judicial bodies? Are any reforms needed? And if so, should Congress enact leg-

islative changes? Or should they be accomplished through the regulatory process? I look forward to hearing from our witnesses about these and other important matters, and I yield back the balance of my time.

Mr. ISSA. I thank the gentleman. We now recognize the Ranking Member of the full Committee, Mr. Conyers, for his opening statement.

Mr. CONYERS. Thank you, Chairman Issa. And welcome to—we only have six witnesses today, so I guess we will have to do the best we can with the subject.

Mr. ISSA. John, there are four more panels. Are you going to come back?

Mr. CONYERS. Oh, oh boy. We welcome you all here today for this discussion. We think it is an important one, because it gives us an opportunity to study how the International Trade Commission handles patent disputes, and whether it sufficiently protects American innovation.

We should focus on whether the Commission produces fair results to litigants, and, most importantly, whether these results are beneficial to the American consumer. Congress established the Commission as an independent, quasi-judicial, Federal agency to provide non-partisan counsel to the legislative and executive branches of government. It is charged with protecting United States consumers and industry from unfair foreign trade practices, and has the power to issue cease and desist and exclusion orders.

For example, patent holders who believe that imported products infringe their patents may file a complaint with the Commission, pursuant to Section 337 of the Tariff Act. Some are concerned, however, that as a result of the Commission's patent dispute resolutions, there have been adverse consequences to American consumers in the form of higher prices, for example.

I am particularly concerned that some large, monopolistic players actively collect patents as a way to concentrate their market power, and to eliminate competitors under the watch of the Commission. It is imperative that our Nation's patent system protect American innovation and foster enterprise, but not at the expense of allowing the system to be distorted to favor players with the largest litigation budgets.

Also, we should continue to examine whether the increase in Section 337 investigations is due to abusive behavior by non-practicing entities and patent assertion entities. There are concerns that these entities acquire patents solely for the purpose of litigation before the Commission, to threaten United States-operating companies with exclusion orders that they otherwise may not obtain in Federal court.

In support of these concerns, some cite the fact that Commission filings spiked in 2011, and that a large percentage of these cases proceeded simultaneously in Federal district court. While a patent holder is not barred from pursuing a claim before the Commission and the Federal courts simultaneously, some argue this presents the problem of inconsistent results.

At this point, however, we know that, based on the Commission's own statistics, the number of investigations instituted has dropped, and it appears the number of filings by non-practicing entities is

also lower. The Commission appears to be taking effective steps to address the problem.

And finally, any legislative changes to Section 337 should avoid unintended consequences, particularly with respect to any adverse impact they may have on American innovators. Any such changes should also be considered in light of the Supreme Court's 2006 decision in *eBay v. Merck Exchange*, which made it more difficult for patent holders to receive injunctive relief in Federal district court.

The ramifications of that decision could be driving an increase in Commission filings, for instance. Although I am skeptical of current proposals to curb abusive patent litigation by reforming the Commission legislatively, I do look forward to the hearing from today's witness. And I thank the Chairman for holding this hearing. I yield back any time remaining.

Mr. ISSA. I thank the gentleman. All other Members will have 5 legislative days in which to place their opening statements in the record.

Today we have a distinguished panel of six witnesses, as the Ranking Member said. These witnesses' written statements will be entered in the record in entirety, and I ask that the witnesses summarize, in approximately 5 minutes, their opening statements.

For those who have not testified before, the lights are just like a traffic light. And we ask you to please go as fast or slow as you want on green, rush through the intersection on yellow, and stop on red. Before I introduce the witnesses, it is the Committee's standing rule that all witnesses be sworn.

So would you please all rise, and raise your right hand? Do all of you solemnly swear or affirm that the testimony that you are about to give will be the truth, the whole truth, and nothing but the truth?

Thank you, please be seated. Let the record reflect that all witnesses answered in the affirmative.

Our witnesses today include the former chairwoman of the International Trade Commission, Deanna Okun, partner at Adduci and Mastriani and Schaumberg, LLP. Boy, that is a good one. But they get better.

The second one is—and welcome—John Thorne, partner at Kellogg, Huber, Hansen, Todd, Evans and Figel, PLLC.

And next we have Mr. Mark Whitaker, partner at Morrison and Foerster, thank you.

Dr. Fiona Scott Morton, professor of economics at the Yale School of Management; Mr. Thomas Stoll, principal of Stoll IP Consulting, LLC, and Mr. Dominic Bianchi, general counsel at the International Trade Commission.

So I want to welcome all of you. I recognize that each of you, perhaps except for the government witnesses, have both your written statements and individual testimony. I would suggest that, if you want to deviate from your written statement, remember your entire written statement will be in the record. But I would ask that you remain within the 5 minutes.

With that, Ms. Okun.

TESTIMONY OF DEANNA TANNER OKUN, FORMER CHAIRMAN, INTERNATIONAL TRADE COMMISSION, AND PARTNER, ADDUCI, MASTRIANI & SCHAUMBERG, LLP

Ms. OKUN. Thank you, Chairman Issa, Ranking Member Nadler, and other Members of the Subcommittee. I welcome the opportunity to testify for you today. I have been privileged to be part of the international trade community for more than 25 years. Let me reiterate that I appear today in my personal capacity, and not on behalf of Adduci and Mastriani and Schaumberg, or any of our clients. And, of course, I do not speak for the Commission or for my former colleagues.

My purpose is to share my perspective based on my 12 years serving on the International Trade Commission. I will focus my remarks on a few key points, but will refer you to my written statement.

First, the ITC is an expert trade agency that provides an effective remedy to combat the pervasive problem of infringing imports, providing essential protection to U.S. IPR owners and fostering U.S. competitiveness and innovation.

Second, through its decisions and administrative actions, the ITC has sent a clear message that only entities with substantial domestic ties will succeed. The data demonstrate that NPEs rarely file cases with the ITC, and that particularly with respect to PAEs, they rarely succeed. And it is important to set context. We are talking about a docket of 36 cases this year; and of those 36, 34 of 36 were brought by manufacturing entities. In 2014, it was 36 of 39. At its high water mark in 2011, there were 69 investigations.

So we are talking about a very small docket, which I say will remain so because of the high threshold to succeed, and because of the institutional requirements to be at the ITC.

Third, the ITC, perhaps because it is small, non-partisan, quasi-judicial, has been nimble in addressing litigation issues by pursuing case management and rule changes to reduce the cost and burden of litigation. This type of agency activity should be encouraged, not criticized. We want our most innovative companies to have more, not fewer, tools to address the very real and costly problem of infringement.

In that respect, Section 337, in my view, is functioning as Congress intended, and recent proposals to amend the statute are unnecessary and likely counterproductive. Moreover, our trading partners increasingly recognize that innovation is the fundamental competitive advantage. Countries like China are modifying their laws to strengthen IP protection, and the European Union has moved toward a unitary patent court. It would send the wrong message for the United States to weaken protections at a time when U.S. trade negotiators have been working hard to raise IPR standards in agreements such as TPP and TTIP.

Allow me to elaborate briefly. There is a direct link between the protection of U.S. IPR and American competitiveness. Constitutionally protected patent rights incentivize investments and innovation, a key engine of economic growth. IP-intensive industries account for more than $5 trillion in value added, or approximately 35 percent of GDP.

From a trade perspective, we must have effective border remedies to stop unfairly traded and infringing imports. The ITC serves as the front line in protecting domestic industries. As the Joint Economic Committee found in 2012, infringement of IPR is a pervasive problem that harms companies, consumers, and all levels of government.

Between 2008 and 2015, approximately 80 percent of the products accused in Section 337 were imported from China. And while this hearing is focused on investigations involving patents, Section 337 also covers other unfair acts, such as copyright, trademark, and trade secret laws. Moreover, for many companies, the advantages of expeditious adjudication, experienced ITC judges, in rem jurisdiction, and effective remedies at the border, can make the difference in their commercial success.

The data simply do not support the assertion that the ITC has a patent troll problem. Overall, Section 337 filings have decreased significantly in the past few years, from what was already a low number, particularly compared to district courts. The number of cases institute in each calendar year, from 2000 to 2015, has steadily decreased from 69 to 36. Complainants at the ITC are overwhelmingly domestic industries that manufacture a product.

Moreover, of the 67 exclusion orders issued by the Commission in the last 10 years, only four were on behalf of NPEs. The ITC is not inundated with frivolous cases, nor is its caseload unmanageable. But that does not mean NPEs—and I do mean NPEs, not PAEs—should not have the opportunity to consider the ITC as they evaluate their options for protecting their intellectual property.

Congress acknowledged the critical role of IPR as a source of value by expanding Section 337 in 1988 to cover companies making a substantial investment in a patent's exploitation, including engineering, research and development, or licensing.

Yet over the last 5 years, it has become more difficult to establish a domestic industry and obtain relief and, since 2011, only three NPEs have succeeded in establishing a licensing-based domestic industry. I realize, Mr. Chairman, that my red light is coming on, and I hope that, in listening to Mr. Bianchi's testimony, you will hear about the many actions the ITC has taken to help combat any type of abuse at the ITC. Thank you.

[The prepared statement of Ms. Okun follows:]

Written Statement of Deanna Tanner Okun

Partner, Adduci, Mastriani & Schaumberg, LLP
Former Commissioner, United States International Trade Commission

Before the

United States House of Representatives Committee on the Judiciary
Subcommittee on Courts, Intellectual Property and the Internet

"International Trade Commission Patent Litigation"

April 14, 2016

I. Introduction and Executive Summary

Chairman Issa, Ranking Member Nadler, and distinguished members of the Subcommittee: thank you for the opportunity to testify. It is an honor to engage in this discussion with you today.

I have been privileged to be part of the international trade and intellectual property community for more than twenty-five years. I spent a portion of my early career on Capitol Hill before serving on the U.S. International Trade Commission ("ITC") for twelve years, including two terms as Chairman. Since 2012 I have been a partner at Adduci, Mastriani & Schaumberg, LLP, an international trade law firm based in Washington, DC. I appear today, however, in my individual capacity and not on behalf of the firm or any of its clients.

As you know, the ITC is an independent, nonpartisan administrative agency that was established by Congress in 1916. The ITC administers U.S. trade remedy laws in a fair and objective manner, provides Congress, the President, and the U.S. Trade Representative with information and support on matters relating to tariffs and international trade and competitiveness, and maintains the Harmonized Tariff Schedule of the United States.

The trade remedy law we are discussing today is 19 U.S.C. § 1337, known as Section 337. This statute authorizes the ITC to investigate unfair methods of competition and unfair acts, including infringement of intellectual property rights ("IPR"), in the importation of articles into the United States. In essence, the purpose of the law is to assure that competition from products made overseas respects U.S. property rights, especially those protected by statute.

A few years ago, some commentators began to argue that Section 337 was inappropriately serving the interests of so-called non-practicing entities ("NPEs"), and that the ITC was not judiciously administering the statute. I disagreed with such contentions then and shared my views with this Subcommittee in April 2013. I appreciate the invitation to appear again to share why, today, in light of updated data on filings, recent case law, and administrative developments, my disagreement with such criticisms is even stronger.

In my capacity as a former member and Chairman of the ITC, I offer a few key points for the Subcommittee's consideration. First, the ITC is an expert trade agency that, in administering Section 337, provides an effective remedy to combat the pervasive problem of infringing imports, thereby providing essential protection to U.S. IPR owners and fostering U.S. competitiveness and innovation. Second, through its decisions and administrative actions, the ITC has sent a clear message that only entities with substantial domestic ties will succeed under Section 337. The data demonstrate that NPEs rarely file cases at the ITC, and that, when they do, they typically do not succeed. I respectfully submit, therefore, that Section 337 is functioning exactly as Congress intended and that proposals to amend the statute are misguided.

II. Importance of Protecting American IPR

There is a direct link between the protection of U.S. IPR and American competitiveness. Section 337, by serving as a mechanism for protecting U.S. IPR, promotes economic growth and domestic job creation.

Innovation is a primary driver of U.S. economic growth. IP-intensive industries account for more than $5 trillion in value added, or approximately 35 percent of U.S. gross domestic product.[1] According to the U.S. Intellectual Property Enforcement Coordinator, IP-intensive industries account for over 60 percent of U.S. exports and over 30 percent of U.S. employment.[2]

Constitutionally protected patent rights incentivize investments in innovation, a key engine of economic growth. Indeed, the U.S. economy is highly dependent on the innovation produced by universities, small businesses, and start-ups, which deploy significant investment in research and development and licensing programs. Notably, IP licensing is one of the few industries in which the United States enjoys a significant trade surplus, delivering billions to the U.S. economy every year.[3] Licensing revenues facilitate a cycle of innovation, allowing IP owners to fund the research and development of future creations. According to the U.S. Chamber of Commerce, more than 50 percent of annual economic growth is attributable to technological innovation.[4]

Acknowledging that development of IPR had become an increasingly critical source of value for the U.S. economy, and that some manufacturing had moved overseas, Congress amended Section 337 in 1988 expressly to authorize NPEs to bring complaints. Congress modified the statute so that companies making a "substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing," could establish the existence of a domestic industry and obtain relief under the statute.[5] Congress recognized that large and small U.S. companies—as well as universities and research institutions—that develop and utilize IPR being infringed by unfair imports should be afforded protection under Section 337.

Infringement of IPR is a pervasive problem that harms companies, consumers, and all levels of government.[6] Section 337 serves as the front line of IP trade enforcement. In addition to protecting against patent infringement by foreign manufacturers, Section 337 prevents the importation of products that violate U.S. copyright, trademark, and trade secret laws. This has proven particularly useful with respect to infringing products from China: between 2008 and 2015, approximately 80

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[1] Economics and Statistics Administration and U.S. Patent and Trademark Office joint report, "Intellectual Property and the U.S. Economy: Industries in Focus," at 45 (Mar. 2012).

[2] https://www.whitehouse.gov/blog/2012/04/11/intellectual-property-and-us-economy.

[3] *Id.* at 56-59. *See also id.* at 2 (stating that IP licensing helps drive the U.S. economy forward by "[c]reating a platform for financial investments in innovation" and "[e]nabling a more efficient market for technology transfer and trading in technology and ideas.").

[4] https://www.uschamberfoundation.org/enterprisingstates/assets/files/Executive-Summary-OL.pdf. *See also* http://www.uspto.gov/about-us/news-updates/us-department-commerce-issues-report-role-patent-reform-supporting-innovation (Department of Commerce report finding that approximately 75 percent of the nation's post-World War II growth is linked to technological innovation).

[5] *See* 19 U.S.C. § 1337(a)(3)(C).

[6] *See* U.S. Congress Joint Economic Committee, "The Impact of Intellectual Property Theft on the Economy," at 1, 4 (Aug. 2012).

percent of products accused in Section 337 investigations were imported from China. By helping to combat this infringement, Section 337 strengthens U.S. competitiveness.

Companies that I have advised highlight the advantages of asserting IPR under Section 337, including expeditious adjudication, expert ITC judges, *in rem* jurisdiction, and effective remedies that typically cannot be obtained in district court. While the spectrum of products, industries, and types of IPR considered by the Commission is broad, the prevalence of high-technology products with short life cycles underscores why these attributes make the ITC an attractive venue for U.S. industries battling infringing imports. I struggle to understand why Congress would want to weaken an effective tool for our most innovative companies seeking relief from infringing imports.

Weakening Section 337 would also have international implications. Our trading partners increasingly recognize that innovation is *the* fundamental competitive advantage; accordingly, countries such as China are modifying their laws to strengthen IP protection, while the European Union has adopted a unitary patent court. It would make little sense for the United States to move in the opposite direction, particularly at a time when U.S. trade negotiators have been working hard to raise IPR standards in agreements such as the Trans-Pacific Partnership and Trans-Atlantic Trade and Investment Partnership. Diminishing Section 337 would send the wrong message to our trading partners and undermine our competitive advantage in innovation.

III. Responses to Criticisms of Section 337

A. Background and Applicable Data

Section 337 filings increased in 2010 and 2011, including a number of high-profile cases involving smartphone and tablet technology. As a reaction to those business- and technology-driven developments, a few companies launched a lobbying campaign to amend Section 337. I understand another bill seeking to amend the statute, H.R. 4829, was introduced last month. The so-called reforms would radically limit who can seek Section 337 relief, complicate and restrict the Commission's case-by-case adjudication of the statute (thus encroaching on the Commission's discretion), and make it more difficult to keep infringing imports out of the U.S. market. The proposed amendments are neither necessary nor well-reasoned.

As a threshold matter, the proposed reforms are premised on the faulty argument that NPEs have been abusing the ITC. Data clearly demonstrate otherwise. In 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by NPEs.[7] In fact, according to Commission data, between 2006 and 2015:

- Category 1 NPEs (research institutions, start-ups, and individual inventors) have accounted for just 8 percent of Section 337 investigations.
- Category 2 NPEs (whose business model focuses on purchasing and asserting patents) have accounted for just 9 percent of Section 337 investigations.[8]

[7] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm

[8] *Id.*

I encourage you to evaluate this data with two foundational points in mind. First, Congress amended the statute in 1988 specifically to allow entities whose business focuses on engineering, research and development, or licensing—such as start-ups and universities—to avail themselves of Section 337 protection. Second, even if the 1988 amendments were misguided (and I submit they were not), the data confirm that NPEs have not overtaken the ITC. The data unequivocally demonstrates that NPEs represent a very small portion of the Section 337 docket.

In addition, overall Section 337 filings have decreased significantly in the past few years. The number of cases instituted in each calendar year from 2011 through 2015 was 69, 40, 42, 39, and 36. The ITC is not inundated with frivolous cases, nor is its caseload unmanageable. Moreover, of the 67 exclusion orders issued by the Commission since May 2006,[9] only four were on behalf of NPEs.[10] And in each of those investigations, the involved NPE or its subsidiary had developed the technology at issue.

B. Case Law and Administrative Developments

Some have also criticized the Commission's handling of Section 337 investigations, particularly as to the issues of domestic industry and public interest. I suggest that an analysis of ITC data, including recent decisions, demonstrates that the Commission is, in fact, appropriately analyzing these issues and making reasoned determinations on a case-by-case basis that protect the rule of law.

1. Domestic Industry

Critics claim NPEs are easily satisfying the domestic industry requirement through dubious investments in efforts to license their patents. Consequently, they propose amending Section 337 to require complainants who rely on licensing to prove a domestic industry to show that the licensing activities led "to the adoption and development of articles" that practice the asserted patent. This proposal is both unwise and unwarranted.

The proposal is unwise because adding such a requirement would create a host of interpretive challenges and thrust the ITC and its litigants into an upheaval of unsettled law. For example, how could a complainant prove that its technology, not another's, led to the "adoption" or "development" of a new article that did not exist before? How would the Commission define those terms? Would the process of their definition result in uncertainty and, consequently, additional litigation costs? Moreover, this type of restriction would reward infringing parties for dilatory tactics during license negotiations, as no licensing-based domestic industry could be established after the "claimed patent" has been adopted. That is, the restriction could incentivize potential licensees to avoid taking a license. Additionally, the temporal restriction would feasibly cut off any work performed after the

[9] May 2006 is when the U.S. Supreme Court issued its decision in *eBay Inc. v. MercExchange*, LLC, 547 U.S. 388, which harmonized the standard for obtaining an injunction in patent infringement cases. Critics of the ITC have claimed that, following this decision, NPEs have flocked to the ITC due to the difficulty of obtaining an injunction in district court. The claim clearly is not supported by the facts.

[10] https://www.usitc.gov/press_room/documents/featured_news/337facts.pdf

"adoption" or "development" of an article, thus implying that only the first license involving the patent is relevant to the domestic industry analysis.

The proposal is unwarranted because the ITC is already scrutinizing licensing-based domestic industries in a rigorous manner. The ITC has interpreted the statute's "substantial investment" standard very carefully and has not permitted entities with questionable domestic activities to obtain relief under Section 337.

In the seminal 2011 case concerning a licensing-based domestic industry, the Commission held that the complainant must meet three threshold requirements: (1) the investments must constitute an exploitation of the individual asserted patent; (2) the investments must relate to licensing; and (3) the investments must be domestic, i.e., occur in the United States.[11] Factors to assess in determining whether there has been a substantial investment include the number of licensees, the amount of revenue generated from license agreements, and the number of U.S. employees involved in the relevant licensing efforts.[12] Litigation expenses, alone, are insufficient to satisfy the test.

Since that landmark 2011 decision, many NPEs have failed in their efforts to litigate at the ITC. In particular, over the subsequent 4.5 years, the following has occurred:

- A total of just three NPEs have succeeded in establishing a licensing-based domestic industry before the Commission.[13]
- In 2012 alone, three NPEs *which had previously satisfied the domestic industry requirement* failed to prove that their licensing investments were sufficient.[14]

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[11] *Certain Multimedia Display & Navigation Devices & Systems*, Inv. No. 337-TA-694, Comm'n Op. (Aug. 8, 2011).

[12] *Id. See also Certain Light-Emitting Diodes*, Inv. No. 337-TA-640, Initial Determination (May 2009).

[13] *Certain Liquid Crystal Display Devices*, Inv. No. 337-TA-741/749, Comm'n Op. (July 2012) (the complainant was Thomson Licensing SAS, a subsidiary of Technicolor SA); *Certain Wireless Consumer Electronics Devices*, Inv. No. 337-TA-853, Comm'n Op. (Mar. 21, 2014) (the complainant was Technology Properties Limited, LLC); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Comm'n Op. (Mar. 26, 2014) (the complainant was InterDigital Technology Corporation).

[14] *Certain Semiconductor Chips*, Inv. No. 337-TA-753, Comm'n Op. (Aug. 2012); *Certain Integrated Circuits*, Inv. No. 337-TA-786, Comm'n Op. (Oct. 2012); *Certain Video Game Systems & Controllers*, Inv. No. 337-TA-743, Comm'n Op. (Jan. 20, 2012).

- From 2013 through March 2016, a handful of NPE complainants failed to establish a domestic industry based on licensing investments,[15] and additional NPEs failed to satisfy the requirement because their research and development activities were insufficient.[16]

The case law thus demonstrates that the Commission has, through its application of carefully crafted standards, denied relief to multiple complainants based on failure to establish the required domestic industry. In fact, the Commission is conducting such a strict analysis of domestic industry that even companies which invest millions of dollars in the United States cannot obtain early decisions (summary determination) affirming their domestic industry.

Moreover, the U.S. Court of Appeals for the Federal Circuit has affirmed the Commission's handling of this issue—both where activities were sufficient to establish a domestic industry and where such activities were insufficient.[17] In addition, the Federal Circuit has held that, even where a domestic industry is based on licensing or research and development (as opposed to manufacturing), the complainant's investments must relate to articles protected by the asserted patent—a requirement that has made it much more difficult for NPEs to succeed at the ITC.[18] The Federal Circuit also held that licensing investments must be part of an effort to "encourage adoption and development of articles," creating yet another barrier to certain types of NPEs.[19] The Federal Circuit further heightened the domestic industry standard by holding that, where a complainant's imported products

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[15] *Certain Microprocessors*, Inv. No. 337-TA-781, Initial Determination (Dec. 14, 2012) (the domestic industry finding was vacated by the Commission in a Feb. 15, 2013 notice, without reaching the merits, because the finding was non-dispositive in view of the Commission's adopted claim constructions); *Certain Products Having Laminated Packaging*, Inv. No. 337-TA-874, Comm'n Op. (Sept. 3, 2013); *Certain Lithium Metal Oxide Cathode Materials, Lithium-Ion Batteries for Power Tool Products Containing Same, & Power Tool Products With Lithium-Ion Batteries Containing Same*, Inv. No. 337-TA-951, Initial Determination (Mar. 10, 2016) (but domestic industry found based on other activities and investments; decision currently pending possible review by the Commission).

[16] *See Certain Integrated Circuit Chips*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014); *Certain Sulfentrazone, Sulfentrazone, Compositions, and Processes for Making Sulfentrazone*, Inv. No. 337-TA-914, Initial Determination (Apr. 10, 2015) (domestic industry finding set aside by the Commission because no violation was found based on other grounds); *Certain Television Sets, Television Receivers, Television Tuners, and Components Thereof*, Inv. No. 337-TA-910, Comm'n Op. (Oct. 30, 2015).

[17] *See, e.g.*, *InterDigital Communications v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013) (affirming Comm'n Op. in *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613); *John Mezzalingua Assocs. v. ITC*, 660 F.3d 1322 (Fed. Cir. 2011) (affirming Comm'n Op. in *Certain Coaxial Cable Connectors*, Inv. No. 337-TA-650).

[18] *See InterDigital Communications, LLC v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013); *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013). These appellate rulings led to the failure of the NPE complainant in the 841 investigation. *See Certain Computers and Computer Peripheral Devices*, Inv. No. 337-TA-841, Comm'n Notice (Dec. 19, 2013).

[19] *Motiva, LLC v. ITC*, 716 F.3d 596, 600 (Fed. Cir. 2013).

do not contain sufficient U.S. "value-added" from U.S. employees or investment, a domestic industry cannot exist.[20]

In sum, it has become more, not less, difficult to establish a domestic industry under Section 337. The Commission and Federal Circuit are applying the statute judiciously and have not permitted questionable entities to obtain unwarranted relief. This has put significant pressure on NPE complainants and has greatly reduced their leverage to extract a settlement. The past 4.5 years have not been kind to NPEs seeking relief under Section 337.

2. Public Interest

Before issuing any remedial orders, the Commission is required by statute to consider the effect of such relief on the public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive articles in the United States, and U.S. consumers.[21] The Commission analyzes these factors prudently, as demonstrated through various recent developments.

First, the ITC has tailored exclusion orders due to public interest concerns. In *Certain Baseband Processor Chips*, Inv. No. 337-TA-543, the Commission provided carve-outs from the exclusion order in view of the then-developing 3G wireless network and the need for first responders to use that network. In *Certain Personal Data & Mobile Communications Devices*, Inv. No. 337-TA-710, the Commission: (a) delayed enforcement of the remedial orders by four months to provide network carriers time to replace infringing smartphones; and (b) permitted the respondent to import replacement parts to be provided to customers under warranties and insurance contracts.

Second, ALJs have recommended modified remedies on account of public interest concerns. That occurred, for example, in *Certain Microprocessors*, Inv. No. 337-TA-781, an investigation in which the complainant was an NPE. The ALJ found no violation but recommended, in the event the Commission found a violation, a nine-month delay of the entry of any exclusion order to allow respondents time to adjust their manufacturing operations to incorporate non-infringing components.[22] Similarly, in *Soft-Edged Trampolines*, Inv. No. 337-TA-908, the ALJ recommended that, if the Commission were to find a violation, it tailor the exclusion order based on public interest concerns. The ALJ stated that "not allowing customers to obtain replacement, repair, or warranty parts for their already-purchased trampolines would create a real safety issue. This is exacerbated by the fact that the propriety components of the accused trampolines are presumably not readily available

[20] *Lelo, Inc. v. ITC*, 786 F.3d 879 (Fed. Cir. 2015).

[21] *See* 19 U.S.C. § 1337(d)-(f).

[22] The Commission ultimately terminated the investigation with a finding of no violation. *See Certain Microprocessors*, Inv. No. 337-TA-781, Notice of Commission Determination (Feb. 15, 2013).

on the open market." Accordingly, the ALJ opined that any exclusion order should include an exception for replacement, repair, and warranty parts.[23] [24]

Third, the ITC has taken meaningful administrative actions in this context. In November 2011, the Commission issued new rules that enhance the evidentiary record on the public interest factors.[25] This decision was inspired by the increasing number of investigations involving products of significant interest to the general public, as well as the U.S. Trade Representative's interest in having an expanded record for use in the Presidential policy review of ITC remedial orders.

- The new rules require complainants to submit a separate statement with their complaint providing specific information on the public interest factors. The statement must explain the domestic use of the accused products, identify any public health, safety, or welfare concerns relating to the requested relief, identify similar products that could replace the accused products, discuss the domestic capacity to replace the accused products, and state how the requested relief might affect U.S. consumers. A notice soliciting comments from respondents, the public, and federal agencies is then published in the Federal Register. Third-parties have taken advantage of these procedures, with submissions being filed by trade associations, federal agencies, members of Congress, and others.
- After consideration of the complaint and the statement and comments regarding public interest, the Commission may direct the ALJ to oversee discovery, receive evidence, and make findings on the public interest implications of the requested relief.
- Since these procedures went into effect, at least 55 investigations have been delegated to ALJs for public interest fact-finding. In 2015, the Commission delegated public interest to the ALJ in over 25 percent of new investigations.[26]
- Notably, over half of investigations where public interest was delegated to the ALJ have ended in a settlement, and at least seven of those investigations ended by withdrawal of the complaint. It therefore appears the Commission's heightened focus on public interest

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[23] *Certain Soft-Edged Trampolines and Components Thereof*, Inv. No. 337-TA-908, Recommended Determination (Dec. 18, 2014). The Commission ultimately terminated the investigation with a finding of no violation. *See* Inv. No. 337-TA-908, Commission Opinion (April 6, 2015).

[24] ITC staff attorneys have also advocated for tailored remedial orders on account of public interest concerns. *See, e.g.*, *Certain Reduced Ignition Proclivity Cigarette Paper Wrappers*, Inv. No. 337-TA-756, Initial Determination (Feb. 1, 2012) (arguing for a stay of any exclusion order for a commercially reasonable period of time to allow cigarette manufacturers to obtain the FDA approval and fire-safety re-certifications needed to sell redesigned cigarettes in the United States); *Certain Microprocessors*, Inv. No. 337-TA-781, Initial Determination (Dec. 14, 2012) (arguing, consistent with the ALJ's conclusion, that the public interest factors weighed against issuance of any exclusion order, but that if the Commission determined to issue an exclusion order, the order should be tailored to mitigate harmful effects on consumers and the U.S. economy).

[25] *See* Commission Rule 210.8(b)-(c).

[26] *See* https://www.usitc.gov/intellectual_property/337_statistics_identification_and_number_cases.htm

is affecting parties' decisions either to pursue, settle, or back away from Section 337 actions.

Finally, critics fail to appreciate the additional public interest protections built into Section 337. Remedial orders are not final until the conclusion of a 60-day period for Presidential review, and the President can disapprove of any remedy "for policy reasons."[27]

The facts above demonstrate that the ITC is appropriately adjudicating Section 337 investigations. It has become more difficult to establish a domestic industry, remedies have been tailored based on economic factors, and due consideration is being given to public interest and policy concerns.

3. Regulatory Actions

The Commission has also taken various administrative steps to protect the tribunal from abuse. The new public interest rules, discussed above, are a prime example of this, as they deter patent assertion entities from filing an ITC case. Additional examples of the Commission's concerted efforts to prevent abuse include the following:

- The Commission implemented a program to identify a potentially dispositive issue—e.g., domestic industry or standing—and instruct the ALJ to issue an up-front, expedited ruling on that issue. This program protects respondents from the expenses of a frivolous case, as a matter may conclude before discovery even begins. In one case with such delegation, the ALJ found, and the Commission affirmed, that the complainant's licensing activities did not satisfy the domestic industry requirement—thus resulting in immediate termination of the investigation.[28] The Commission is currently considering a further modification to its rules that would: (a) allow parties to file a motion within 30 days of institution of an investigation requesting an early ruling on a potentially dispositive issue; and (b) authorize ALJs to designate a potentially dispositive issue for an early ruling.[29]
- The Commission amended its rules pertaining to discovery, inspired in part by the efforts of the Federal Circuit to get courts and the ITC to adopt rules that reduce the cost of litigation.[30] The purpose of the adopted changes is "to reduce expensive, inefficient,

[27] 19 U.S.C. § 1337(j). The President has delegated this authority to the U.S. Trade Representative. In August 2013, USTR disapproved the exclusion order in the 794 investigation, in which Apple had been found to infringe Samsung's standard essential patents.

[28] *Certain Products Having Laminated Packaging*, Inv. No. 337-TA-874, Comm'n Op. (Sept. 3, 2013).

[29] *See* 80 Fed. Reg. at 57556 (Sept. 24, 2015).

[30] *See* USITC Final Rule, "Rules of General Application and Adjudication and Enforcement," Docket No. MISC-040 (Apr. 11, 2013).

unjustified, or unnecessary discovery practices."[31] The new rules have decreased the expense and burden that parties, particularly respondents, face in Section 337 investigations.[32] The changes were based on information the Commission gathered from a thorough process that sought input from litigants, academics, district court judges and bar associations. The changes simplified electronic discovery procedures and required ALJs to limit discovery under certain circumstances. In addition, the Commission is currently considering amending its rules to clarify that a party can request sanctions for abuse of discovery.[33]

- The Commission is considering amending its rules to clarify that, where a complaint asserts multiple unrelated patents or technologies that would result in an unwieldy or lengthy investigation, it may institute multiple investigations based on that complaint.[34]
- The Commission is considering amending its rules to allow ALJs to sever an investigation into two or more investigations when doing so would provide for more efficient adjudication.[35]
- It should also be noted that the ITC rules require detailed fact pleading for complaints, in contrast to the more liberal notice pleading of district courts. Complaints are reviewed by the Commission's Office of Unfair Import Investigations, and drafting a complaint sufficient to meet the ITC's requirements for institution of an investigation is a serious and expensive undertaking. It can take several months for a prospective complainant to conduct the investigation necessary to satisfy the Commission's detailed pleading requirements. This discourages the filing of frivolous complaints by NPEs or other entities with questionable investments in the U.S. economy.

All of these decisions and initiatives will make the ITC an even more challenging forum for complainants who have a questionable basis for utilizing Section 337.

IV. Uniqueness of Section 337 and the ITC

Three additional points help demonstrate the important purposes served by Section 337 and the ITC. First, Section 337 is a trade, not a patent statute, and also applies to trademark and copyright infringement, trade secret theft, and other unfair importation-related acts. Second, the ITC exercises *in rem* jurisdiction that is very different from the *in personam* jurisdiction exercised by federal courts.

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[31] 77 FED. REG. 60952-60956 (Oct. 5, 2012).

[32] It has been argued that costs for a respondent in a Section 337 investigation are significantly higher than for a defendant in a district court patent matter. However, in a comprehensive June 2015 report, the American Intellectual Property Law Association found that ITC litigation was not more costly. The main difference is that, due to the expeditious nature of a Section 337 proceeding, the costs are borne over a much shorter time period than in a typical district court case. *See* http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf.

[33] 80 Fed. Reg. at 57556 (Sept. 24, 2015).

[34] *Id.* at 57555.

[35] *Id.*

Third, the relief afforded by the ITC is often essential to ensuring meaningful protection of U.S. companies' IPR, particularly in the context of knockoffs from China.

A. Trade Statute Administered by a Trade Agency

Congress created the ITC to protect domestic industries from unfair practices in import trade. As an independent agency, the ITC operates under a different set of statutes and mandates than the federal courts. Although, in conducting investigations under Section 337, the ITC can make a patent-related determination, it is not administering patent statutes. Indeed, Commission findings on infringement and invalidity have no *res judicata* effect.

Because Section 337 is directed at unfair practices in import trade, ITC complainants face evidentiary requirements distinct from or in addition to those of a plaintiff in district court—such as importation, domestic industry, injury (in cases involving non-statutory IPR), and public interest. Moreover, because Section 337 remedies are directed at the infringing articles themselves, these proceedings involve economic analyses that do not occur in district court patent litigation.

The ITC's primary objective is to manage the country's international trade laws and to promote the country's competitiveness in the global marketplace.[36] Because of this focus, Section 337 has different and broader purposes than the patent statutes. The ITC and federal courts are simply not identical adjudicatory bodies.

B. In Rem Jurisdiction

The most common type of jurisdiction in the American legal system is *in personam* jurisdiction, generally called "personal jurisdiction." *In personam* jurisdiction empowers a court to make judgments against a person or an entity that has legal personality, such as a corporation. In IP cases, federal courts exercise *in personam* jurisdiction.

In rem jurisdiction, by contrast, permits a tribunal to rule "against a thing," and therefore against the rights of persons or entities generally with respect to that thing. Section 337 provides the ITC with *in rem* jurisdiction over articles imported into the United States. This explains why U.S. companies whose products are manufactured offshore can be named as respondents in a Section 337 complaint. Such companies can avoid any potential Section 337 liability by manufacturing domestically, as opposed to importing their products from overseas.

The distinctions between *in personam* and *in rem* jurisdiction are manifest in the different types of relief afforded by federal courts and the ITC. Plaintiffs asserting IPR in district court typically seek monetary damages. ITC complainants, on the other hand, may only obtain remedial orders that direct U.S. Customs and Border Protection to block the importation of infringing goods (an exclusion order) or prohibit the marketing and sale of domestic inventories of such goods (a cease and desist order). The Federal Circuit has explained that the *in rem* relief offered by the ITC "follows the long-standing principle that importation is treated differently than domestic activity."[37]

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[36] *See* About the USITC, http://www.usitc.gov/press_room/about_usitc.htm.

[37] *Spansion, Inc. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

The ITC's *in rem* jurisdiction underscores that Section 337 is not a patent statute but, rather, a trade statute designed to protect domestic industries from unfair competition resulting from the importation of infringing goods. The ITC is not redundant of federal district courts.

C. Ensuring American Companies Obtain Effective Import Relief

The relief afforded by the ITC is often essential to ensuring meaningful protection of U.S. IPR. A U.S. company cannot easily obtain relief in district court against an infringing foreign manufacturer. Such a plaintiff must first establish personal jurisdiction over that manufacturer, which is typically accomplished through the company's U.S. affiliate. Where a foreign manufacturer does not have a domestic affiliate, therefore—and many do not—it may be impossible to establish jurisdiction in federal court. Sometimes it is impossible even to identify foreign manufacturers. In such circumstances, the ITC's *in rem* jurisdiction ensures that U.S. companies harmed by infringing imports can obtain effective relief.

Indeed, "Congress enacted Section 337 because in many instances foreign individuals or firms committing unfair acts to the detriment of an American industry are beyond the *in personam* reach of the U.S. courts and not amenable to a suit for money damages or injunctive relief."[38] The following examples demonstrate the practical significance of this reality.

- In *Certain Loom Kits for Creating Linked Articles*, Choon's Design of Wixom, Michigan, sought relief from the importation of craft jewelry- and toy-making kits that infringed its patent. The Commission found that many infringing kits were being sold on the internet by anonymous sellers from China.[39] The Commission noted that Choon's had filed nine district court lawsuits against infringers and had sent cease and desist letters to multiple websites selling infringing kits, to little avail. Accordingly, the Commission issued a general exclusion order against all imports of infringing loom kits, providing the type of relief needed to prevent further widespread infringement and the type of relief that Choon's was unable to obtain outside the ITC.
- In *Certain Electronic Paper Towel Dispensing Devices*, Georgia-Pacific of Atlanta, Georgia, sought relief against imports that infringed its U.S. patents. The Commission found, *inter alia*, that: (a) there was interchangeability of manufacturers; (b) the products were easy and inexpensive to manufacture; (c) there were many well-established distribution channels and internet retailers actively selling the articles; and (d) many of the infringing products were being sold unlabeled. The Commission thus concluded it was extremely difficult to identify the sources of the infringing articles. The Commission issued a general exclusion order prohibiting the importation of all electronic paper towel

[38] *Certain Steel Rod Treating Apparatus & Components Thereof*, Inv. No. 337-TA-97, Comm'n Act. & Order at 139 (Jan. 1982).

[39] *See Certain Loom Kits for Creating Linked Articles*, Inv. No. 337-TA-923, Comm'n Op. at 12-14 (June 26, 2015).

dispensers that infringed the asserted patents.[40] Given the nature of the supply chain, Georgia-Pacific could not have obtained any such relief in district court.

- In *Certain Hair Irons*, Farouk Systems of Houston, Texas, sought relief against the importation of hair irons that infringed its trademarks. The Commission noted that Farouk had litigated 21 district court actions seeking to stop the importation and sale of infringing products. The Commission also cited findings that the infringing manufacturers were improperly marking the country-of-origin of their products in an effort to increase confusion as to the actual source of the articles. Additionally, the Commission found that the infringing hair irons were primarily distributed over the internet, "a method that lends itself to anonymity and makes it difficult to determine the source of the infringing products."[41] The Commission issued a general exclusion order, the type of robust relief Farouk could not obtain from its 21 lawsuits in various federal courts.
- In *Certain Energy Drink Products*, Red Bull Energy Drinks of Santa Monica, California, sought relief against imports that violated its trademark and copyrights. The Commission found that numerous unspecified entities were producing and importing gray market energy drinks. The Commission noted that Red Bull had filed multiple cases in federal courts and had identified 250 suspected parties who were engaged in gray market activities across the United States.[42] The Commission issued a general exclusion order, providing Red Bull with relief it could not attain from its multitude of district court actions.
- In *Certain Inkjet Ink Cartridges with Printheads*, Hewlett-Packard of California and Texas obtained a general exclusion order against products that infringed its U.S. patents relating to inkjet printers.[43] Hewlett-Packard returned to the ITC in *Certain Inkjet Ink Supplies*, in which it obtained a general exclusion order relating to imports that infringed other patents.[44] In each instance the ITC noted that it was difficult to identify the origins of infringing products, in part because the imports were generically packaged and there were numerous, unnamed contract manufacturers involved in the production of the infringing goods.

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[40] *See Certain Electronic Paper Towel Dispensing Devices & Components Thereof*, Inv. No. 337-TA-718, Comm'n Op. on Remedy, the Public Interest, and Bonding (Jan. 20, 2012).

[41] *Certain Hair Irons & Packaging Thereof*, Inv. No. 337-TA-637, Comm'n Op. on Remedy, the Public Interest, and Bonding at 4-5 (June 20, 2009).

[42] *See Certain Energy Drink Products*, Inv. No. 337-TA-678, Comm'n Op. on Remedy, the Public Interest, and Bonding (Sept. 8, 2010).

[43] *See Certain Inkjet Cartridges with Printheads & Components Thereof*, Investigation No. 337-TA-723, Comm'n Op. (Dec. 1, 2011).

[44] *See Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-730, Comm'n Op. (Feb. 24, 2012).

- In *Certain Hydraulic Excavators*, Caterpillar of Peoria, Illinois sought relief against the importation of gray market excavators that infringed its trademarks. A pattern of violation was shown by the identification of thousands of gray market excavators within the United States. Caterpillar proved that it could not establish the sources of these infringing products and that multiple foreign manufacturers were involved in the supply chain. The Commission issued a general exclusion order prohibiting the importation of the infringing excavators.[45] Caterpillar could not have obtained such relief in district court.

These examples demonstrate that the ITC is an indispensable forum for protecting U.S. IP owners from infringing imports. That is especially true with respect to knockoffs from China, the number one source of infringing products seized at the U.S. border.[46] Of the 313 Section 337 investigations instituted between 2008 and 2015, approximately 80 percent of the accused products were imported from China, and over 25 percent of cases involved at least one Chinese respondent.

In addition to those noted above, U.S. companies that have obtained Section 337 relief from Chinese imports in the past few years include A&J Manufacturing of Florida (outdoor grills), Manitowoc Cranes of Wisconsin (hydraulic cranes), SI Group of New York (rubber resins), Litepanels of California (LED devices), and OtterBox of Colorado (cases for phones and tablets). To these American companies, the ITC is certainly not a "redundant" tribunal; instead, the ITC served as an essential forum for obtaining needed import relief.

V. Conclusion

The ITC is an expert trade agency that is interpreting Section 337 in a judicious manner. Contrary to the claims of some, it has become more difficult to establish a domestic industry, NPEs are rarely filing cases (much less succeeding on the merits), the Commission is tailoring its remedial orders to reflect economic realities, and public interest concerns are being carefully addressed. The ITC's recent decisions and administrative actions have sent a clear message that this is not the forum for patent holders who do not make the investments in the U.S. economy mandated by Congress.

Against this notable backdrop, Section 337 filings have decreased markedly in the past few years. The proposed "reforms" are, therefore, a solution in search of a problem. Instead of seeking statutory changes that would weaken the ITC's ability to combat foreign infringement, those who claim to want to reduce abusive patent litigation should applaud what is already happening at the Commission.

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[45] *See Certain Hydraulic Excavators & Components Thereof*, Inv. No. 337-TA-582, Comm'n Op. (Feb. 3, 2009).

[46] http://www.cbp.gov/newsroom/national-media-release/2015-04-02-000000/cbp-ice-hsi-report-12-billion-counterfeit-seizures.

Supreme Court doctrine requires deference to the expertise of agencies in administering their enabling statutes.[47] As part of Section 337, "domestic industry" and "public interest" are terms of art whose interpretation is squarely within the discretion and expertise of the ITC. Congressional action should be reserved for a time when there is clear evidence that the Commission is abusing its statutory mandate or harming U.S. businesses. At present, there is absolutely no such evidence.

[47] *See Nat'l Labor Relations Board v. Hearst Publ'ns*, 416 U.S. 267 (1974) (mandating deference to an administrative agency's interpretation of the term "employee" within its enabling statute); *Fed. Trade Comm'n v. Cement Inst.*, 333 U.S. 683 (1948) (giving significant weight to the FTC's interpretation of "unfair competition" within its enabling statute); *Chevron v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984) (recognizing that the regulatory scheme is technical and complex and that those with expertise and charged with responsibility for administering the provision are in the best position to do so).

Mr. ISSA. I thank you. And if you had not shortened non-practicing entities and so on with those acronyms, it would have been much longer.

Ms. OKUN. Try that.

Mr. ISSA. Mr. Thorne. For all the witnesses——

Ms. OKUN. Not going to worry about it.

Mr. ISSA. Yeah, yeah. For all the witnesses here on the dais, of course, we are familiar with the acronyms. But to the greatest extent possible, at least once in your testimony, make sure that you describe fully, because for the record, a lot of people, including the people behind you in the audience, may not know the shortened terms. Thank you. Mr. Thorne?

TESTIMONY OF JOHN THORNE, PARTNER, KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, PLLC

Mr. THORNE. There, I have got my microphone. Mr. Chairman, Mr. Ranking Member, and other members of the Subcommittee, thank you for inviting me today.

I have not worked in the government in this area, but I have represented companies on both sides, bringing cases at the ITC, defending cases at the ITC, bringing injunction cases in Federal district court, defending against injunction cases in district court.

And since the written testimony is going to be submitted, I just thought I would summarize a little bit about why, from the private point of view, why would somebody bring a case to the ITC, as opposed to going to district court? And as you have seen in the numbers, that both forums are usually available. We did a quick count of the cases we believe were NPE cases at the ITC—NPE meaning non-practicing entities of the ITC. We did a quick count to see, well, how many of those organizations were American companies that could have been sued in district court?

And the answer is almost all of them. And it is something like two-thirds of all the cases, not just NPE cases, but all of them, actually have a parallel district court case, as the Chairman pointed out at the beginning.

So you have a choice. You can sue at the ITC, you can sue at the district. What are the considerations? I count four. I do not know if, in my 5 minutes, I will get through all four, but the first one is leverage. Just pure leverage.

I have an example similar to the one the Chairman opened with, similar to the *Broadcom* case, which I was involved in. My example involved one New York company bringing an ITC case against another New York company. One was in Manhattan, the other was in Long Island. They were maybe 20 miles apart. They could have sued in the eastern district of New York, probably in the southern district of New York, maybe other places where they did business. But the plaintiff who I represented picked the ITC because its remedy would be uniquely leveraging—if I can use the L word—it gave power—if we succeeded in obtaining a recommended exclusion order, that would give a lot of leverage.

Now, the defendant, or the respondent in the case was a cable TV company. Most of their business is people installing wires, fiber optic cables to homes, and managing central hubs where the TV

signals come in. They engage with programmers, the Hollywood and New York programming.

So almost all of the American activity of the respondent had nothing to do with what we targeted. We targeted the set top boxes, which they imported, or some of the components of the set top box were imported. We had a patent that covered one of the many functions of the set top box.

So you have got a fairly complicated business doing lots of things, but if they want to add a customer, they need another set top box; or if a customer's box breaks, they need to replace the set top box. The set top box itself is kind of complicated, many thousands of functions inside it. We had a patent that addressed one of the functions.

The ITC remedy would allow us to stop them adding customers, because one of the many functions in the set top box was infringing a patent we owned. So we could go to district court, and what I think would have happened at district court is, under the eBay case, under the normal balancing of equities the district courts conduct, the district court would say, "Well, I see a harm to the plaintiff. Your patent is being infringed.

But I see a much greater harm to the defendant because it is got a large business that will be disrupted if they cannot get set top boxes. In fact, I see a harm to the public because, you know, it is basketball season. You want to watch games." And so, if you balance the harms the way a district court does in a normal injunction case, I think the district court would have said, "Well, let's measure your money damages." You will get money for the patent infringement. Maybe over some period of time, the defendant will be required to stop the infringement, but no immediate loss of ability to add customers. That would not have been the remedy at district court. So where do you get leverage? You get leverage at the ITC.

Now, I have also brought injunction cases in the district court. I brought a case against a startup telephone company, and I won a damage remedy for $50 million, and I won an injunction, and I then traded the injunction for all the money they had, which was quite a bit more than 50 million. I gave a portion of that to intercity educational charities. We were pleased to do a little bit of good in the case. But you get leverage with an injunction. That was a case where an injunction in district court was deserved, based on the facts. But the difference between a damage remedy and injunctive remedy is, there is a lot of daylight there.

So just briefly, three other reasons that you might consider the ITC instead of a district court, as one of former Commissioner Okun's partners advertises, the ITC is less likely to invalidate patents, just—that is in practice.

The same rules apply, but the ITC tends to throw out a bad patent about half as often as a district court. The ITC will enforce standard essential patents. That is a patent that governs a standard. And last, the ITC does not follow what this Congress passed in 2011 that says you cannot bring in 30 or 40 or 50 different respondents in a single case. You have to sue them individually in district court. Thank you very much.

[The prepared statement of Mr. Thorne follows:]

U.S. House of Representatives
Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

Hearing on International Trade Commission Patent Litigation

April 14, 2016

Testimony of John Thorne

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for the opportunity to appear here today. I am a partner in the litigation firm Kellogg, Huber, Hansen, Todd, Evans & Figel, PLLC. I have represented parties in patent cases at the International Trade Commission and in appeals from ITC decisions to the Federal Circuit. Previously I was a Senior Vice President at Verizon Communications Inc. where I was responsible for, among other things, Verizon's intellectual property and where I both brought and defended patent cases at the ITC. A bio briefly describing my background is attached to this testimony. I am testifying based on my own experiences and not on behalf of any current or former clients.

I would like to focus my testimony on the growth of the ITC's patent docket and some of the substantive and procedural differences between the ITC and federal district courts. The ITC's patent docket has grown substantially over the past ten years. *E.g.*, Review & Outlook, *Smoot-Hawley's Revenge*, Wall St. J., Aug. 23, 2006, at A10 ("Today, a little-known provision of Smoot-Hawley, Section 337, is poised to take its own turn in the protectionist limelight by potentially crippling the U.S. wireless-phone industry. Other high-tech companies could follow in the dock."). By the time it submitted its 2012 budget request, the ITC noted that it "presided over approximately one out of every seven patent trials in the United States." ITC, Budget Justification Fiscal Year 2012 at 4. *See also* ITC, Budget Justification Fiscal Year 2013 at 24 ("The Commission now accounts for a substantial share of the patent infringement trials conducted in the United States."); ITC, Budget Justification Fiscal Year 2014 at 4 (Commission is "increasing the number of courtrooms available to accommodate trials"), 15 (a "high percentage of the patent trials held in the United States . . . are conducted at the Commission"). In its current budget request, the ITC notes that it "continue[s] to account for a substantial share of the patent infringement trials conducted in the United States." ITC, Budget Justification Fiscal Year 2017 at 20. The ITC has been required to hire additional judges and build additional courtroom space to accommodate the growth of its docket. There are now law firms that specialize in bringing ITC cases; there is even a special bar association of ITC trial lawyers. We have created a whole legal industry around the ITC's patent function.

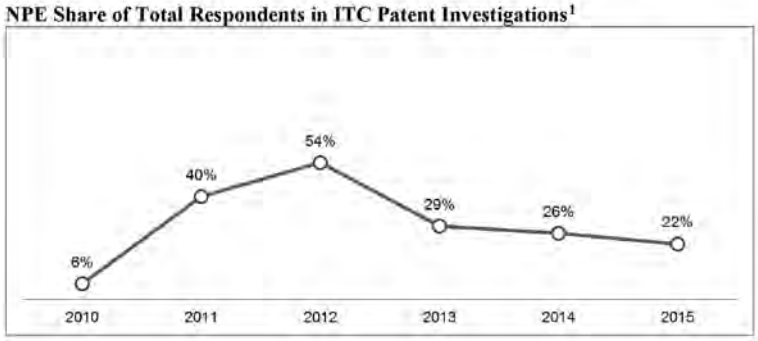
I would make two points. First, despite Congress's requirement that the ITC limit the availability of its parallel patent forum to protect a domestic industry involving "significant investment in plant and equipment," "labor or capital," or "engineering, research and development, or licensing," 17 U.S.C. § 1337(a)(3), the ITC has become hospitable to hedge funds and legal entrepreneurs whose only "industry" is the enforcement of patents and investments in patent enforcement. Second, one of the reasons for the ITC's increasing

popularity has been its willingness to creatively stretch its authorizing statute to allow it to hear new kinds of cases that go beyond the simple stopping of infringing articles at the borders.

1. The ITC has become a preferred forum for non-practicing entities.

Prior to 2006, no ITC investigation had been brought by any non-practicing entity. RPX Corp., a public company whose data are relied upon by many operating companies, reports that in 2012 more than half the companies sued at the ITC for patent infringement were sued by non-practicing entities (NPEs). In the most recent three years, NPEs accounted for about one quarter of the ITC's patent docket measured by the number of companies sued in those years.

NPE Share of Total Respondents in ITC Patent Investigations[1]



Since NPEs sell no products of their own, they do not actually want the only remedy the ITC can grant. They are in business to extract royalty payments. An exclusion order is simply a means to create hold-up and extract greater royalties.[2]

The use of the ITC by NPEs coincides with changes to the availability of injunctive relief in federal court following the *eBay* decision, significant Federal Circuit decisions that limit

[1] Source: RPX Corp. RPX defines NPEs as entities that have substantially no assets other than the patent and substantially no revenue other than licensing. RPX counts multiple respondents that are part of a single company as one respondent. E.g., an NPE complaint against Cisco System, Inc., Cisco Consumer Products, Cisco Systems International, and Cisco-Linksys LLC would be counted as a complaint against a single respondent. This convention conservatively *reduces* the percentage of NPE respondents compared to a simple count of all named respondents. Investigations were reported based on the year an investigation was initiated, and complaints that had not led to an investigation by the end of 2015 were not included in the data set.

[2] *See* Int'l Trade Comm'n & Patent Disputes: Hearing Before the Subcomm. on Intellectual Prop., Competition, & the Internet of the H. Comm. on the Judiciary, 112th Cong. 28-29 (2012) (testimony of Neal A. Rubin, Vice Pres. of Litig., Cisco Sys., Inc.); Carl Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, Am. L. & Econ. Rev 1, 16, 19 (2010) (under an injunctive threat, a large fraction of negotiated royalties due to hold-up, not to the value of the patented technology, with the fraction increasing for weak patents covering minor features of a high-margin product); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2009-2010 (2007) (finding that the proportionate royalty overcharge is not governed by the patent holder's actual innovative contribution).

damage awards in federal court, and the joinder limits under the America Invents Act of 2011, indicating that NPEs are using the ITC to avoid these legal developments.

Following the Supreme Court's decision in *eBay v. MercExchange*, 547 U.S. 388 (2006), federal courts have denied injunctions to NPEs in 75% of cases, and when the injunction was contested it was denied in 90% of cases.[3] The one forum that has continued to issue virtually automatic injunctive relief (in the form of an exclusion order) is the ITC. The ITC made a deliberate choice not to follow the Supreme Court's decision in *eBay* and the Federal Circuit upheld that choice.[4] Accordingly, the ITC grants exclusion orders whenever it finds a violation of Section 337, including in instances where a district court would deny injunctive relief under *eBay*.[5] NPEs take advantage of the diverging standards by filing at the ITC concurrently with district courts to increase the threat of injunctions to defendants or by filing at the ITC after district courts deny injunctions in order to get a second bite at the apple.[6]

In 2011 the ITC sought and obtained a budget increase for the following fiscal year to deal with the influx of NPE patent cases, explaining that "since the U.S. Supreme Court's 2006 *eBay* decision, which has made it more difficult for patent holders that do not themselves practice a patent to obtain injunctions in district courts, exclusion orders have increasingly been sought by non-practicing entities that hold U.S. patents."[7]

NPEs also have filed complaints at the ITC to circumvent Federal Circuit decisions limiting excessive damages awards in district court cases. Often the patent covers only a small aspect of a complex product,[8] or the accused company has invested in complementary, non-infringing products. In these instances, the threat of an exclusion order based on a single allegedly infringing component can distort competition in markets not directly covered by the patent, raising costs to consumers. In the past several years the Federal Circuit issued a series of decisions limiting the "reasonable royalty" that can be charged for a patent on a minor feature of

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[3] Colleen V. Chien & Mark A. Lemley, *Patent Holdup, The ITC, and the Public Interest*, 98 Cornell L. Rev 1, 9-10 (2012).

[4] *Spansion, Inc. v. ITC*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

[5] *See* Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 Wm. & Mary L. Rev. 63, 98-99 (2008) (indicating that ITC issued exclusion order in 100% of cases with violation); Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Case: Review of International Trade Commission Decisions*, 21 Harv. J.L. & Tech. 457, 485 (2008) (finding that nearly 70% of the pre-*eBay* cases settled at the ITC would not have satisfied the *eBay* factors for an injunction).

[6] For example, after a district court denied an injunction to one NPE based on *eBay*, the NPE filed an investigation at the ITC seeking an exclusion order. *See Paice, LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006) (denying permanent injunction following *eBay*) and *Certain Hybrid Electric Vehicles*, Inv. 337-TA-688, Comm'n Op. (June 22, 2010) (seeking exclusion order).

[7] USITC, *Budget Justification: Fiscal Year 2012* at 21, *available at* http://www.usitc.gov/press_room/documents/budget_2012.pdf.

[8] *See* Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, *supra* note 2, at 6; *see also eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring) ("When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.").

complex product.[9] Courts reject speculative expert opinions and require that "reasonable royalty" claims be supported by evidence of the value of the actual contribution of the claimed invention. The result of these decisions has been to dramatically lessen the power of the holder of a single patent to extract excessive "hold-up" settlements in federal district courts. NPEs have responded to these decisions by going to the ITC.

The ITC provides an attractive forum for NPEs for an additional reason: Following the America Invents Act of 2011, the ITC and district courts apply divergent joinder rules. In an effort to reduce NPEs' leverage in district courts, Congress restricted a plaintiff's ability to name multiple defendants in a suit by allowing plaintiffs to join only those defendants whose infringement arises from the same transactions or occurrences.[10] The ITC has not limited joinder of unrelated respondents; NPEs continue to name numerous respondents whose only connection is the import or sale after importation of a component or product that potentially infringes the same patent. In 2011, the year in which the AIA passed, NPEs filed a surge of new ITC investigations, naming an unprecedented number of respondents.[11] NPEs have named as many as thirty-three respondents in a single investigation.[12]

Even where rules are the same in the courts and at the Commission, results at the ITC systematically favor patent holders. For example, both the ITC and federal district courts are limited to enforcing valid U.S. patents. Yet the ITC is more reluctant than federal district courts to invalidate patents. A former attorney in the ITC general counsel's office (now a partner at a major ITC trial firm) notes: "Where the ITC really stands out compared to U.S. district courts, from the IPR owner's perspective, is the relatively low rate at which the commission invalidates patents." In a multi-year comparison, the ITC's "invalidation rate [was] approximately half that of U.S. district court."[13] The former ITC lawyer recommends bringing patent cases at the ITC for a further reason: "Given that ITC patent decisions are not binding on U.S. district courts, the commission is therefore a particularly low risk venue for an IPR owner to test the strength of a

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[9] *E.g.*, *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67-68 (Fed. Cir. 2012) ("in any case involving multi-component products, patentees may not calculate damages based on sales of the entire product . . . without showing that the demand for the entire product is attributable to the patented feature"); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1319-20 (Fed. Cir. 2011) (limiting "entire market value" rule); *Lucent v. Gateway*, 580 F.3d 1301, 1338 (Fed. Cir. 2009) (vacating damages award).

[10] *See* Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 19(d), 125 Stat. 284, 332-33 (2011) (codified as amended at 35 U.S.C. § 299(a) (2012) ("parties that are accused infringers may be joined in one action as defendants . . . only if—(1) any right to relief is asserted . . . with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences . . .; and (2) questions of fact common to all defendants . . . will arise in the action."); *see* Bryan T. Yeh, Cong. Research. Serv., R42668, *An Overview of the "Patent Trolls" Debate* at 13 (Aug. 20, 2012). Prior to the amendment NPEs joined multiple unrelated defendants in a single district court action based solely on alleged infringement of the same patent.

[11] *See* Colleen V. Chien, *Patent Trolls by the Numbers* (Mar. 13, 2013), Santa Clara Univ. Legal Studies Research Paper No. 08-13.

[12] USITC, *Facts and Trends Regarding USITC Section 337 Investigations* at 4 (June 18, 2012), *available at* http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf (providing ranges, with 33 as the maximum named in an investigation).

[13] *See* Jonathan Engler, *Patent Litigation Outcomes at ITC vs. District Courts* (Feb. 25, 2013), http://www.law360.com/articles/413428/patent-litigation-outcomes-at-itc-vs-district-courts.

patent in litigation." *Id.* That is, the ITC gives a patent owner two bites at the apple. For all these reasons, the ITC is "a very friendly forum" for patent owners. *Id.*

2. The ITC has sought to expand its mission beyond protecting domestic industries from imports of infringing products.

The ITC has expanded or attempted to expand its jurisdiction regarding articles that do not infringe when imported (*Suprema, Inc. v. ITC*, 796 F.3d 1338 (Fed. Cir. 2015) (en banc)); to cover electronic transmissions that the ITC acknowledges cannot be policed by Customs (*ClearCorrect Operating, LLC v. ITC*, 810 F.3d 1283 (Fed. Cir. 2015)); to issue an exclusion order against products of companies that, because they were never named as respondents, were unable to defend their interests (*Kyocera Wireless Corp. v. ITC*, 545 F.3d 1340 (Fed. Cir. 2008)); and to enforce a patent even after it was held invalid where the target of the case, prior to invalidation of the patent, signed a consent order promising not to "infringe" the invalid patent (*DeLorme Publishing Co., Inc. v. ITC*, 805 F.3d 1328 (Fed. Cir. 2015)). In some of these instances, the Federal Circuit has ruled that Congress did not provide the authority the ITC was claiming. In other instances, the Federal Circuit has ruled that deference must be shown to the agency's choices. All these examples are concerning for multiple reasons including that increasing the scope and number of patent cases brought to the ITC will magnify the important differences between ITC and district court patent practice.

In *Suprema*, the ITC issued an exclusion order against optical scanners that did not infringe the asserted patent and that were capable of substantial non-infringing uses, depending on what software later was used with the scanners. The Commission found that, after importation, the scanners could be combined with particular U.S.-made software in a way that infringes. A panel of the Federal Circuit held that the Commission overstepped its authority because the statute specifies that the accused article must infringe at the time of importation and, as a practical matter, a Customs officer would not know at the time of importation how the scanners might be used afterward. The en banc Federal Circuit reversed, citing the Tariff Act's broad purposes and holding that the Commission deserves deference when interpreting the Act. 796 F.3d. at 1350-53.

In *ClearCorrect*, the ITC acknowledged that it could not practically issue an exclusion order against data transmissions from outside the U.S. and instead issued a cease and desist order against such transmissions. The Federal Circuit reversed the ITC. Chief Judge Prost wrote for the majority that "articles" under the Act refers to tangible articles. Judge O'Malley, in concurrence, emphasized:

> The Commission has concluded that it has jurisdiction over *all* incoming international Internet data transmissions. It reaches this conclusion despite never having purported to regulate Internet transmissions in the past, despite no reference to data transmissions in the statute under which it acts, despite an absence of expertise in dealing with such transmissions, and despite the many competing policy concerns implicated in any attempt to regulate Internet transmissions. The Internet is "arguably the most important innovation in communications in a generation." *Comcast Corp. v. FCC*, 600 F.3d 642, 661

> (D.C. Cir. 2010). If Congress intended for the Commission to regulate one of the most important aspects of modern-day life, Congress surely would have said so expressly. *Utility Air Regulatory Grp. v. EPA*, 134 S. Ct. 2427, 2444 (2014) (rejecting EPA's vast expansion of its program of requiring clean air permits because such an expansion "would bring about an enormous and transformative expansion in EPA's regulatory authority without clear congressional authorization"). The Supreme Court has noted that "[w]hen an agency claims to discover in a long-extant statute an unheralded power to regulate 'a significant portion of the American economy,' we typically greet its announcement with a measure of skepticism." *Id.*

810 F.3d at 1302-03 (O'Malley, J., concurring).

In *Kyocera*, the ITC, overruling the recommendation of its Administrative Law Judge, issued an exclusion order against wireless phones that incorporated a Qualcomm chip that the ITC determined indirectly infringed a patent. The exclusion order applied to downstream device manufacturers even though those parties had not been named in the investigation. The Federal Circuit reversed, holding that the ITC had misapplied the law of indirect infringement and, critically, that the ITC may not (absent special circumstances not established in the case) issue remedies against manufacturers that are not part of the proceeding. 545 F.3d at 1358-59.

In *DeLorme*, the ITC imposed monetary penalties on a company for violating a consent order that it signed in order to avoid further legal fees in litigating the ITC investigation. The consent order required the company to stop importing the infringing products. The company moved its manufacturing from overseas to the U.S. but incorporated into the U.S.-made product imported plastic components, including a plastic belt clip. None of the imported plastic pieces were found to infringe the patent, directly or indirectly. After the company signed the consent order, the patent was held by the Patent Office to be invalid and the Federal Circuit summarily affirmed the patent's invalidity. Nonetheless, the ITC awarded a monetary penalty to enforce the consent order, based on the importation of the non-infringing plastic pieces. On appeal, a divided Federal Circuit panel affirmed. The dissenting judge was troubled that the ITC would impose a penalty for violating a consent order based on a patent that was invalid "from day one." 805 F.3d at 1338 (Taranto, J., dissenting). Upholding this penalty where no infringement occurred (or could occur) also clashes with the Federal Circuit's decision in *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349 (Fed. Cir.), *reh'g en banc denied*, 790 F.3d 1307 (Fed. Cir. 2015), *cert. denied*, 84 U.S.L.W. 3307 (2016), which vacated a district court injunction and civil contempt order because the underlying patent claim had been invalidated. The Tariff Act authorizes enforcement only of valid patents, and the ITC has no more power to enforce invalid patents than a district court has.

Two justifications are often given for the ITC's providing a duplicative patent forum: Patent holders may be unable to get district court jurisdiction over some infringing importers and they may need the special remedy of Customs to screen infringing imports at the ports of entry. In most cases these justifications are not present. Certainly NPEs do not need the ITC to obtain relief against the respondents they typically target. Almost all of the named respondents in NPE

investigations are domestic companies that NPEs can sue in district courts.[14] Indeed, approximately two thirds of all ITC investigations have parallel district court cases.[15]

In some of the cases where the ITC has sought to extend its jurisdiction, the Customs remedy is simply unsuitable. For example, in *Suprema* the challenged imports were not infringing at the time they were imported. Customs officials cannot discern whether downstream customers may modify the scanners in ways that practice the patent claim. Such modification may occur, if ever, long after importation and far from the ports of entry that Customs polices. In *ClearCorrect*, the ITC itself recognized it would be unable to screen transmission of digital signals that do not pass through Customs.

3. Suggestions for improving protection of American innovation and restoring the ITC's role as a trade agency.

The ITC should not open an investigation when a district court remedy is available.

To discourage forum shopping between the ITC and district courts, the ITC should follow the same rules established by Congress and the courts for district court cases.

The industry of NPE patent enforcement – *i.e.*, hedge funds and lawyers – should not be treated as a protectable domestic industry. However, as the current statute provides, ex ante licensing that promotes new uses of patented technology (leading to the adoption and development of articles that incorporate the patent in question) may be a protectable domestic industry if it is substantial and if the other requirements are satisfied.

In proving a domestic industry based on licensing, a complainant should not be permitted to haul its licensees into the proceeding unless they agree.

The ITC should identify and resolve dispositive issues, such as domestic industry or standing, early in the case. The ITC's 100-day "pilot program" should be used in many more cases, and should always be available when there is a question regarding domestic industry as often occurs in NPE cases. Because these cases may raise important questions of law, immediate appellate review should be allowed.

Exclusion orders should issue only if they are in the public interest. The ITC should terminate a case at any time during the investigation if the ITC determines an exclusion order would not be in the public interest.

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[14] Chien & Lemley, *supra* note 3, at 24 & n.34. A review of 192 unique ITC respondents named in NPE investigations from 2006 to 2012 shows that at least 189 or 98 percent of them could have been sued for patent infringement in federal district court.

[15] *See* Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 Santa Clara Computer & High Tech. L.J. 169, 171 ("two-thirds of ITC cases have a district court counterpart"), Federal Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 239 (Mar. 2011) (65% of ITC cases have concurrent district court counterparts).

Mr. ISSA. Thank you. Thanks for your experience. Mr. Whitaker.

TESTIMONY OF MARK L. WHITAKER, PARTNER, MORRISON & FOERSTER LLP

Mr. WHITAKER. Mr. Chairman and distinguished Members of the Subcommittee, thank you for convening this hearing, and for the opportunity to testify. It is an honor to speak with you regarding this important topic today. I am a partner with Morrison and Foerster, and I have practiced before the ITC, district courts, and Court of Federal Claims for the past 24 years. I am currently the president-elect of the American Intellectual Property Law Association, and serve as a member of the counsel for the ABA section of Intellectual Property Law. I appear today in my individual capacity, however, and not on behalf of my firm or any of its clients, the AIPLA or the ABA.

I offer a few litigator's observations about the ITC's policies and effectiveness in combatting abusive litigation by non-practicing entities, as well as overlapping considerations for litigants bringing patent complaints before the ITC and U.S. district courts, and I do so referring in part to H.R. 4829, entitled Trade Protection Not Troll Protection Act.

Congress intended that the Commission provide the owners of intellectual property rights with broad protections against a wide range of unfair acts of importation. Section 337 is more than a mere surrogate to the district court to the application of U.S. patent laws to infringing imports. Instead, it is directed to trade protection that is informed by U.S. patent law. At bottom, Section 337 protects American jobs and American market strength.

First, with respect to the domestic industry requirement, complainants already have to establish that a U.S. licensing industry exists related to patents being asserted in cases being based on licensing. The proposed legislation would not allow the complainant to rely on the licensing activity unless it is able to show that, "The license leads to the adoption and development of articles that incorporate the claimed patent."

While this change could potentially limit the ability of NPEs to use the Section 337 in practice, investigations brought by such entities do not account for many investigations—three in 2014, two in 2015, and just one in the first quarter of 2016. Further, prior to 2014, entities that manufactured and patented articles in the U.S. had a greater burden of proving their domestic industry than entities that relied on their U.S. licensing activities.

As recently confirmed by the Federal circuit, however, establishing a domestic industry based on licensing now requires proof of an article that practices the patent in suit. There also needs to be shown a nexus between the asserted patent and the U.S. investment in that patent when the domestic industry evidence is based on licensing.

With respect to the public interest issues, the Commission introduced new rules that require complainants to submit a separate statement providing specific content with respect to the public interest factors. These rules also provide members of the public, including proposed respondents, an opportunity to respond to the complainant's statement and highlight public interest issues before

institutions so the Commission can direct the administrative law judge to make a full record and recommendation on such issues in appropriate cases.

Next, the proposed legislation would require that a licensee join an investigation as a co-complainant in order for licensing activities to qualify under the domestic industry prong. This would require, for example, a research and development entity, such as a university, to persuade one or more of its licensees to agree to be a co-complainant in order to make use of Section 337.

Also, for example, a technology company that licenses some subset of its patent portfolios to others to exploit the technology and that does not exploit that particular technology itself because of its business structure or economic objectives might be impacted negatively by provisions in a bill that tries to reduce NPE filings at the ITC. Remember that Congress intended to open the ITC up to certain non-practicing entities with its 1988 amendments as, "such a change would enable universities and small businesses who do not have the capital to actually make good in the United States to still have access to the ITC forum for the protection of their rights." The Commission also unveiled, as was previously stated, a new 100-day program aimed at providing expedited investigations without burden and cost of a full length of investigation.

For both, legislation may also have the effect of importing the eBay injunction criteria into the ITC's public interest analysis. But the Federal circuit has held that the eBay factors are not applicable in these investigations because of the different statutory underpinnings for relief before the Commission.

Moreover, inadequacy of money damages is not applicable in Section 337 investigations, and as such, there is no equitable balancing of purely private remedial interests, and Congress eliminated the need to establish industry in a domestic—to a domestic industry and investigation covering the statutory acts.

As I see that my time has come to an end, I will leave the balance of my statement for the written record.

[The prepared statement of Mr. Whitaker follows:]

Written Statement of Mark L. Whitaker

Partner, Morrison & Foerster LLP

Before the

United States House of Representatives Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

"International Trade Commission (ITC) Patent Litigation"

April 14, 2016

I. Introduction and Executive Summary

Mr. Chairman, and distinguished members of the Subcommittee, thank you for convening this hearing and for the opportunity to testify. It is an honor to speak with you regarding this important topic today.

I am a partner with Morrison & Foerster LLP, and I have been involved in crafting litigation strategies before the United States International Trade Commission ("ITC"), U.S. district courts, and the Court of Federal Claims for over 24 years. I am currently the President-Elect of the American Intellectual Property Law Association, and serve as a member of the Council of the ABA Section of Intellectual Property Law. I appear today in my individual capacity, however, and not on behalf of my firm or any of its clients, the AIPLA, or the ABA.

It is my understanding that the committee is interested in learning about the effectiveness of the ITC in combating abusive litigation by non-practicing entities, as well as overlapping considerations for litigants bringing patent complaints before the ITC and U.S. district courts. To that end, I offer a few key observations for consideration by the Subcommittee referencing H.R. 4829, entitled "Trade Protection Not Troll Protection Act." H.R. 4829 proposes a series of modifications to Section 337. While Congress should be commended for attempting to target abusive behavior by non-practicing entities, it is my view that the existing Section 337 framework already provides the Commission with a robust arsenal of tools in this area. Indeed, over the past few years since the last hearing on this subject-matter, the Commission has not only listened, but implemented several reforms either through rulemaking or precedential decisions consistent with the statute to address potential abuses. As currently drafted, the bill could introduce a number of unintended consequences impacting myriad industries, companies, and even academic institutions across the spectrum. Thus, any amendment to Section 337 should not be undertaken without exhaustive study as to the ancillary impacts of the proposed amendments.

II. Importance of Protecting U.S. Intellectual Property Rights

Congress intended that the Commission provide the owners of intellectual property rights with broad protections against a wide range of unfair acts of importation. Section 337 of the Trade Act of 1930 was intended to broadly cover unfair methods of competition and unfair acts in the importation of articles.

A. Section 337 has Broad Coverage

Soon after Section 337's enactment, the Court of Customs and Patent Appeals (the United States Court of Appeals for the Federal Circuit's predecessor) addressed the provision's scope in *In re Orion Co.*, 71 F.2d 458 (C.C.P.A. 1934). Citing Supreme Court authority under the Federal Trade Commission Act, as well as *Frischer Co. v. Bakelite Corp.*, 39 F.2d 247, 260 (C.C.P.A. 1930), the court held that the provision has broad coverage and authorizes action whenever unfair competition or unfair acts occur. The court explained the following:

> Up until the time when [imported articles] are released from customs custody into the commerce of this country, no opportunity is presented to the manufacturer of the United States to protect himself against unfair methods of competition or unfair acts. After the

> goods have been so released into the commerce of the country, the American manufacturer may assert his rights against anyone who has possession of, or sells, the goods. However, this method of control must be, and is, ineffective, because of the multiplicity of suits which must necessarily be instituted to enforce the rights of the domestic manufacturer. This phase of the matter obviously was in the minds of the Congress at the time of the preparation of said section 337 (19 USCA § 1337).

Id. at 465-467. Similarly, in *In re Von Clemm*, 229 F.2d 441, 443-44 (C.C.P.A. 1955), the court explained that Section 337

> provides broadly for action by the Tariff Commission in cases involving "unfair methods of competition and unfair acts in the importation of articles" but does not define those terms nor set up a definite standard. As was noted in our decision in *In re Northern Pigment Co.*, 71 F.2d 447, 22 C.C.P.A., Customs, 166, T.D. 47124, the quoted language is broad and inclusive and should not be held to be limited to acts coming within the technical definition of unfair methods of competition as applied in some decisions.

Section 337 is more than a surrogate to the district courts for the application of U.S. patent laws to infringing imports. Instead, it is trade protection that is informed by U.S. patent law. *See* Section 337(a)(1) ("the following are unlawful, and when found by the Commission to exist shall be dealt with, *in addition to any other provision of law*. ..." (emphasis added)).

B. Congress Revamped Section 337 into its Modern Form

In 1974, Congress significantly revamped Section 337 principally into its modern form. The amended provisions authorized the newly created International Trade Commission to impose remedies, whereas the prior version only authorized the Tariff Commission to make recommendations to the President. Like its predecessors, the substantive provision of Section 337 as adopted in 1974 provided that:

> Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

Section 337(a), Pub. Law 93-617. Despite not explicitly mentioning patent infringement in the statute, Congress made it clear that it intended the provision to continue to apply broadly to patent infringement. In 1988, Congress eliminated the need to establish injury to a domestic industry in patent, trademark, and copyright cases brought under Section 337. *See* 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)).

It is against this backdrop of Section 337's broad authority to deal with unfair methods of competition and unfair acts in the importation of articles that we turn to potential changes in Section 337's framework.

III. H.R. 4829 Specific Provisions

The purpose of H.R. 4829 is to ensure that the resources of the ITC are focused on protecting genuine domestic industries, to restore confidence with the trading partners of the U.S. that the Commission will not be a duplicative forum for enforcing intellectual property rights when U.S. district courts are already available, and to safeguard the public health and welfare and the U.S. economy (including competitive conditions). While the drafter's intent of H.R. 4829 should be applauded, I want to direct the Subcommittee to a few areas where the Commission has already achieved earnest reforms in these areas, and point to some further considerations that might be important to weigh in this respect.

A. Non-Practicing Entity Cases are Not Prevalent in Practice

With respect to the domestic industry requirement, complainants already have to establish that a U.S. licensing industry exists related to the patents being asserted in cases based upon licensing. H.R. 4829 would not allow the complainant to rely on licensing activity unless it was also able to show that "the license leads to the ***adoption and development*** of articles that incorporate the claimed patent . . . ." While this change could potentially limit the ability of non-practicing entities to utilize Section 337, in practice, investigations brought by such entities do not account for many Section 337 investigations. Likely because of the ostensible threat of non-practicing entities filing complaints in the ITC, the Commission gathers data on the number of Section 337 investigations brought by non-practicing entities. *See e.g.*, Section 337 Statistics: Number of Section 337 Investigations Brought by NPEs (Updated Quarterly), Q1 CY 2016, https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm. The Commission has identified two categories of non-practicing entities: entities that obtain patents based on their research and development and license those patents to manufacturers, and entities that purchase patents strictly to monetize them. *Id.* In 2014, only three Section 337 investigations were brought by the type of non-practicing entities that purchase patents strictly to monetize them, and in 2015, just two Section 337 investigations were brought by this type of non-practicing entities. *Id.* In the first quarter of 2016, only one such Section 337 investigation has been filed. *Id.* Moreover, since the U.S. Supreme Court's May 15, 2006 decision in *eBay, Inc. v. MercExchange, LLC*, which made injunctions more difficult to obtain in district courts, just ten percent of the total Section 337 investigations brought through the first quarter of 2014 were filed by the type of non-practicing entities that purchase patents strictly to monetize them. USITC Section 337 Investigations - Facts and Trends Regarding Caseload and Parties, pp. 3-4, June 10, 2014 Update, https://www.usitc.gov/press_room/documents/featured_news/337facts2014.pdf. This data demonstrates that non-practicing entities represent a very limited number of Section 337 complaint filings.

B. The Commission Has Recently Strengthened the Domestic Industry Standard

In addition, in the past few years the Commission has strengthened the Section 337 domestic industry standard. Prior to 2014, entities that manufactured a patented article in the U.S. had a greater burden of proving their domestic industry than entities that relied on their U.S. licensing activities. While entities that manufactured a patented article in the U.S. were required to prove that their article practiced the patent-in-suit, the so-called "technical prong" of the domestic industry standard, traditionally the Commission did not require a complainant to meet the technical prong by showing that licensed articles actually practiced the asserted patents for a licensing-based domestic industry. That distinction disappeared as a result of two Federal Circuit decisions in 2013 (*InterDigital Commc'ns, LLC v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013), and *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013)) and several Commission opinions in 2014. As confirmed by the Federal Circuit in 2015, establishing a domestic industry based on licensing now requires proof of an article that practices the patent-in-suit.

The Commission has also clarified that in order to establish a domestic industry, a nexus between the asserted patent and the U.S. investment in that patent must be shown when the domestic industry showing is based on licensing. *Certain Integrated Circuit Chips and Products Containing the Same*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014).

With respect to public interest issues, in 2011, the Commission introduced new rules that enhance the evidentiary record with respect to public interest factors. See Commission Rule 210.8(b)-(c). The new rules require complainants to submit a separate statement with their complaint providing specific content with respect to the public interest factors. And in its September 2015 Notice of Proposed Rulemaking, the Commission also proposed amendments to allow institution of multiple investigations based on a single complaint, where necessary, to limit the number of technologies and/or related patents asserted in a single investigation, and to give the Judges the authority to sever an investigation into two or more investigations prior to or upon issuance of the protective order. These recent developments demonstrate that the Commission is not only listening and observing conditions as they develop, but have responsibly implemented the necessary tools to deal with the challenges that non-practicing entities bring to Section 337 investigations.

C. The Implications of the Proposed Bill on Existing Domestic Industry Precedent are Unclear

Without exhaustive study, it is unclear what the additional domestic industry requirements in H.R. 4829 would do to decades of settled domestic industry precedent. It would seem to allow a complainant to rely on the activities of a licensee only if the licensee's activities lead to adoption and development of a new article. But complaints filed by those that are *not* non-practicing entities have long been able to rely on the activities of a licensee related to existing articles. Provisions in H.R. 4829, if implemented, make it unclear whether this would continue to be good law or not, or if it would mean that a complainant cannot rely on articles developed before the license. Moreover, adding this further constraint in the domestic industry arena may incentivize potential licensees to no longer negotiate and enter into licensing agreements. This is because the temporal constraint may discontinue consideration of work done subsequent to "adoption" or "development" of an article, thus ensuring that only the first license

with respect to the patent is considered in the domestic industry analysis. Further, if the bill would allow a complainant to rely on the activities of a licensee only if the licensee's activities lead to adoption and development of a new article, it is also unclear how much modification is required before an article would become "new."

D. Licensees as Co-Complainants

H.R. 4829 would require that a licensee join a Section 337 investigation as a co-complainant in order for licensing activities to qualify under the domestic industry prong. This requirement is not limited to only non-practicing entity licensing situations. This would require, for example, a research and development entity such as a university, to persuade one or more of its licensees to agree to be a co-complainant in order to make use of Section 337. Thus, this change could result in barring those beyond non-practicing entities that exist solely to monetize patent rights, such as universities and laboratories, from proceeding against infringing imports at the ITC. At bottom, such a change indelibly limits the property rights enjoyed by such entities as compared to others.

Indeed, H.R. 4829 may have the unintended consequence of decreasing ITC access to universities, small businesses, or even technology companies. For example, a technology company that licenses some subset of its patent portfolios to others to exploit the technology, and that does not exploit that technology personally because of its business structure or economic objectives, might be impacted negatively by provisions in the bill that try to reduce non-practicing entity filings at the ITC. Remember that Congress intended to open the ITC up to certain non-practicing entities with its 1988 amendments, as "[s]uch a change would enable universities and small businesses who do not have the capital to actually make the good in the United States to still have access to the ITC forum for the protection of their rights." *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n*, 707 F.3d 1295, 1301 (Fed. Cir. 2013) (internal citation omitted).

E. The Commission Will Likely Codify and Expand the 100-Day Pilot Program for Identification and Adjudication of Potentially Dispositive Issues

In June of 2013, the Commission unveiled a new pilot program aimed at providing expedited Section 337 investigations without the burden and cost of a full-length investigation. The Commission can identify potentially case-dispositive issues at the institution of an investigation and direct the presiding ALJ to issue an Initial Determination on the designated issue within 100 days. In September of 2015, the Commission published a Notice of Proposed Rulemaking to make several amendments to its Rules of Practice and Procedure, which would, among other things, codify and expand the 100-day pilot program for early termination of Section 337 investigations. H.R. 4829 would essentially make this 100-day pilot program for early termination a mandatory part of Section 337 investigations. But with the Commission's proposed amendments, the provision in the bill is not necessary, and would remove flexibility from the Commission with respect to the institution of investigations.

The Commission has only designated two investigations for expedited consideration under the 100-day pilot program (*Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874, with respect to the economic prong

of the domestic industry requirement; and *Certain Audio Processing Hardware and Software and Products Containing Same; Institution of Investigation*, Inv. No. 337-TA-949, with respect to standing). There are likely several reasons why the 100-day pilot program has not been utilized as extensively as many initially expected that it would be. For example, pre-filing reviews by the Commission's Office of Unfair Import Investigations may catch a number of problematic domestic industry complaints, which therefore head off the filing of weak complaints. Complainants, apprehensive about the new 100-day pilot program are also likely to be more diligent with respect to shoring up, substantiating, and crafting their domestic industry claims. And Respondents have taken advantage of the opportunity to file early dispositive motions for summary determination challenging a complainant's domestic industry contentions.

In addition, while there was general support by public commenters for the Notice of Proposed Rulemaking to codify and expand the 100-day pilot program, several commenters expressed concern that the proposed expansion of the program to allow 100-day designations after institution could encourage disruptive motions practice or otherwise delay Section 337 proceedings. Allowing the Commission to continue modifying its procedure to develop and improve with regard to 100-day designations, as it has been allowed to do in other areas such as discovery, is advisable at this time.

F. Terminating an Investigation Based on More than Public Interest Grounds

H.R. 4829 would allow the Commission to terminate an investigation based on public interest grounds without a determination on violation. This is a significant modification to the statute. Though the legislation's purpose is to address non-practicing entities and their role with respect to Section 337 investigations, as written, this provision would impact other types of investigations as well. The provision would require the Commission to examine ***"other relevant considerations"*** when determining whether exclusion of the article would be in the public interest. This would require the Commission to go beyond the existing public interest factor framework, and may have the effect of importing the *eBay* injunction criteria into the ITC's public interest analysis.

In *eBay*, the Supreme Court held that district courts hearing patent cases must exercise equitable discretion in granting injunctive relief by applying the traditional four-factor test: (1) proof of irreparable harm; (2) inadequate legal relief; (3) balance of the hardships of relief; and (4) the public interest. But the Federal Circuit has held that the *eBay* factors are not applicable in Section 337 investigations because of the "different statutory underpinnings for relief before the Commission in Section 337 actions" as compared to patent infringement suits in district courts. *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010). "Congress intended injunctive relief to be the normal remedy for a Section 337 violation and [] a showing of irreparable harm is not required to receive such injunctive relief." *Id.* at 1358. Moreover, inadequacy of legal relief is not applicable in Section 337 investigations since monetary relief is not available at the ITC. And, as mentioned above, in 1988, Congress eliminated the need to establish injury to a domestic industry in Section 337 investigations. *See* 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)). In addition, when downstream products are at play, the "EPROM factors" may be relevant, thus providing factors that account for the remaining *eBay* factors, though the continued viability of the

EPROM factors after the Federal Circuit's *Kyocera* case has certainly been questioned. *See Kyocera Wireless Corp. v. ITC*, 545 F.3d 1340 (Fed. Cir. 2008).

G. Losing Party Staying Investigation

H.R. 4829 would also allow a losing party who appeals to the Federal Circuit to request a stay of all further proceedings in the investigation until all appeals are final. This measure would also apply to all Section 337 investigations, not only those brought by non-practicing entities. From the stand point of intellectual property rights holders, the ability to obtain expeditious relief against unfair imports is one of the most important features of Section 337. Adoption of this provision, however, would potentially delay relief in Section 337 for as much as a year or more in many investigations. This provision would also have the anomalous effect of encouraging those who lose before the Commission to drag out the appeals process as long as possible in order to continue to engage in conduct the Commission has found to be in violation of the statute.

IV. Conclusion

While the purpose behind H.R. 4829, to ensure that the resources of the ITC are focused on protecting genuine domestic industries, is applauded, the work that the Commission has already been able to accomplish in this area effectively eliminates the need for a number of provisions in the bill. In addition, any future amendments to Section 337 should be exhaustively studied and considered so that they do not impose unintentional consequences to those beyond non-practicing entity cases.

Mr. ISSA. And we thank you. Dr. Scott Morton.

TESTIMONY OF FIONA M. SCOTT MORTON, THEODORE NIERENBERG PROFESSOR OF ECONOMICS, YALE SCHOOL OF MANAGEMENT

Ms. SCOTT MORTON. Thank you very much, Mr. Chairman, Ranking Members and Members of the Committee, for the invitation to testify today. I am a professor of economics at Yale, I am a former chief economist at the Department of Justice Antitrust Division, and I have worked on a number of ITC cases. The basic problem here is——

Mr. ISSA. Could you place your mike a little closer, please?

Ms. SCOTT MORTON. Is that better?

Mr. ISSA. Much better.

Ms. SCOTT MORTON. Okay. The basic problem here is that the ITC duplicates the function of the Federal courts with a different process that gives patent holders power in excess of the value of their intellectual property. That power is used to extract money from implementers. As the Chairman noted earlier, this is mostly a U.S.-on-U.S. problem. Companies like Acacia or InterDigital or Kodak against Apple or Dell or Microsoft, and this is because, of course, we manufacture so many components outside the United States, we necessarily are importing them. However, these are not trade disputes.

The problem that I see with the ITC is not the problem of trade disputes. Trade disputes, I think, is a very legitimate issue. It has been covered by other people. There is nothing wrong with that. But the intellectual property leverage here that the ITC gives creates a distortion in U.S. contractual negotiations over intellectual property royalties.

The incentive created by the duplicative but favorable court creates forum shopping, and a lot of business for the ITC. We have heard some data today that suggest that this is going down. I would say that if you count these cases by both the number of companies involved, and also by whether the patent holder is interested in money damages, rather than whether they fall in a narrow bucket called an NPE or a PAE, you would get a much larger number.

So I am talking about cases where it is not that I have a widget and you have a widget and I need to block yours because I am trying to sell mine, but rather I have intellectual property that I would like to monetize, regardless of whether I have some widgets in another area that is for sale or not, okay?

So these cases could be pursued in Federal court, and we would get an answer that there that was fair and guided by the Supreme Court. Note that the business model of licensing does not actually want an injunction. If I am licensing, I need you to sell in order to take a fraction of your revenue as income for me. So I do not actually want the injunction, I want leverage, as Mr. Thorne said. And I get less leverage in Federal court because it is harder to get an injunction.

Why is the injunction so useful? It is a huge threat. Suppose my royalty ask is 50 cents on a $600 device? The risk of exclusion is like a $600 royalty. You cannot sell your device. So the correct roy-

alty you would get in Federal court might be two cents, but I may be willing to settle for 50 cents because I do not like the risk of losing the whole $600 on my device.

So the injunction in Federal court is only given when money damages are inadequate, and that is rare. And at the ITC, this injunction threat is much easier to get, and so monetizers prefer the ITC. This is not about trade. It is about duplicative forum shopping in royalty negotiations. This is particularly a problem with standard essential patents, as I focus on in my written testimony.

These standard essential patents are patents that are part of a standard, such as LTE. And in order to make a compliant product, such as a phone that works, you must infringe that patent. The owner of that patent has agreed voluntarily to charge a friend royalty—fair, reasonable, and nondiscriminatory; so that means that they are in the business of collecting money. They are licensing their intellectual property. An injunction, again, is not, at the end of the day, what they want.

So these patents are ripe for abuse at the ITC because there is no way to avoid using them, and the injunction, again, gives the owner a very powerful threat. If the implementer is not participating in the Federal court system, and we have a trade issue, that is one thing.

But I think most of these cases are actually—as previously noted, two-thirds of them are already ongoing in the Federal courts; and the courts do very well with regular royalty disputes.

So my policy concern and recommendation is that I think we need to eliminate ITC jurisdiction over licensing disputes that can safely go to Federal court. This is, as you pointed out, you know, the duplication is a waste of everybody's effort and resources, and we would get the right answer in Federal court.

So I hear today also some attention and—to the process reforms at the ITC, as if those would be a solution. We have a 100-day process. We have a domestic industry test. These process reforms are a poor substitute for getting rid of the incentive in the first place. Process is not going to work if you have a determined complainant who has got money that they see that they can get. If you eliminate the incentive to go to the ITC in the first place, then you do not have to worry so much about process.

So I really do not think the process reforms will do the job. Thank you very much.

[The prepared statement of Ms. Morton follows:]

Testimony of Fiona M. Scott Morton
Theodore Nierenberg Professor of Economics
Yale School of Management

Before the House Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

Hearing on
"International Trade Commission (ITC) Patent Litigation"

April 14, 2016

I am Fiona Scott Morton, Theodore Nierenberg Professor of Economics at the Yale School of Management, where I teach courses in the area of competitive strategy and conduct research into empirical industrial organization. I am also a Visiting Professor at the University of Edinburgh and a Research Associate at the National Bureau of Economic Research. From 2011 to 2012, I held the position of Deputy Assistant Attorney General for Economic Analysis in the Antitrust Division of the U.S. Department of Justice. During this period, issues involving standards and standard-essential patents were an important part of the Antitrust Division's work, which included reviews of Google's acquisition of Motorola Mobility and the sale of Nortel's patent portfolio. I have published more than 20 articles in peer-reviewed journals, including articles on patenting and innovation.

A properly functioning patent system should promote innovation by aligning the private rewards of a patent holder with the social contribution generated by their patented invention. In my testimony today, I will explain how the availability of exclusion orders from the U.S. International Trade Commission ("ITC") in cases in which an injunction would not be granted by Federal courts runs contrary to the public interest by allowing patent assertion entities ("PAEs") to forum-shop and earn supracompetitive royalties. This distortion of the incentives to invest in new technologies and products harms the American economy through higher prices, inefficient levels of innovation, and disincentives to invest in useful standards.

I. Standard Essential Patents and F/RAND Commitments

Compatibility standards are ubiquitous in today's economy, especially in high-tech industries that have many different firms manufacturing complementary products and components that need to work together. Standard setting can create enormous benefits, but there are also potential risks associated with the collective action inherent in standard setting organizations ("SSOs"). To prevent their members from anticompetitvely endowing themselves with market power, SSOs have adopted rules that companies who own intellectual property necessary to implement the standard offer licenses to their standard-essential patents ("SEPs") on fair, reasonable, and non-discriminatory ("F/RAND") terms.

Competition enforcement agencies agree that "fair and reasonable" should mean the royalty that the parties would have settled upon in a hypothetical ex ante negotiation that took place before the technology had been incorporated into a standard and before potential licensees had committed to implementing that standard.[1] The F/RAND licensing rules embody a quid pro quo: the patent owner benefits by having its patented technology included in a widely adopted

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[1] The U.S. Department of Justice recently approved revisions to IEEE's IPR policy, which states that a "'[r]easonable rate' shall mean appropriate compensation to the patent holder … excluding the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard." IEEE, "IEEE-SA Standards Board Bylaws," March 2015, Section 6.1, available at <https://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf>; Letter from Renata B. Hesse, U.S. Department of Justice, to Michael A. Lindsay, February 2, 2015, p. 11, available at <http://www.justice.gov/sites/default/files/atr/legacy/2015/02/02/311470.pdf>. *See also* U.S. Federal Trade Commission, "The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition," March 2011, pp. 22-23, available at <https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf> ("A definition of RAND based on the ex ante value of the patented technology at the time the standard is chosen is necessary for consumers to benefit from competition among technologies to be incorporated into the standard.").

standard and in exchange agrees not to exercise the market power inherent in technology necessary for a widely adopted standard. Enforcement of these F/RAND commitments by public authorities is important to protect the integrity of efforts to develop and commercialize standards and to encourage investment in complementary products.

II. The Outsize Threat Imposed by Exclusion Orders on Complex Standard-Compliant Products

Today's high-tech products face very different investment incentives and risks than a product that relies on a single patented invention. The current system, including the ability of a patent holder to seek an exclusion order from the ITC, was designed with a single-patent product in mind such that the value of the product and the value contributed by the patented technology are highly correlated. For example, a product that performs a single function, such as a bottle opener, might have a single patent that reads on its design. In this case, the ability of the patent holder to obtain an exclusion order against an infringing manufacturer of bottle openers could give the patent holder the ability to negotiate for the economic contribution of his patent, which is well captured by the value of the product threatened with exclusion.

A smartphone, on the other hand, embodies dozens of standards and over 250,000 patents.[2] Any given patent that reads on a smartphone will likely comprise a very small piece of its value. Consider, for example, a dispute over a $600 smartphone in which a patent holder demands a royalty of $0.50 and the manufacturer offers a royalty of $0.02. Though the both parties would agree that the reasonable royalty is less than $1, the manufacturer stands to lose the full $600 value of its smartphone, as well as incurring harm to its reputation and goodwill loss from its product being missing from stores, if the patent owner obtains an exclusion order. Threatened with this disproportionate loss, the manufacturer may agree to the $0.50 royalty or something even higher and it may do so even if it believes a court would eventually assign a very low royalty rate.

The ITC cannot award monetary damages, which can be scaled to the level of the harm or infringement. Its only recourse is to issue an exclusion order, exposing manufacturers of complex products to outsize threats. This threat is especially acute when the patents at issue are SEPs subject to F/RAND commitments. By definition, an SEP cannot be designed around without sacrificing compliance with the standard. An exclusion order undermines the basic promise inherent in the F/RAND commitment – to facilitate widespread utilization of standards by agreeing to license all interested manufacturers at a rate that would have been negotiated before the technology was incorporated in the standard (i.e., at a time when an exclusion order would not pose a threat).

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[2] For example, a smartphone embodies not only the various generations of standards for communicating with the cellular base stations (e.g., GSM, UMTS, LTE), but also standards for other types of wireless communication (e.g., Wi-Fi, Bluetooth, NFC), memory chips (e.g., SD cards, eMMC cards), positioning technologies (e.g., GPS), audio and video capabilities (e.g., MPEG, MP3), content transfer protocols (e.g., SMS and MMS text messaging, SMTP and POP e-mail specifications, URL and HTTP Internet protocols), and device ports (e.g., USB). For the number of patents reading on smartphones, see RPX, Amendment No. 1 to Form S-1, September 12, 2011, p. 59, available at <http://files.shareholder.com/downloads/ABEA-5XYKB4/1872252854x0xS1193125-11-245781/1509432/filing.pdf>.

The threat of an inappropriately granted exclusion order creates an extortion-like environment and forces implementers to pay more than the ex ante economic value of the patented technology. Consquently, the ITC is a very popular venue for patent holders who want to avoid their F/RAND commitments and garner a higher royalty than they could receive under current laws in Federal court. SEPs fare significantly better when they are asserted before the ITC, with a 49% win rate, than when they are litigated in Federal court, with only a 28% win rate.[3] The growing role of PAEs exacerbates this issue. The total number of patent cases filed grew from 2,472 in 2010 to 5,411 in 2013, and the proportion of these cases filed by non-practicing entities grew from 30% to 67%.[4] The 2015 figures are similar, with 5,219 patent cases filed, 69% by non-practicing entities.[5] PAEs account for roughly 90% of these patent infringement actions brought by non-practicing entities.[6]

Unlike the ITC, Federal courts offer full monetary damages to most injured parties. They can also award injunctions but, following the Supreme Court's 2006 decision in *eBay*,[7] do so only in limited circumstances when monetary damages are insufficient to compensate the patent holder for the alleged infringement. A F/RAND commitment is a promise to license, and hence an acknowledgment that monetary compensation is an adequate remedy. Judge Posner succinctly summarized this point in his order dismissing patent litigation between Motorola and Apple:

> To begin with Motorola's injunctive claim, I don't see how, given FRAND, I would be justified in enjoining Apple from infringing the '898 unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.[8]

The ability of the ITC to issue exclusion orders is important when the party accused of infringement is operating abroad and not subject to the jurisdiction of U.S. court system. For implementers that can be sued in Federal court for damages and reasonable royalties, the ITC is a duplicative venue that operates under a different standard for injunctive relief and allows SEP owners to engage in anticompetitive holdup.

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[3] RPX, "Standard Essential Patents: How Do They Fare," 2014, Table 1.1, p. 9, available at <https://www.rpxcorp.com/wp-content/uploads/2014/01/Standard-Essential-Patents-How-Do-They-Fare.pdf>. These numbers are calculated on a defendant-patent basis, so each patent asserted against each defendant counts as one observation. On a unique patent basis, the patent holder win rates are 33% at the ITC and 19% in Federal court.

[4] Fiona M. Scott Morton and Carl Shapiro, "Strategic Patent Acquisitions," *Antitrust Law Journal*, Vol. 79, No. 2, 2014, pp. 463-499 at Figure 1.

[5] RPX, "2015 NPE Activity: Highlights," March 21, 2016, Chart 1, p. 4, available at <https://www.rpxcorp.com/wp-content/uploads/sites/2/2016/01/RPX-2015-NPE-Activity-Highlights-FinalZ.pdf>.

[6] RPX, "2013 NPE Litigation Report," May 6, 2014, Chart 59, p. 39, available at <https://www.rpxcorp.com/wp-content/uploads/sites/2/2015/03/RPX-2013-NPE-Litigation-Report.pdf>; RPX, "2014 NPE Litigation Report," March 12, 2015, Chart 17, p. 12, available at <https://www rpxcorp.com/wp-content/uploads/sites/2/2015/03/RPX_Litigation-Report-2014_FNL_040615.pdf>.

[7] *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

[8] *Apple, Inc. v. Motorola, Inc.*, 869 F.Supp.2d 901, 913-14 (2012). On appeal, the Federal Circuit agreed that Motorola should not receive an injunction, stating: "A patentee subject to FRAND commitments may have difficulty establishing irreparable harm." *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (2014). The Federal Circuit left open the possibility that an injunction may be warranted if the infringer refuses to pay a F/RAND rate.

III. The Need for Reform to Combat Economic Harm

Granting an exclusion order when the implementer is participating in a process that will yield appropriate money damages runs contrary to the basic purpose and rationale of F/RAND commitments and to the public interest. When SEP owners hold up implementers for above-F/RAND rates, it raises the price that consumers pay for standard-compliant products, reduces innovation, and slows the adoption and development of standards.

The role of exclusion orders in facilitating this anticompetitive conduct has been explained to the ITC by the U.S. Federal Trade Commission:

> [A] royalty negotiation that occurs under threat of an exclusion order may be weighted heavily in favor of the patentee in a way that is in tension with the RAND commitment.[9]

The U.S. Department of Justice and U.S. Patent and Trademark Office have also urged the ITC to be cautious about issuing exclusion orders:

> A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy.[10]

Despite these urgings, the ITC awarded an exclusion order based on SEP infringment in 2013,[11] which was subsequently overturned by the U.S. Trade Representative ("USTR") out of concern about SEP holders "gaining undue leverage."[12] However, the USTR does not categorically state that exclusion orders based on SEPs will be disapproved and the ITC does not appear to have accepted the economic logic behind the decision.

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[9] Third Party United States Federal Trade Commission's Statement on the Public Interest, *In the Matter of Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Inv. No. 337-TA-752, p. 3 (June 6, 2012), available at <www ftc.gov/os/2012/06/1206ftcgamingconsole.pdf>; *see also* Third Party United States Federal Trade Commission's Statement on the Public Interest, *In the Matter of Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745 (June 6, 2012), available at <www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf>.

[10] U.S. Department of Justice and U.S. Patent and Trademark Office, "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments," January 8, 2013, p. 6, available at <http://www.justice.gov/sites/default/files/atr/legacy/2014/09/18/290994.pdf>.

[11] Commission Opinion, *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (July 5, 2013).

[12] Letter from Michael B. G. Froman to ITC, "RE: Disapproval of the U.S. International Trade Commission's Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794," August 3, 2013, p. 2, available at <https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF>. Such disapprovals by the USTR are extremely rare and happen on a case-by-case basis. This was the first veto since 1987.

Recently, one of the ITC's administrative law judges expressed his belief that the "hypothetical risk of holdup … is not a threat … in [the telecommunications] industry"[13] and that "[t]here is now even more reason to give little weight to the concerns voiced by the FTC and DOJ/PTO in these letters."[14] This view appears to be based on a belief that anticompetitive holdup occurs only after an exclusion order is granted.

> In addition to the scrutiny from the Federal Agencies that reduce the chances of hold-up, the fact that any respondent subject to hold-up would still have a legal remedy makes it unlikely that IDC, or any party so situated would engage in hold-up, even after obtaining an exclusion or cease and desist order.[15]

However, the mere threat of an eventual exclusion order gives the patent holder the leverage to extract inefficiently high, above-F/RAND, royalty rates during settlement negotiations. A patent holder that has already obtained an exclusion order has even more power to increase its profits through a higher royalty. The quote above provides no reason why such a patent holder would turn down these additional profits.

This administrative law judge also states that absent an exclusion order from the ITC, the implementer would have "a safe haven, where they are free to avoid their own obligations under the agreements, can manufacture potentially infringing goods without license or consequence, [and] can seek to invalidate the IPR in question[.]"[16] This statement entirely ignores the remedies available to SEP owners through the Federal courts.

There is no sound economic reason why an exclusion order is needed to adequately compensate an SEP owner who is involved in a dispute with a willing licensee over validity, infringement, and reasonable royalties.[17] If the SEP owner's infringement claim succeeds, it will receive a reasonable royalty calibrated to reward the inventive activity with an appropriate return. Moreover, the royalty will reflect the court's determination that the asserted patent is valid and infringed. This may result in a "certainty premium" that could raise the court-determined F/RAND royalty above the level that would be freely negotiated for patents of uncertain enforceability, giving the potential licensee the incentive to settle prior to litigation for an ex ante F/RAND rate. The royalty may also include interest to compensate the patent holder for any delay in receiving its payments.

Reform is needed to avoid harm to the American economy from the ITC's current role as a policy outlier and duplicative venue taken advantage of by PAEs. The reform should encompass

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[13] Initial Determination on Violation of Section 337 and Recommended Determination on Remedy and Bond, *In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, p. 123 (June 13, 2014).

[14] Initial Determination on Remand, *In the Matter of Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, p. 61 (April 27, 2015).

[15] *Id.* at p. 62.

[16] Initial Determination on Violation of Section 337 and Recommended Determination on Remedy and Bond, *In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, pp. 125-126 (June 13, 2014). The Commission as a whole did not weigh in on this issue with relation to the case at hand.

[17] A F/RAND commitment explicitly obligates the SEP owner to license all implementers of the standard, so a court-awarded reasonable royalty would generally provide adequate compensation. However, exclusion orders may be appropriate if the alleged infringer is unwilling to accept a reasonable license.

standards for issuing exclusion orders similar to the Supreme Court's guidance in *eBay* in order to eliminate the loophole created by having different rules at the ITC. Following *eBay*'s model would allow the ITC to grant appropriate exclusion orders, such as in instances when an implementer is failing to participate in a process that will lead to appropriate money damages. Note that this is not the situation in recent ITC cases featuring defendants that are large, established American corporations like Dell and Apple. In general, it is not productive to have two duplicative venues with different rules, as this encourages PAEs to forum-shop and find the location that will allow them to threaten exclusion. Reform is necessary to protect American industry and consumers, promote the development and adoption of standards, and encourage efficient levels of innovation.

Mr. ISSA. Thank you. It is now my pleasure to recognize the Chairman of the full Committee, Mr. Goodlatte, for his opening statement.

Mr. GOODLATTE. Mr. Chairman, thank you for your forbearance. I want to especially thank Mr. Stoll and Mr. Bianchi, to interrupt you right as you were ready to go, but I do have to be in two places at one time, so I want to share my thoughts.

Abusive patent litigation is a drag on our economy. Everyone from independent inventors to startups to mid- and large-size businesses face this constant threat. Many of these lawsuits are filed against small and medium-size businesses, targeting a settlement just under what it would cost for litigation, knowing that these businesses will want to avoid costly litigation and probably pay up. And it is this type of tactic that has made the International Trade Commission a potentially attractive venue for patent cases.

The ITC has at its disposal the ability to issue exclusion orders that block the importation of infringing products into the United States. Since the ITC is a Federal agency and not an Article III court, it makes sense that it is limited to this single remedy.

In recent years, however, patent assertion entities have used the Commission as a forum to assert weak or poorly-issued patents against American businesses. It is evident that there are cases that have come before the ITC that probably should have been litigated exclusively in our U.S. district courts.

Nowhere is the disharmony between patent law and Article III court precedent more on display than the application of exclusion orders in technology cases in the ITC. For example, Congress established an important counterbalance to the blunt sanction of the exclusion order in the public interest test provided under Section 337. The statute requires the ITC to consider public health and welfare, and the impact of an exclusion order on competition in the marketplace before issuing an exclusion order.

Yet the ITC rarely exercises its responsibility to apply the public interest test. This failure to follow the law has particularly damaging results in today's technology markets in which products are often reliant on hundreds or thousands of patents. The ITC has the ability to take certain immediate steps within its statutory authority to correct these problems. The following are some steps stakeholders have recommended the ITC take to address this problem.

First, a return to a pre-2010 domestic industry standard that does not allow legal expenses, airplane flights and the like to satisfy the domestic industry requirement. Second, application of the public interest test and economic interest test at the beginning of Section 337 review for purposes of determining claims consideration, as well as the issuance of exclusion orders.

And third, based on the public interest and economic interest test analysis, articulation of standards that clarify which patent disputes should be adjudicated by the ITC, and those which are more properly addressed by U.S. district courts.

I look forward to hearing from the rest of the witnesses, but I will have to read your testimony since I am about to leave. And I do want to say that in addition to those remedies, I do think the suggestions of Dr. Scott Morton with regard to where the ITC juris-

diction should not exist—and it should be exclusively the jurisdiction of Article III courts—is also worthy of our consideration.

So I thank you all for your testimony here today, and Mr. Chairman, I yield back.

Mr. ISSA. Thank you, Mr. Chairman. Mr. Stoll.

TESTIMONY OF THOMAS L. STOLL, PRINCIPAL, STOLL IP CONSULTING

Mr. STOLL. Good morning, Chairman Issa, Ranking Member Nadler, and Members of the Subcommittee. Thank you for inviting me to testify today on patent litigation before the International Trade Commission. It is an honor to be here today to discuss this very important topic. My name is Tom Stoll, and for the last several years I have been advising clients and employers, including the ABA's Intellectual Property Law section, the Boeing Company, the USPTO, and the White House on issues relating to IP litigation and IP-related legislation, including proposed changes to the laws to limit litigation abuse in district courts and the ITC.

My advice is informed by more than 20 years of IP litigation experience with law firms, the USPTO's solicitor's Oofice, as a law clerk and staff attorney with the Federal circuit, all in cases filed in district courts, the ITC, the Federal circuit, and the U.S. Supreme Court. I would like to emphasize that I am testifying on my own behalf today and not on behalf of my current client, the ABA.

While ITC filings by patent owners certainly spiked in 2011, over the last few years the ITC has made great strides in reducing the risk that ITC proceedings can be misused. The ITC's own statistics show that the number of investigations instituted has dropped to historically consistent numbers, and that the number of filings by non-practicing entities is lower than it was before the jump in overall filings.

To the extent the ITC had a patent troll problem, it appears the Commission has addressed it. U.S. patent laws are extremely beneficial to society, by providing the incentive for inventors and companies to invest in the development of groundbreaking new technologies, knowing their investment can be protected, often enabling startups and other small companies to secure the funding they need to grow.

The ITC is charged with preventing unfair trade practices, including the theft or unauthorized use of intellectual property. It has the extraordinary authority to issue general exclusion orders barring all imports that infringe a patent.

In the U.S. Supreme Court's 2006 decision in eBay vs. MercExchange, the court held that a district court cannot automatically issue an injunction in a patent case. Patent owners, including non-practicing entities, began asserting their patents in the ITC with much greater frequency. The ITC had become a more attractive venue for those seeking the threat of an injunction, and many argued, was being used to extract unjust settlements.

Two recent developments, however, have significantly reduced the risk that an ITC proceeding based on frivolous claims could be used to unjustly extract a settlement. First, the Commission has applied the domestic industry requirement much more rigorously.

Second, the ITC has instituted a 100-day program to quickly dispense with cases that lack merit, and thereby preventing abuse.

Additionally, recent U.S. Supreme Court decisions significantly limiting the scope of patent-eligible subject matter and requiring greater clarity and patent claiming may also deter some patent owners from filing claims of infringement in the ITC. As a result, the number of cases instituted by the ITC has dropped in recent years from 69 in 2011 to 36 in 2015. Non-practicing entities were the complainants in only two of the 36 investigations instituted last year.

Let me explain how the ITC has changed its application of the domestic industry requirement. Under that requirement, a party much show that there is a significant or substantial investment in a U.S. industry that requires protection. Until very recently, a patent owner could satisfy the requirement simply by establishing the substantiality of its economic investment and licensing activities.

In the last few years, however, the Commission began to require more, and the Federal circuit now seems to agree. In Motiva, for example, the Federal circuit affirmed the Commission's finding of no domestic industry, stressing that the complainant must show that the licensing program was being used to encourage adoption and development of articles that incorporated the patented technology.

In LSI, the Federal circuit again affirmed a Commission determination that a domestic industry did not exist because the complainant's licensing activities did not relate specifically to articles protected by the asserted patent.

The ITC's new 100-day program is designed to help companies avoid the significant expense associated with litigating a full-blown proceeding where the claim is baseless, and to deter those seeking to leverage that expense to extract an unjust settlement. It enables the Commission to quickly resolve an investigation by requiring that the ALJ rule on a dispositive issue, such as lack of domestic industry, within 100 days of institution of the investigation.

These efforts and the resulting reduction, in the number of cases that have been instituted in the last few years, appear to have gone far to address concerns that the ITC has become an attractive forum for patent owners whose cases lack merit, and who seek to leverage this proceeding to extract an unjust settlement. I am grateful to the Subcommittee for taking the time to conduct this hearing and for taking a close look at this important issue. I am honored to have been invited to speak with you today, and look forward to answering your questions. Thank you.

[The prepared statement of Mr. Stoll follows:]

Testimony of Thomas L. Stoll,
Principal, Stoll IP Consulting,
"International Trade Commission (ITC) Patent Litigation"
April 14, 2016

Good morning Chairman Issa, Ranking Member Nadler, and Members of the Subcommittee. Thank you for inviting me to testify today on patent litigation before the International Trade Commission (ITC). It is an honor to be here to discuss this very important topic.

My name is Tom Stoll, and I have been advising clients and employers including the American Bar Association Intellectual Property Law Section, The Boeing Company, the United States Patent & Trademark Office (USPTO), and the White House on IP policy for the last several years.[1] Much of that advice relates to IP litigation and IP-related legislation, including proposed changes to the laws to limit litigation abuse in district courts and at the ITC. My advice is informed by more than twenty years of IP litigation experience with two law firms, in the Solicitor's Office of the USPTO, and as a law clerk and staff attorney with the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). In those positions, I have handled cases filed in the district courts, the ITC, the Federal Circuit, and worked on cases pending before the U.S. Supreme Court.

Today's hearing topic is incredibly important. The misappropriation of intellectual property is a real threat to innovation and to investment in research and development in the United States. Similarly, the abuse of enforcement proceedings undoubtable can do real harm to businesses. While ITC filings by all patent owners, including non-practicing entities, certainly spiked in 2011, over the last few years the ITC has made great strides in reducing the risk that ITC proceedings can be misused. The ITC's own statistics show that the number of investigations instituted has dropped to historically consistent numbers and that the number of filings by non-practicing entities is lower than they were before the jump in overall filings. To the extent the ITC had a patent-troll problem, it appears the Commission has addressed it.

U.S. Patent laws are extremely beneficial to society. They provide the incentive for inventors and companies to invest in the development of ground-breaking new technologies knowing their investment can be protected. Start-ups and other small companies armed with IP are often a better bet for investors than those without, often allowing them to secure the funding they need to grow. Abraham Lincoln described the beneficial effect that patent laws have on innovation as "add[ing] the fuel of interest to the fire of genius." They also aid society by encouraging the disclosure of that "genius" by even the smallest of companies, without fear that their new ideas will be stolen.

The ITC is charged with preventing unfair trade practices including the theft or unauthorized use of intellectual property. It can prevent products made using misappropriated patented technologies from entering the United States. It also has the extraordinary authority to issue general exclusion orders barring *all* imports that infringe a patent, and not just those of the importer or manufacturer who was a

[1] This testimony reflects my own personal views and does not reflect the views of former or current clients including American Bar Association Intellectual Property Law Section, nor does it reflect the views of the American Bar Association or the American Bar Association's House of Delegates or Board of Governors.

party to the ITC proceeding. While we still have great domestic manufactures like Boeing, Corning and many other household names, many of our products are imported from overseas. The ITC now is the only tribunal with the authority to issue broad injunctive relief in every case in which it finds infringement. In fact, injunctive relief is the only form of relief available in the ITC; a complainant cannot recover damages there.

Until relatively recently, it was almost a given that if a patent owner prevailed in a district court case the court would award an injunction. The rationale for awarding injunctions automatically was that, because the Patent Act vests in patent owners the right to exclude and irreparable harm to that right should be presumed, patent owners who prove infringement should always be entitled to an injunction except in exceptional circumstances. The threat of an injunction, which might go as far as shutting down the defendant's business, brought many defendants to the settlement table and aided a patent owner's effort to secure a settlement.

But the U.S. Supreme Court's 2006 decision in *eBay v. MercExchange*[2] changed all of that. The Court held that a district court cannot automatically issue an injunction in a patent case but must apply the same standards required in all other cases. After *eBay*, a district court must consider and weigh whether: the plaintiff will suffer irreparable harm; money damages are inadequate to compensate the plaintiff; the balance of hardships weigh in the plaintiff's favor; and the public interest would not be disserved by the issuance of an injection. Thus, patent owners who do not practice their invention and have shown a willingness to license have a difficult time satisfying the four-factor test because they may not be able to show that they will suffer irreparable harm or that money damages will be inadequate to compensate them.

Shortly after *eBay* was decided, patent owners—including non-practicing entities—began asserting their patents in the ITC with much greater frequency. The ITC became a more attractive venue for those seeking the threat of an injunction and, many argue, were being used to extract unjust settlements. Some argue that the cell phone patent wars also contributed to a significant increase in ITC filings. The average number of new cases instituted per year jumped from somewhere in the 30s historically to 69 in 2011.

Two recent developments, however, have significantly reduced the chances that an ITC proceeding based on frivolous claims of infringement can be used to unjustly extract a settlement. First, the Commission has significantly tightened up its enforcement of the "domestic industry" requirement. Second, the ITC has instituted a 100-day pilot program to quickly dispense with cases that lack merit to limit unnecessary litigation. Additionally, recent U.S. Supreme Court decisions significantly limiting the scope of patent-eligible subject matter and requiring greater clarity in patent claiming may also deter some patent owners from filing claims of infringement in the ITC. As a result, the number of cases instituted by the ITC has dropped in recent years, from 69 in 2011 to 39 in 2014. Only 36 new

[2] 547 U.S. 388 (2006).

investigations were instituted last year. According to the ITC's own statistics, non-practicing entities were the complainants in only two of the 36 ITC investigations instituted last year.[3]

Let me explain how the ITC has changed its approach to satisfying the domestic industry requirement. In accordance with 19 U.S.C. §1337(a)(3), a party claiming that it has been harmed by the importation of infringing products must show that someone is making or selling the patented product in the United States, and that their investment in a U.S. industry that requires protection. Specifically, the patent owner must first show that it or its licensee is practicing at least one claim of the asserted patent. An entity need not make the patented invention, but may base its claim of an industry in need of protection on the products of its licensee. Second, the patent owner must show that the relief sought is needed to protect a significant investment in plant and equipment, or employment of labor or capital, or that there is substantial investment in the patent's exploitation, including engineering, research and development, or licensing.[4] The entity may base its claim of a domestic industry either on its own investments or those of its licensee.

Until very recently, to meet the licensing prong of the test, a complainant only needed to show that its economic investment in licensing activities was "substantial." Then the Commission began to require more than just evidence that the patent owner has been able to license the patent. And the Federal Circuit now seems to agree.

In *Motiva, LLC v. U.S. Int'l Trade Comm'n*,[5] the Federal Circuit affirmed the Commission's finding of no domestic industry stressing that the complainant must show that the licensing program was being used "to encourage adoption and development of articles that incorporated [the] patented technology." Pointing to an earlier decision of the court, the Federal Circuit reiterated that the Commission is fundamentally a trade forum, not an intellectual property forum, and that litigation expenses directed at preventing instead of encouraging manufacture of articles incorporating patented technology will not satisfy the domestic industry requirement.[6] In *Motiva*, the Federal Circuit noted that "the evidence demonstrated that Motiva's litigation was targeted at financial gains, not at encouraging adoption of Motiva's patented technology" or "stimulating investment or partnerships with manufacturers." In *LSI Corp. v. ITC*,[7] the Federal Circuit again affirmed a Commission determination that a domestic industry did not exist because the complainant's licensing activities did not relate specifically to "articles protected by the [asserted] patent." The Commission's recent efforts to tighten up its enforcement of the domestic industry requirement seem to have gone a long way to address potential abuse of the ITC's proceedings.

The second development I mentioned is the ITC's decision to institute a 100-day pilot program to quickly dispense with meritless cases and prevent abuse. Under the program, the Commission selects cases in which it can quickly resolve an investigation by ruling on a dispositive issue, such as the lack of a

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[3] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm
[4] 19 U.S.C. § 1337(a)(3)(A)-(C).
[5] 716 F.3d 596 (Fed. Cir. 2013).
[6] *John Mezzalingua Assocs. v. Int'l Trade Comm'n*, 660 F.3d 1322, 1327 (Fed. Cir. 2011).
[7] 604 Fed. Appx. 924 (Fed. Cir. 2015) (nonprecedential).

domestic industry or the complainant's failure to show standing. If the Commission can identify a dispositive issue, rather than wait until the conclusion of a full proceeding, the assigned Administrative Law Judge (ALJ) conducts expedited fact-findings and sets an abbreviated hearing and briefing schedule, all limited to the one issue. The ALJ then issues a decision on the issue within 100 days of institution of the investigation. The full Commission will then quickly act on the ALJ's decision.

This program is intended to save accused infringers the significant expense associated with litigating a full-blown proceeding, and to deter those seeking to leverage that expense to extract an unjust settlement. In the first case of its kind, in just a matter of months the ITC ruled that the patent owner had failed to establish the existence of a domestic industry. In that case, the ALJ ruled that the patent owner had failed to provide sufficient evidence showing how much the licensees invested in the licensed product alone.[8] On September 24, 2015, the ITC published a Notice of Proposed Rulemaking to officially incorporate the 100-day pilot program into its rules of practice. To date, only two cases have been subject to the program, so it may be too soon to assess its full impact.

These efforts, and the resulting reduction in the number of cases that have been instituted in the last few years, appear to have gone far to address concerns that the ITC has become an attractive forum for patent owners whose cases lack merit and who seek to leverage this proceeding to extract an unjust settlement.

I am grateful to the Subcommittee for taking the time to conduct this hearing and for taking a close look at this important issue. I am honored to have been invited to speak with you today, and look forward to answering your questions. Thank you.

[8] *Certain Products Having Laminated Packaging and Components Thereof*, Inv. No. 337-TA-874 (U.S. ITC, Jul. 5, 2013) (Essex, ALJ).

Mr. ISSA. Thank you. Mr. Bianchi.

TESTIMONY OF DOMINIC BIANCHI, GENERAL COUNSEL, UNITED STATES INTERNATIONAL TRADE COMMISSION

Mr. BIANCHI. Mr. Chairman and distinguished Members of the Subcommittee, my name is Dominic Bianchi, and I am the general counsel of the U.S. International Trade Commission. Thank you for inviting me to appear today before you. As Mr. Conyers noted earlier on, the Commission is an independent quasi-judicial Federal agency. We are actually more unique than any other independent agency or commission that is out there. We do not do policy. We do not address policy. That is for Congress and the executive branch to do.

So I want to assure you that the Commission implements the law that Congress has passed. We will continue to implement that, based on the interpretations by the Federal circuit until Congress amends the law. If Congress does amend the law or the Federal circuit changes one of our decisions, we will implement that policy.

In Section 337 cases, however, the Commission sits akin to an Article III Court, as mentioned before, in hearing cases. The overwhelming majority of investigations that occur under the Section 337 before the Commission are based on claims of patent infringement. If a violation is found, as noted earlier, the statute allows for only two types of remedies, at the ITC—an exclusion order and/or a cease-and-desist order.

The Commission focuses on conducting expeditious, fair, and technically sound decision-making to resolve allegations of intellectual property infringement and other unfair acts. Similar to the Federal courts, a Section 337 investigation includes all aspects of patent disputes, including topics relating to validity, infringement, remedy, and competitive conditions. We apply the same law that the district courts do.

What differentiates the Commission, however, from Federal courts is that the Commission does not institute an investigation before the sufficiency of a complaint is assessed. This assessment includes the agency requesting input from the potential respondents and the public regarding whether there are statutory public interest considerations raised by the complaint. At the time of institution, if the Commission determines that there are any particular case-dispositive issues that may resolve the investigation within a matter of months, it may place it in an early disposition program, as mentioned earlier today.

Also as you have heard, the Commission has established a practice of responding to community input by initiating a variety of programs to more efficiently and expeditiously bring to a close those matters that otherwise would impose undue costs on parties, the Commission, and the broader system.

The Commission also determines whether the public interest considerations warrant the development of a full factual record regarding the statutory public interest factors, and thus it can delegate this issue to the administrative law judge for fact-finding. Once the investigation begins, the agency develops a complete administrative record based on discovery, provides a full and fair opportunity for the parties to present testimony and cross-examination at a hear-

ing, and provides the parties with the opportunity to provide written briefs. The Commission staffs its investigatory process with IP experts, IP attorneys and qualified ALJs solely dedicated to adjudicating IP cases.

After the ALJ issues a final, initial determination, the parties have the opportunity to petition the Commission for review. Typically, if the Commission determines to review, it will ask the parties to respond to specific questions, including specific questions regarding the public interest factors.

If the Commission finds a violation and a remedy, and issues a remedy, the President of the United States has 60 days to review the order and determine whether to disapprove the order on policy grounds. Appeals of the Commission's decisions in Section 337 investigations are made to the U.S. Court of Appeals for the Federal Circuit—the same court that reviews patent decisions of the district courts.

The Commission recognizes the statutory mandate to resolve cases at the earliest practical time and has taken a variety of steps to do so. These include developing pilot programs, developing new procedural rules, and substantial investment in the Commission's electronic record system for case management. The Commission routinely seeks input in its processes and diligently considers feedback from stakeholders on ways to improve the processes and procedures. I welcome the Committee's views. Thank you.

[The prepared statement of Mr. Bianchi follows:]

Written Statement of Dominic Bianchi

General Counsel
United States International Trade Commission

Before the

United States House of Representatives Committee on the Judiciary
Subcommittee on Courts, Intellectual Property and the Internet

"International Trade Commission Patent Litigation"

April 14, 2016

I. Introduction and USITC Mission

Chairman Issa, Ranking Member Nadler, and distinguished members of the Subcommittee, thank you for the opportunity to engage in this discussion with you today.

I am the General Counsel of the U.S. International Trade Commission (USITC or Commission). Today I am here to outline the USITC procedures in administering 19 U.S.C. 1337 – section 337.

The USITC is an independent, quasi-judicial federal agency with a wide range of trade-related mandates. The USITC provides independent tariff, trade and competitiveness-related analysis and information to the House Committee on Ways and Means, the Senate Committee on Finance, the President, and the U.S. Trade Representative. The USITC maintains the U.S. Harmonized Tariff Schedule. The USITC also administers certain trade remedy laws. Specifically, the USITC investigates whether imports have materially injured a domestic industry (such as antidumping and countervailing duty investigations) and whether there are unfair practices in the importation of articles (violations of section 337). I appear before you today to address the processes the Commission employs in administering section 337.

The essential structure of the USITC traces its intellectual roots to the Harvard economics professor Frank W. Taussig, who was appointed the first chairman of the USITC's predecessor (the Tariff Commission). After having long advocated for an independent commission so as to depoliticize the import component of U.S. international trade, Taussig oversaw the creation of an agency structured to do only fact-finding, analysis, adjudication, and technical advising, leaving policy-making to the political branches of government.

The USITC is responsible for investigating alleged violations of section 337 of the Tariff Act of 1930, as amended. Under this statute, complainants may seek protection against infringement of U.S. intellectual property (IP) rights and other unfair acts and methods of competition in the importation of articles. The overwhelming majority of investigations are based upon claims of patent infringement. These investigations often involve complex technologies and multiple accused infringers. Successful complainants receive relief in the form of an exclusion order enforced at the border by U.S. Customs and Border Protection and/or a cease and desist order enforced domestically by the Commission.

The Commission focuses on conducting expeditious, efficient, and technically sound decision-making in section 337 proceedings. The purpose of the law is to assure that products made overseas and imported into the United States respect U.S. intellectual property rights and to protect domestic industries from other unfair acts by imported articles. The statute requires that violations of Section 337 "shall be dealt with in addition to any other provision of law...."[1]

Intellectual property holders often file complaints under section 337 because they desire a relatively quick resolution to their disputes. The USITC is statutorily charged with completing its investigations expeditiously, and the USITC's procedures are specially designed to meet this mandate. The average time to evidentiary hearing in a section 337 investigation is about 9.5 months, and most investigations are completed within 16-18 months.[2]

As I outline below, the Commission's Section 337 proceedings provide a technically sound and fair process to resolve allegations of IP infringement and other unfair acts and methods of competition by imported articles that harm U.S. industries. Similar to the federal courts, a section 337 investigation includes all aspects of patent disputes, including topics relating to (1) validity; (2) infringement; and (3) remedy.

Unlike the federal courts, the Commission does not institute an investigation before the sufficiency of the complaint is assessed. Once instituted, the USITC develops a complete administrative record based on discovery and provides a full and fair opportunity for the parties to present testimony and cross-examination at a hearing and to provide legal briefing. The Commission staffs its investigatory process with IP experts and lawyers and qualified administrative law judges (ALJs) solely dedicated to adjudicating IP cases. Moreover, the statute requires the Commission to focus upon whether complainants have adequately established a domestic industry before a violation may be found. Further, the public interest is required to be considered in every investigation where a violation is found and an appropriate remedy is being considered. Finally, the Commission has procedures to address potentially case-dispositive issues, including domestic industry within a matter of months.

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[1] 19 U.S.C. § 1337(a)(1).

[2] USITC, 337Info. Such disputes usually take many years to resolve in other forums such as in U.S. District Courts, where the average time to trial is about 2.5 years. *See* PWC, 2014 *Patent Litigation* Study, p. 16.

II. Section 337 Process

A. Background

The Commission conducts proceedings to determine whether there has been a violation of section 337 in accordance with the Administrative Procedure Act (APA). The APA affords the parties the opportunity to conduct discovery, to present evidence at a hearing, and to make legal arguments before an ALJ and the Commission. As part of a section 337 investigation, the ALJ conducts a public hearing on the record, which includes testimony from fact and expert witnesses. Documentary and physical evidence also are admitted into the record at the hearing. Hearing evidence and arguments are tested through questioning by attorneys from all parties to a dispute, including, in many cases, by an investigative attorney from the Commission's Office of Unfair Import Investigations (OUII) as well as by the ALJs.

If the respondents fail to appear to answer the complaint and notice of investigation, the statute authorizes the Commission to find such respondents in default, to presume the facts alleged in the complaint to be true, and to issue remedial orders upon consideration of the statutory public interest factors.

The Commission is the final decision-maker, and its deliberations are informed by staff, including IP attorneys from the Commission's Office of General Counsel. The Commission's decision is provided in a written opinion detailing the information gathered and the logic and legal reasoning behind the decision and findings. When remedy orders are issued, they take into account submissions from the parties, other government agencies, and the public with regard to the appropriate remedy and the public interest. While many investigations end by agreement of the parties or withdrawal of the complaint, those that are concluded on the merits are currently decided, on average, in 16.8 months.

Appeals of the Commission decisions in section 337 investigations are made to the U.S. Court of Appeals for the Federal Circuit, the same court that reviews statutory IP decisions of the District Courts.

B. Complaints and Investigation Pre-Institution

Section 337 complainants are typically brought by private parties alleging that certain articles are sold for importation, imported or sold after importation into the United States by means of an unfair act or an unfair method of competition. More than 80 percent of the section 337 complaints filed involve allegations of patent infringement. For example of the 88 active investigations last year, 71 were based solely on allegations of patent infringement.[3] The other 20 percent of the complaints are based on allegations of other types of unfair acts, such as trademark infringement, trade dress infringement, copyright infringement, false advertising and/or trade secret misappropriation.

[3] https://www.usitc.gov/intellectual_property/337_statistics_types_unfair_acts_alleged_active.htm

The Commission Rules require that complaints contain fact pleadings.[4] For a complaint to comply with the Commission Rules the complaint must contain a detailed description of why the complainant contends that there is a violation. For instance, a complaint based on an allegation of patent infringement typically includes: an identification of the patent and specific claims being asserted; assignment rights; a nontechnical description of the patent; identification of the proposed respondents and how they relate to the products as issue; a description of the products-at- issue; specific allegations of direct and/or indirect infringement; if indirect infringement is alleged specific facts must support these allegations; a claim chart showing how each element of each asserted independent claim is met by the accused product; proof of importation (sale for importation or sale after importation) of the accused product; related subject matter litigation history; Harmonized Tariff Schedule numbers at issue; and details of the basis for asserting that a domestic industry exists or is in the process of being established, including claim charts demonstrating practice of at least one claim of each asserted patent by the domestic industry product and the nature and extent of the complainant's investments in the United States relating to articles protected by the IP rights concerned.

A typical complaint involving two patents is around 20-25 pages with approximately 5-12 inches of supporting exhibits and about a bankers box of supporting appendices. Complaints involving trade secret misappropriation also would include support that an industry has been injured or there is a threat of injury and can be substantially longer.

Because a section 337 complaint must be sufficiently supported by facts, complainants are encouraged to submit a draft of the complaint to OUII for a confidential review prior to filing. These review meetings provide OUII the opportunity to preview a complaint and discuss with the complainant whether there are issues with the underlying cause of action, and whether there is sufficient information to support the allegations, and relief requested. These meetings are also an opportunity for complainants to ask questions about the USITC process. Most potential complainants take advantage of this draft review process.

Once a complaint is filed at the Commission, OUII formally (1) reviews the complaint and exhibits for sufficiency and compliance with the applicable rules to determine whether they were properly filed; (2) identifies sources of relevant information; and (3) tentatively assures itself of the probable availability of such information.[5] During this period, the Commission requests input from the potential respondents and the public regarding whether there are statutory public interest considerations raised by the complaint.

OUII recommends to the Commission whether to institute the investigation. The Commission votes on institution within 30 days after the complaint is filed. At this time, the Commission will determine whether there are any particular case dispositive issues that may resolve the investigation early. If so, the Commission may place this investigation in its early disposition

[4] 19 C.F.R. § 210.12 (2015).
[5] 19 C.F.R. § 210.9 (2015).

program, the 100-day pilot program. The Commission also will determine whether the public interest considerations warrant the development of a full factual record regarding the statutory public interest factors and thus may delegate this issue to the ALJ for fact-finding. Since 2010, the Commission has delegated 57 investigations to the ALJ for fact-finding related to the public interest.[6]

C. Developing the Record, Decision Making, and Review

Once the investigation is instituted, the Commission assigns the investigation to an ALJ for fact-finding. The Commission's ALJs only preside over section 337 investigations. Each ALJ maintains approximately six active investigations, typically patent based, at a given time.

Upon publication of the Notice of Investigation in the Federal Register, discovery commences immediately. Within 45 days of institution, the ALJ sets the target date (end of the investigation).[7] Typically, the investigation is in hearing about 9.5 months after institution. In many of the section 337 investigations, an investigative attorney from OUII is an independent party to the investigation. The role of the investigative attorney is to ensure that the factual record is well developed and provides an independent analysis of the facts. Investigative attorneys also assist the parties in resolving discovery disputes, and avoiding unnecessary motions practice, as well as aiding in settlement.

Between institution and the hearing, there is a discovery period. The parties are able to use all the discovery tools available under the Federal Rules of Civil Procedure, including interrogatories, document requests, and requests for inspection, subpoenas, and depositions. Most of these investigations involve an expert discovery period during which each of the parties exchange expert reports and have the opportunity to depose expert witnesses. Parties also have the opportunity to file issue or case dispositive motions.

After the discovery period ends the parties prepare for an evidentiary hearing. All parties are provided an opportunity at the hearing to present the facts of their case to the ALJ. Some ALJs ask the witnesses questions as well. Most hearings last about five days, depending on the number of issues in the investigation. After the hearing the parties provide extensive post-hearing briefs to the ALJ. The ALJ issues his or her final initial determination about 12 months after institution. The ALJ also issues a recommended remedy determination.

After a final initial determination issues, the parties have the opportunity to petition the Commission for review of the final initial determination if the party demonstrates that: (1) a finding or conclusion of material fact is clearly erroneous; (2) a legal conclusion is erroneous, without governing precedent, rule or law, or constitutes an abuse of discretion, or (3) the determination is one affecting Commission policy.[8] The Office of the General Counsel reviews

[6] https://www.usitc.gov/intellectual_property/337_statistics_identification_and_number_cases.htm.
[7] 19 C.F.R. § 210.51(a) (2015).
[8] 19 C.F.R. § 210.43(b)(i)-(iii) (2015).

the final initial determination and any petitions for review and drafts advice to the Commissioners regarding whether to review the final ID. Within 60 days from issuance of the final initial determination, the Commission issues a notice regarding whether it will review the initial determination and if so what issues will be reviewed.[9] Typically, if the Commission determines to review a final initial determination, the Commission also will ask the parties to respond to specific questions regarding substantive and/or procedural issues and, in appropriate circumstances, specific questions regarding the public interest factors. At this time the parties also will provide written submissions on remedy, bonding, and public interest. The Commission issues its final determination 60 days later, including issuance of any remedial orders.

If the Commission determines to issue an exclusion order, the President, through the U.S. Trade Representative, has 60 days to review the order and determine whether he will disapprove the order on policy grounds.

III. Process Improvements

The Commission has long recognized the statutory mandate of resolving cases at the earliest practicable time and has taken a variety of steps toward this end. By doing so, the Commission has made the section 337 process more efficient and less costly for both the agency and litigants. These efforts include new pilot programs, procedural rules improvements, and a substantial investment in the past few years in the Commission's Electronic Document Information System (EDIS).

First, the Commission has explored approaches to resolve potentially dispositive issues[10] concerning a violation at an early stage of the investigation. Beginning in 2006, if before an investigation was instituted the Commission had reason to believe that there was such an issue, the Commission's notice of investigation authorized the presiding ALJ to decide the potentially dispositive issue early in the investigation and waived certain rules to allow prompt Commission action on the ALJ's decision. In most instances, the procedure was employed to decide what could broadly be characterized as jurisdictional issues.[11] This practice was recently formalized in the Commission's "100-day pilot program," which was launched in 2013. Additionally, when a potentially dispositive issue becomes apparent only during the course of an investigation, the Commission has established procedures for filing motions before the ALJ seeking an early decision of "no violation" to bring the investigation to a close.

Second, the Commission promulgated new procedural rules during FY 2013. These rules include, among other things, limits on discovery, such as the numbers of interrogatories and

[9] 19 C.F.R. § 210.42(h)(2) (2015).
[10] A dispositive issue is an issue that by itself could decide the investigation's outcome.
[11] Under Federal Circuit precedent, the Commission must institute an investigation if there is a properly pled complaint and then decide issues, including jurisdictional issues, on the merits.

depositions,[12] and new procedures relating to the electronic filing of motions and other items.[13] Additionally, during FY 2013, the Commission promulgated rules to streamline discovery of electronically stored information or "e-discovery," such as e-mails and source code, while preserving the opportunity for fair and efficient discovery for all parties.

Third, as part of a separate pilot case management program directed to streamlining the discovery process, several ALJs are experimenting with new ground rules. One set of ground rules requires the parties to make specific initial discovery disclosures at specified times during an investigation. Another set of ground rules being tested requires the parties to confer at the beginning of the investigation regarding e-discovery issues. The Commission assesses these pilots and reports on the results each fiscal year.

Finally, the Commission has increased investments in EDIS to enhance the capability for filing of submissions electronically, as well as to improve the Commission's management of the large volume of investigation-related materials and the transparency of its investigative process. The Commission is currently exploring the possibility of electronic service in EDIS.

IV. Conclusion

The USITC applies section 337 and the substantive law involved to the facts of each investigation presented to it. The Commission has made a concerted effort to develop procedures that will increase efficiencies, and reduce cost and still ensure a fulsome record. The Commission routinely seeks input into its process and diligently considers feedback from its stakeholders on ways to improve its processes and procedures.

[12] The Federal Register notice, published on April 19, 2013, regarding these new rules can be accessed at http://www.usitc.gov/secretary/fed_reg_notices/rules/MISC_040_notice04112013dbl.pdf
[13] The Federal Register notice, published on May 21, 2013, regarding these new rules can be accessed at http://www.usitc.gov/secretary/fed_reg_notices/rules/Rules_notice05152013sgl.pdf

Mr. ISSA. Thank you. I will now recognize myself for a question. And do not turn off your mike, Mr. Bianchi. I will ask you the first question. Since I think four of the six witnesses mentioned the pilot program: how many cases have been adjudicated under the pilot program?

Mr. BIANCHI. The former—and so, whether there is one case——

Mr. ISSA. Is one not the right answer?

Mr. BIANCHI. Sorry, sir. One is the correct answer under the pilot program. Under the previous program before we developed the pilot program, there was another case that the Commission essentially did.

Mr. ISSA. Okay. So a lot of talk about a program that has hardly ever been used at this point. So I have high hopes for the future that it does something, but I noticed nobody talked about the benefits and successes of the program, only that it existed. And I bring that up because I want the record to be clear that it is pretty premature to talk about a pilot dismissing cases that are frivolously brought at this point. Hopefully, it will be a factor in the near future.

Mr. Whitaker, you brought up a point, and I just want to make sure that I amplify it by asking it. Currently, is it your understanding that the ITC does not have to meet a standard of harm to a licensee? In other words, when a non-practicing entity brings a case in which they have one or more licensees, currently they do not have to show that there would be any harm to that licensee, and the licensee does not have to assert any harm if the importation continues. Is that correct?

Mr. WHITAKER. When you say "does not have to show harm," in effect, there is harm that is demonstrated, and that harm is demonstrated through a few means—the active importation, the active infringement, and then the damage to the domestic industry of that license.

Mr. ISSA. Right, but the domestic industry damage—let's just say that as has happened in real cases, that somebody goes and gets a licensee on an interpretation of the product, and a completely different product is being imported—not in the same market, not affecting it at all—that domestic market rule still is used by the ITC.

In other words, one licensee who may have just paid a license in order to make the case go away, who would not assert that they even believe that they infringed the patent, but rather they simply paid it because somebody came to it and it was cheaper to settle than to fight it, that person is not a participant under current law and does not have to be in any way a plaintiff, or even assert that they are using what they have licensed. Is that correct?

Mr. WHITAKER. If I follow the Chairman's line of logic, I think that is correct.

Mr. ISSA. Okay. Ms. Okun, you know, you had a very long time on the Commission, and probably the most senior person we could ask for advice. Is that not a question that has not been formally answered in the history of the ITC? In other words, as you as a trade entity have looked to meet the congressional obligation that there is a domestic industry, has there not been, if you will, a minimalization of that test, and is that not one of the challenges? And it is not the main thrust for today, but is it not a fact that

it only takes sort of a straw to get the requirement when it comes to patent licensing?

Ms. OKUN. Mr. Chairman, I would disagree with you.

Mr. ISSA. Okay. Can you name a case during your decade of service in which there was a license and that you ruled that the entity was not entitled to a domestic market even though there was a domestic license granted?

Ms. OKUN. I mean, for the record, I would be happy to provide many of those cases, but I think the point, if I understand, or——

Mr. ISSA. For the cases where the ITC said yes, you have got a license and yes, somebody is importing, but we are going to turn down the domestic market, we are going to find that you did not meet it.

Ms. OKUN. Right, there are cases where, in looking at the domestic industry requirement, which requires a substantial investment and exploitation in the patent where licensing—having a licensee is not enough. They often bring them into—or they are often part of a case because it is part of, if you do not manufacture, that you have a licensee.

But the Commission, if anything—I mean, it is interesting to hear the reference to the—Chairman Goodlatte's reference to pre-2010 law because I would say that—post-2010—I would be curious what my colleagues say; I think there has been a heightening of the threshold with respect to domestic industry with——

Mr. ISSA. Well, I appreciate that, and I want to quickly run up an additional question for every member of the panel. I mentioned and others have mentioned the *Dell, Kodak, Apple, obviously Qualcomm, Broadcom*. How many of you believe that those cases were appropriate for the ITC; that in fact they were the most appropriate remedy?

Please raise your right hand if you believe they were appropriate to be before the ITC as trade importers. I have one. Two. You believe that that was—okay, three. How many of you believe that it was not appropriate to have these substantial multibillion dollar companies in a trade dispute before an administrative court while they all were simultaneously in Article III courts? Okay.

So I have three, two, and Mr. Bianchi is not entitled to a vote, apparently. Okay, there will be more questions, but I want to be respectful of the time, and with that I recognize the Ranking Member, Mr. Nadler.

Mr. NADLER. Thank you, Mr. Chairman. Mr. Thorne, you testified, with respect to the leverage, that the ITC process gives someone—where they can get relief where you could not get an injunction in court because of the—presumably the balance of equities that would not yield an injunction. Do you think it is right you should be able to have a forum to get relief when on the balance of equity you could not get relief?

Mr. THORNE. My personal belief, not on behalf of any client, is that——

Mr. NADLER. Well, that is granted.

Mr. THORNE [continuing]. The Supreme Court's law—and in fact, the history of the court's application of equitable principles is the right way to approach that. Injunctions are powerful tools. They are sometimes necessary, they are sometimes just the right rem-

edy. I have won them and thought I was right in winning them. But if money will work, that is the alternative. If your harm as a plaintiff is less than the harm you are inflicting, it is appropriate to deny the injunction.

Mr. NADLER. That is the balance of equities test that a court of equity, the Article III court, will do. Now, the ITC does not use that balance of equity, so my question is, is it right as a matter of equity and fairness that we have a forum where those equitable principles are bypassed?

Mr. THORNE. You see, this is a confusion I have, and I apologize for—I hope this answers the question. 337C, which lists what does the ITC do if it finds a violation, says "all equitable defenses may be presented"—in all cases. The ITC has power in its current statute to recognize equitable defenses.

The ITC, when eBay was decided by the Supreme Court, could have said, "You know what? We are going to improve our process, too. We are going to balance the equities, because equitable defenses are in our statute." And they made a choice, "Nah, eBay is not for us. Our statute is different." And the Federal circuit supported that out of Chevron deference, so they chose a different path.

Mr. NADLER. So you have a forum where they can bypass the normal equitable balancing of—the normal balancing of equities and issue a contrary decision with a powerful—not injunction—a powerful exclusion which has the effect of an injunction?

Mr. THORNE. That is correct.

Mr. NADLER. Dr. Morton, would you comment on that?

Ms. SCOTT MORTON. I am not going to comment on the law, because that is not my area of expertise, but——

Mr. NADLER. Do you think it is right that we have such a——

Ms. SCOTT MORTON. It is a great tool when you have actual trade disputes where you have an infringing thing that is coming in where you cannot go to Federal court and get money. I think when you have these cases—a lot of the problem here has arisen because we have many products now that infringe on thousands and thousands of patents. Your average device, set top box or handset or whatever, reacts on thousands and thousands of patents.

So the example I gave before of the $600 device and a two-cent royalty, is very often the case. And what the ITC is doing is essentially imposing a $600 royalty with an exclusion order, and I do not think that is right.

Mr. NADLER. So you are saying, in that kind of a case, an Article III court with a balance of equities test would be much less of a blunt instrument.

Ms. SCOTT MORTON. Exactly.

Mr. NADLER. Ms. Okun.

Ms. OKUN. Mr. Nadler, I would like to counter that with respect to a couple things about eBay. First, it is not as if—I was on the Commission in, during this period—so speaking for myself, it was not as if the Commission looked at what happened and said, "Oh, we do not want to do that." The Commission looked at the Section 337 statute, which does provide for all equitable defenses, but the Section 337 has additional safeguards. There is a public interest test—one of the parts of the injunction test. It applies a public in-

terest test. There is an additional safeguard. The President can disapprove any exclusion order at the end for any policy reason, and Congress only gave—again, it is an independent agency, just like you have a PTO and others—only gave the ITC one remedy, a border remedy, exclusion order to cease-and-desist and consent.

Mr. NADLER. I understand that. I am concerned—I am hearing this—I am concerned about why, as a matter of policy, we should have a separate remedial forum that is not subject—although it can use—is not subject to normal equitable balances. And let me ask one further question first, Ms. Okun and maybe Mr. Thorne and Dr. Morton. In most administrative agencies, you can remove a case to Federal court. That would seem to be a safeguard. Here you cannot. Should you be able to?

Ms. OKUN. Well, it is actually the opposite, which is you—I mean, because of our international trading obligations, you can stay the district court actions. So if there is both, you would stay—you can stay.

Mr. NADLER. But why not go the other way around?

Ms. OKUN. Well, the statute does not allow that.

Mr. NADLER. I understand that. Why should we not—I am asking what should the statute say, not what does it.

Ms. OKUN. Well, so I am going to answer from the trade—or the perspective from how you would do that, because what the statute tells you is if they are imports, okay? It does not matter if it is import by a U.K.-headquartered company out of China, or a Chinese company, or an American company, right? An import is an import, and that is what the Commission has to look for, for its jurisdiction for the case. Domestic industry, again, it relates to its activities in the United States, not actually where it is headquartered.

So, again, I see it from a different perspective, which is the statute does not—the statute gives a trade remedy—which I think is an effective trade remedy—and again, I would think is a complement to the district court, particularly for those companies who are looking to stop infringing goods at the border and keep them out of the United States.

Mr. NADLER. My time is expired, but I would like to hear Mr. Thorne's comment and anyone else who wants to comment on that.

Mr. ISSA. That would be okay.

Mr. THORNE. I just want to strongly say that, in my personal view, if a district court remedy is available, that is where the case belongs. There are some situations——

Mr. NADLER. So it should be removable.

Mr. THORNE. It should be exclusive. There would be no reason for the ITC to do something duplicative. The ITC should dismiss an investigation that either has been filed in a district court—in a parallel case in a district court or could be filed in a district court, because otherwise it is not just that you have got two forums that would be available. One forum has very different rules and will attract cases that can exploit those differences.

Mr. ISSA. Mr. Marino, if I could have your indulgence just to make sure we make something clear that Ms. Okun said, is it your assertion today, as a former chair of the ITC, that the Federal court, an Article III judge, has no authority to tell the ITC to stay

its transactions, that under statute they are limited and do not have that authority?

Ms. OKUN. Does the Federal court—does the Federal district court have the ability to stay that?

Mr. ISSA. When you were chair, if you received an order to stay your case from an Article III judge who had the same case before him, you would assert that you had a statute which did not allow you to honor that order.

Ms. OKUN. Right, but the statute actually says the opposite, that the respondent could move to stay the district court.

Mr. ISSA. Okay. I just want to make sure that is clear for the record, because it is critical to—I think——

Mr. THORNE. Mr. Chairman, may I follow up on that for just a second?

Mr. ISSA. As long as Mr. Marino does not mind.

Mr. THORNE. The situation that Doctor Scott Morton referred to, where you have a standard essential patent, a patent necessary to practice a standard, where the patent holder has promised to seek only a reasonable royalty—not to go try to shut you down, but only seek a reasonable royalty—in that situation, it may be an example where you could go to a district court and say, "Wait a minute. The patent holder is doing something beyond what it promised to do. Please make them stop." And you get an injunction not against the ITC but against the attempted assertion by the person that had committed to fair licensing.

Mr. ISSA. Thank you. Mr. Marino, thank you for your indulgence. You are recognized.

Mr. MARINO. Thank you, Chairman. Dr. Scott Morton, you talked about there should be situations where the courts, Federal courts, should be involved, and not the ITC. Could you give me an example or two of a case or cases, any why?

Ms. SCOTT MORTON. Sure. I would rather actually speak just generally about the features of the cases that would lead to that.

Mr. MARINO. That is fine.

Ms. SCOTT MORTON. So why? Let's take a standard essential patent example, as Mr. Thorne just described—there the license—the holder of the patent has already agreed that it wants money. So if there is a dispute over how much money, that is properly dealt with in the district court, and we do not want consumers to suffer the loss of that product from the store shelves or the implementers to face a loss of business, because really you are just arguing over whether it is 2 cents, 3 cents, or 10 cents.

Mr. MARINO. Okay. How does timing fit into that with a situation where a court may settle it quicker or the ITC may settle it quicker?

Ms. SCOTT MORTON. The court can award interest, can award any kind of compensation to the holder of the patent that it deems to be fair.

Mr. MARINO. But is that the end of litigation, though?

Ms. SCOTT MORTON. At the end of the litigation, you have an answer.

Mr. MARINO. Right, the whole process.

Ms. SCOTT MORTON. Yep, we go through the whole process. We get an answer. What is the damage? What is the fair royalty? What

is the appropriate payment to make? The owner of the patent whole, now that we know it is a valid patent, infringed, and here is how much it is worth.

Mr. MARINO. Thank you. Ms. Okun, you have heard my question. Do you want me to repeat it? Okay. And you heard the response from Dr. Scott Morton. Given the ITC's position on *Federal Court vs. ITC*—and let's talk about streamlining too, a little bit.

Ms. OKUN. But to be clear, I am not giving the agency perspective on this question, but just my own personal perspective.

Mr. MARINO. I understand that. I am going for your experience.

Ms. OKUN. But again, I see the ITC as playing a complementary as opposed to redundant role, and I see it as an additional tool. And so I guess when I hear these questions, I wonder why you would say to a patent owner that Congress has authorized—you know, is authorized in a statute to bring a case to the ITC, we want you to not seek fast, effective relief, but we want to send you over to the district court, which is often longer and be more expensive.

And in some cases damages are not what a company is looking for, particularly in a high-tech industry where what is important is getting your product to market quickly. If you look at an exclusion order, for example, for OtterBox, which was just trying to stop—because the smartphones change so much, OtterBox needed to get its products in quickly. Without an exclusion order—it was not looking for damages. It wanted to get its products out in front, and not the infringing products. So I guess that would be an example that I would give where I just do not see damages as always being the best remedy.

Mr. MARINO. Okay, thank you. Attorney Bianchi, am I correct when—understanding that you said the omission has two sources of remedy exclusion and cease-and-desist?

Mr. BIANCHI. That is correct.

Mr. MARINO. No injunction.

Mr. BIANCHI. That is correct.

Mr. MARINO. Tell me the difference, because I heard one of the panelists referred to exclusion as akin to an injunction. Could you explain that to me, please?

Mr. BIANCHI. So in a district court where an injunction is available, in essence the court would be saying to one of the parties, you cannot do something.

Mr. MARINO. At any given time, early on in a case—and we are not talking about the end of the case, correct? An injunction—a court can order an injunction early on if the evidence is there.

Mr. BIANCHI. It depends.

Mr. MARINO. If they meet the criteria.

Mr. BIANCHI. If the judge were to feel that the evidence were there and requirements were met for injunctive release, then yes.

Mr. MARINO. Okay, I am going to cut to the chase here. You have stated that unlike the Federal courts, the Commission does not institute an investigation before the sufficiency of the complaint is assessed. What can you do—and how long does that take? Let's start with how long did—was—an average investigation take, because that—I am looking at individuals, small businesses, small

entrepreneurs with patents who they want their patent—they want to get it out. They want to continue to make money.

Without any injunctive power, based on the fact that you do an investigation, there is a long time—there could be a long period of time by which that individual is waiting for a decision from the Commission. Is that correct?

Mr. BIANCHI. Sorry, sir. Mr. Chairman, do I have——

Mr. ISSA. He was very indulgent with the prior question.

Mr. BIANCHI. I just wanted to make sure. So I think it is actually the reverse of what you are saying. The Commission is typically much faster than a district court. So let me give you an example.

Mr. MARINO. Okay.

Mr. BIANCHI. At the Commission, once a case is instituted by the Commission, you will get to a hearing before an ALJ within about nine and a half months. In a district court, it could easily be two and a half years.

Mr. MARINO. But you could have an injunction long before two and a half years in a Federal court.

Mr. BIANCHI. If the Federal court felt that the measures were met, but most likely what I was trying to articulate, sir, under where we differ from Federal courts——

Mr. MARINO. I understand.

Mr. BIANCHI [continuing]. Is that we have very specific pleading requirements that—and requirements before we institute. The Commission has 30 days to decide whether or not those requirements are met, whereas in a district court proceeding, you have a notice pleading in general.

Mr. MARINO. A notice to appear before Federal court.

Mr. BIANCHI [continuing]. And it could be a year later before you get to the point where we are at after 1 month at the Commission.

Mr. MARINO. Thank you. And, Chairman, thank you for the extended time.

Mr. ISSA. Thank you. And with that, the gentlelady from California, Ms. Chu.

Ms. CHU. Mr. Thorne, you and other witnesses argue that the Supreme Court's decision in eBay vs. MercExchange, which made receiving an injunction more difficult in Federal court, had the effect of entities moving forward to the International Trade Commission. At the ITC, these entities could pursue an exclusion order with less vigorous tests. You also state that the ITC is an attractive forum for non-practicing entities because the ITC and district courts apply divergent joinder rules. Could you describe what effect this has on cases moving forward at the ITC?

Mr. THORNE. Thank you for those questions. First of all, on the effect of the Supreme Court's eBay decision, it is been my experience that that caused a shift, but it was also the ITC's own experience. So in their 2012 budget request, they wrote to Congress. Since the United States Supreme Court 2006 eBay decision, which has made it more difficult for patent holders that do not themselves practice a patent to obtain injunctions in district court, exclusion orders have increasingly been sought by non-practicing entities that hold U.S. patents. That is the ITC writing to Congress in its 2012 request.

Now, the numbers of NPE cases reached a peak in, I think, 2011 or 2012. I reported numbers in my testimony based on—there is a company that is good at analyzing these cases called RPX. But what we counted was not the number of investigations launched, but the number of companies sued. And under the 2011 American Invents Act, in Federal district court, you now have—you cannot sue 30 companies or 40 companies or 50 companies that you say all infringe the patent. You can only sue people that are involved in the same transaction or occurrence.

And so what the ITC can do with one case against 30 companies, this is the same thing that would be 30 cases in Federal district court. Counting it that way, the NPE docket of the ITC is still at about one quarter.

Ms. CHU. Well, Mr. Stoll, you also state the eBay case may have made the ITC an attractive venue. I understand that in the last few years the ITC has taken steps to free—to try to weed out these frivolous claims. And can you describe how the ITC altered the licensing prong within the domestic industry test to address frivolous claims? And what effect did it have in the Federal circuit? And also, Ms. Okun, if you could respond to what was said.

Mr. STOLL. Yes, I can. I think the ITC has done a better job of requiring the evidence linking the licensing effort to the particular—the patent involved to the particular product that the license relates to so that, you know, we are not comparing apples to oranges. So the products that are subject to the license should be pretty closely related to the product that this patent owner is seeking to have excluded.

So it is the relationship there that they have tightened up the standard—the burden of proof has gone up. I think what is going on here is although there was only one case subject to the pilot program and there was another case before that, but what is going on is practitioners are getting together with their clients and discussing, given this higher burden of proof, should we even try to file in the ITC or not? And I do believe that even the pilot program, as well as the Federal circuit cases that are supporting the Commission's efforts to tighten up the standard, have discouraged people from bringing, you know, at least frivolous claims to the ITC, which I think is the goal here.

Ms. CHU. Ms. Okun?

Ms. OKUN. Oh, I would agree with those comments. I mean, I think if you, again, look at the numbers—and just to back up 1 minute about the budget justification, of course, when an agency is trying to evaluate it—having been there when we were doing budget justifications, when you are trying to say what our case load is, it is better to overestimate than to underestimate in terms of your funding, so I think that explains some of that.

Because if you actually look at the numbers post-2011, they have gone down. And I think the point is, there have been changes both in the case law and with the Commission taking its own steps to—with the 100-day program and—which is in rulemaking right now for additional changes. So you see a decline.

There were three cases, two cases, and we are talking about a very small number of cases at the ITC, and I think that, again, these—the case law and the administrative actions have sent a

strong message to lawyers and clients. Do not come to the ITC unless you can walk in the door with a complaint that is sufficient.

Ms. CHU. Mr. Thorne, what are your thoughts on these changes and the fact that the number of cases are going down?

Mr. THORNE. The number of cases, as I said, is probably not the way you want to measure it. The way you want to measure is the number of companies that are sued. Each company will be allowed and will need to present its own claim constructions, its own noninfringement defense, its own invalidity defense.

There is some coordination between companies, but there is also often a difficulty to get everybody on the same page because they have got different products that are differently accused. It is a kind of bedlam where in 2011, as part of the America Invents Act, Congress said for district courts we are not going that anymore.

In district court, it is not enough to say you all infringe the same patent. You are entitled to your own day in court and a separate case. So taking the cue from Congress, I would count the numbers based on how many respondents are sued. And by those numbers, one quarter of the cases at the ITC over the last 3 years have been NPE cases.

Ms. CHU. Ms. Okun wants to respond. Could she?

Mr. ISSA. Briefly.

Ms. OKUN. Just a note on the number of respondents two things. One, post the *Broadcom v. Qualcomm* litigation, after the Federal circuit decision, parties have to name the downstream producers, and so there was increase in the number of respondents because you had to name everyone in order to get the jurisdiction.

Two, it is true that at the ITC, one of its advantages for someone facing foreign imports coming in from a whack-a-mole Chinese company, here, there, and everywhere, can name everybody and get an exclusion order against them without having to go to district court several times. And there are many cases in my written testimony where I point that out.

Ms. CHU. Thank you. Thank you, I yield back.

Mr. ISSA. Thank you. Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chair. Thanks to all of you for spending time with us today. As you know, the DOJ opposes mergers or acquisitions when it finds that a transaction would unduly concentrate market share, eliminate competition to the detriment of consumers. So, for example, GE withdrew an attempted sale of its appliance business to Electrolux after the DOJ filed suit to block the sale based on similar types of concerns.

So I wanted to start with Dr. Morton. Do you think some of the same market conditions appear in ITC investigations and—where a complainant seeks to ban a large percentage of products and players in question?

Ms. SCOTT MORTON. It is not the same concern that you have with a merger, because it is not the case that the two firms are getting together. But there is consumer harm. Where does the consumer harm come from? Well, as I said, let's say we have a $600 device and the owner of the patent asks for 50 cents in royalty and should be paying only—should be getting only two cents. That extra 48 cents is passed on to the consumer.

Some fraction of that is passed on to the consumer. Let's assume there are 20, 50 firms all engaging patent holders, all engaging in this behavior. The price of that product will be higher. The consumer will be harmed. There is going to be less incentive to make that product better and include more features, if that is going to attract more people suing you at the ITC. So it does create consumer harm. It is the problem I wrote about in my testimony, hold-up, and it is of concern. The tech industry is a very important American industry, and it is being harmed by these patent assertion entities that are extracting profits from implementers way in excess of the value of their technology.

Ms. DELBENE. And Mr. Bianchi or Ms. Okun, do you feel—yeah, how does the ITC take into consideration the effect on competitive conditions when you are looking at your public interest analysis? You can look at each other and decide who wants to go first.

Mr. BIANCHI. Well, I have to answer from the perspective of the Commission, which sits in this instance as a court. So I cannot address specifics other than to let you know that we are statutorily required to consider four public interest factors, including competitive conditions in the United States, and also the effect on consumers. The Commission does that when it considers a remedy. And as was noted earlier, there is an additional backstop there that the president can disapprove any recommended remedy within 60 days based off of any policy consideration.

Ms. DELBENE. Ms. Okun, go ahead.

Ms. OKUN. Briefly, my perspective on that, which is, as Mr. Bianchi states, it is correct. The Commission does look at that before imposing any remedy. And I guess my question is, it is almost like proving a negative. In other words, if all these technology companies that have somehow come to the ITC, if their actions have proved to stifle innovation, I do not see the evidence of that.

I mean, if you look at what is going on in mobile communications, all these things, I mean, there is leaps and bounds. And I think I come from the perspective that what you do not want to do is de-incentivize those companies that are making these strides from having the ability to seek an exclusion order when necessary and—but the Commission should look at it carefully and see if there are other products in the market and make sure that those competitive conditions are maintained.

Mr. THORNE. Could I jump in with a supplemental answer?

Ms. DELBENE. Certainly.

Mr. THORNE. When Ms. Okun was the chair of the agency, there was the dispute that the Chairman mentioned between Broadcom and Qualcomm. The one patent on which everything hinged was an idea for how to save battery life on a phone. All the phones that were imported into the U.S. using 3G technology, all the phones, were threatened by a battery-saving idea. There are millions and millions of—these are marvels of engineering—there are millions of functions embedded in these. There are some fraction of a million patents that read on those functions. This is a battery-saving idea that was worth pennies.

And the administrative law judge, using what I would have thought was a district court-like common sense, said, "I see the violation. The battery patent is infringed. But we are not going to

have an exclusion order. The Commission reversed that and said, "No, we are going to have an exclusion order against not just the chips that were defended by Qualcomm, the party in the case, but all these other people that were not there. Their phones were going to be excluded.

Ms. DELBENE. Dr. Scott Morton, you looked like you were going to——

Ms. SCOTT MORTON. Yeah, thank you. The issue of stopping the ITC from excluding a product does not create disincentives for innovation. A party that has a great patent can go to Federal court and explain why their patent is great and get a fair return on that innovation. What the ITC allows that party to do is get, as John just said, the whole value of the phone, which is not the value of the battery-saving patent. You want them to be able to go to a judge and explicitly explain what the value of the battery-saving patent is and get paid for that. And that then stimulates innovation that we want in all sorts of features like batteries.

Ms. DELBENE. Thank you. My time has expired. I yield back, Mr. Chair.

Mr. ISSA. Thank you. We now to go the other—oh, no, Mr. Jeffries of New York.

Mr. JEFFRIES. Thank you, Mr. Chair. And I want to thank the witnesses for your presence here today and the informative testimony today. I will start with Ms. Okun. The ITC proceedings are limited in terms of the ultimate remedy to equitable relief. Is that correct?

Ms. OKUN. Limited—excuse me—limited to an exclusion order or a cease-and-desist order.

Mr. JEFFRIES. Okay. Now once that determination is made as to what the appropriate remedy would be, either cease-and-desist or an exclusion order, there is then a process, as I understand it, for the—I guess it is called the Office of Unfair Import Investigations. Is that correct?

Ms. OKUN. There is an Office of Unfair Import Investigations, correct.

Mr. JEFFRIES. And what exactly is the role that they play in an ITC proceeding?

Ms. OKUN. Maybe we can do two questions. I think your first part was what does the Commission evaluate before it would impose one of these remedies, and that there is a public interest test that the Commission goes through. And I would note it is one of the changes that the Commission has made in the last few years to allow the administrative law judge in a case where they think that there might be public interest issues, including with respect to components to take evidence.

And so the administrative law judge can develop a record that would then be before the Commission when it looks on impact on consumers, public health and welfare, competitive conditions, and like indirectly-competitive products. So that evaluation is a very important part of what the Commission does. With respect to the Office of Unfair Import Investigations, I am actually going to turn that over to Mr. Bianchi. I could explain it, but because it is a Commission agency I think it would but helpful to have him elaborate on that.

Mr. BIANCHI. So if I understand your question correctly, sir, the Office of OUII, as we refer to it, serves several different functions. But it is a separate—during an investigation, it serves as a separate, independent body. So it is a party, sorry, not body. So it serves the role of not one of the parties of interest, and they are looking to areas that can help develop the record more.

They also operate in the proceedings as a way to try to encourage settlements or negotiations amongst the parties. They help the administrative law judge develop certain kinds of record evidence. So in that situation, they are acting as a party but not a party of interest, if you will, in the proceeding. When it gets to the Commission stage, they also work as a party.

They may decide that the ALJs—the administrative law judge's—initial final determination is that there is something that should be reviewed by the Commission so they can petition the Commission to review it. Or they may be—or some other party may and they may comment on it. They also play the role of—in the remedy proceedings—of making recommendations as a party to the proceeding to the Commission on what the remedy may be. Does that answer your questions?

Mr. JEFFRIES. Yes, and I appreciate the thorough answer. And the role essentially is to function as an ombudsman in the public interest or an advocate in the public interest during the proceedings? Is that right?

Mr. BIANCHI. I would say that is one of the roles that it plays.

Mr. JEFFRIES. Just sort of walking through the procedural determinations, if a conclusion is made that there was infringement but it is subsequently determined, notwithstanding the infringement, that it is in the public interest not to permit exclusion, at what point in the process is that public interest determination made? It is my understanding that comes at the end, not the beginning. Is that right?

Mr. BIANCHI. That is correct, although the Commission, in order to save time and resources of the parties, oftentimes will ask the administrative law judge at the beginning of the process to collect evidence on that so that the Commission will have that when it needs to make its decision on remedy.

Mr. JEFFRIES. The issue, in conclusion, that I want to raise is it seems to me that if, in fact, there are a set of circumstances which suggest that even if infringement may ultimately be found during the course of the determinations by the ALJ or by the ITC, that there is a strong enough public interest in not allowing for exclusion or even cease and desist, should that not actually happen at the beginning of the process as opposed to an entire litigation taking place? A finding of infringement, but ultimately no order issued to exclude or cease and desist because of the strength of the public interest?

Mr. BIANCHI. So if I may, I view that as a policy question, which I should not be opining upon. I believe Ms. Okun would be able to opine up on that.

Mr. JEFFRIES. My time is expired.

Mr. ISSA. I would allow the gentlelady. She actually is chomping at the bit. I need to make sure she gets the opportunity. Please.

Ms. OKUN. Just quick. With respect to if you turn—if you use public interest to deny relief in the very beginning I think the problem with that is the case that walks in the door with the number of patents asserted, the number of respondents, often is very unlike the case at the end that the Commission is actually considering. It is much narrowed, as happens in District Court in other litigation. People settle out.

The other thing, and I had this in my written testimony and I will refer it to you, which is because of the moving-up when public interest can be considered in particular cases of administrative law judges, you see settlements where an administrative law judge has recommended there be no relief and parties settle out and realize they are not going to make it.

Mr. JEFFRIES. Thank you. I yield back.

Mr. ISSA. Thank you. We now recognize—oh, I now ask unanimous consent that a letter dated April 14, 2016, to Mr. Blake Farenthold from a long list of supporters of H.R. 4829 be placed in the record. Without objection, so ordered.

[The information referred to follows:]

April 14, 2016

The Honorable Tony Cárdenas
1510 Longworth House Office Building
Washington, DC 20515

The Honorable Blake Farenthold
1027 Longworth House Office Building
Washington, DC 20515

Dear Congressmen Cárdenas and Farenthold,

We applaud you for introducing, H.R. 4829, the Trade Protection Not Troll Protection Act. As manufacturers and creators of the world's most innovative products, we believe most investigations filed by patent assertion entities (PAEs) are a misuse of International Trade Commission (ITC) resources, as they generally do nothing to protect job creating domestic industries from unfair trade practices. Quite the opposite, these investigations cause significant harm to the many different innovative domestic industries and sectors that they target.

Since Section 337 was last substantively updated in 1994, the patent litigation landscape has changed to include patent assertion entities -- organizations that assert patents against products that were not fostered by the patent owner but rather independently developed and brought to market by another entity. This PAE business model has been designed to take advantage of the uncertainties and costs of patent litigation, both in district court and at the ITC, for the purpose of extracting payouts from existing producers under threat of expensive litigation and injunctions.

Since PAEs make no products, let alone competing products, they do not actually benefit from the remedy afforded at the ITC -- an exclusion order against products that infringe U.S. patents. PAEs are simply using the threat or fact of an exclusion order to extract a monetary payment, thus a monetary award is sufficient to provide relief. A product exclusion order issued in favor of PAEs simply serves to penalize companies who invest and successfully bring products to market in the United States.

Congress has shown intense interest recently in curbing PAE abuse of the patent litigation procedures in district court. For the same reasons, it is critical that Congress also address the parallel abuse by PAEs of the ITC's Section 337 proceedings. Indeed, if reforms are limited to district courts, the different standards at the ITC will make it a more likely forum for PAEs to sue entities that import products into the United States. This will have the unfortunate effect of requiring the ITC to handle a larger caseload and divert its resources away from other trade

priorities.

We applaud your bill because it takes several steps to address the problems at the ITC. First, it would modernize the domestic industry standard, as well as prevent so-called, domestic-industry-by-subpoena situations whereby domestic companies are compelled to support a domestic industry claim, often against their will and at great expense, for the sole benefit of a PAE. Second, it would enable the ITC to address clear dispositive issues, like standing and domestic industry, as early as possible in an investigation to weed out meritless cases. Finally, it would provide the ITC with the flexibility to consider all relevant public interest issues and thereby ensure that any issued remedy serves the interests of the public.

We believe these reforms will ensure that Section 337 remains available to protect the domestic industries for which it was originally intended. Thank you for your leadership on this important issue and legislation.

Sincerely,

Amazon.com
Association of Global Automakers
Cisco Systems
Consumer Technology Association
Dell Inc.
EMC Corporation
Ford Motor Company
Google Inc.
HP Enterprise
HP Inc.
HTC America, Inc.
Lecorpio
Oracle
Samsung Electronics
Silicon Labs
Sprint
Toyota Motor North America
VIZIO
VMware

Mr. ISSA. We now recognize the gentlelady from California, Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman, and thanks for this hearing and to each one of the witnesses for their useful testimony in making the issues before us very clear. I will be honest. The current jurisdiction of the ITC does seem at odds with manufacturing practices. I mean, if you have an American company that does some of its manufacturing overseas, it is still an American company, and that is frequently the case. So I am just not seeing what the value added is to have dual jurisdiction. And I think the idea that if you filed or you could have filed as an exclusion of jurisdiction makes a lot of sense to me.

I also think in terms of, you know, I do not think eBay got enough credit for what it did. I mean, eBay is a company in my district and they spent a lot of money and a lot of time pursuing a case they could have settled and successfully, and it did a world of good for the whole technology sector because prior to eBay, it was extortion time. And that potential for extortion exists, I think, in the ITC. That does not mean the Commissioners even see it because it is happening before it gets to you. So that is an additional reason not to undercut what the Supreme Court did. And I think we have got that situation now.

But I want to talk about another issue, and it relates to copyright. It is been reported last year that some copyright holders were considering using the FTC to force IS Internet service providers to block allegedly-infringing websites. Now this was a proposal that would trample the safe harbor protections in the DMCA. But it also was a remedy that Congress rejected in the Stop Online Piracy Act.

And I am sure all of us who were in Congress at that time remember the complete meltdown in the Congress. The phones were off the hook. We got seven million emails in an hour, and the country was up in arms about it. So, I understand that the Federal Circuit Court overturned the ITC decision. They have just rejected en banc a rehearing.

But I am wondering if we ought to make it very clear to the ITC that they do not have jurisdiction over digital transmissions to avoid—I mean, the fact that they would do something like that is shocking to me. And, you know, for the survivors of the SOPA markup here, and I am sure the Chairman recalls it very well, we do not want to get in that environment again. Dr. Morton, I mean you are nodding your head, what—do you have a comment—anybody who wants to comment on that I would welcome the——

Ms. SCOTT MORTON. Yeah, I generally agree with you. I do not see the reason for the ITC to go in this direction. I wanted to make one other comment that is a little bit related to your first point, which is I think there is been some attention in this hearing to NPEs. And that is a narrow definition. That is a definition that is a party that does not make anything. Suppose you change the process at the ITC to make it hard for NPEs. What would they do? They would sell their patents to somebody who makes something.

Ms. LOFGREN. Sure. NPE is a verb, not a noun.

Ms. SCOTT MORTON. Yeah, right.

Ms. LOFGREN. Right?

Ms. SCOTT MORTON. And so what we are really worried about is patent assertion.

Ms. LOFGREN. Right.

Ms. SCOTT MORTON. Patent assertion for more than the patent is worth, whoever owns it.

Ms. LOFGREN. I agree.

Ms. SCOTT MORTON. And if you went and used that definition with the ITC docket, you would get a very large number.

Ms. LOFGREN. But I think it is simple just to say what value does the duplication provide? I mean, we have a general bias against forum shopping and that is really what this is.

Mr. THORNE. Can I jump in on the copyright question?

Ms. LOFGREN. Sure.

Mr. THORNE. Let me disclose first that I represented the Internet Association in the case you refer to——

Ms. LOFGREN. I did not know that.

Mr. THORNE [continuing]. In the Federal Circuit. And the Internet Association was extremely concerned that the way the Internet works it slashes back and forth across the borders. At any given time of day you may be served out of Europe or Asia, and there is no way to easily distinguish a particular transmission that might be accused as infringing. The benefit of the ITC—I want to give to credit occasionally of having customs police at the borders is irrelevant to the Internet.

Ms. LOFGREN. Correct.

Mr. THORNE. The ITC admitted that their exclusion order remedy could not apply in that case and therefore they fell back to what was supposed to be a softer secondary remedy, the cease and desist order. The Federal circuit got that decision right. I understand the ITC is at a decision point as of today whether they should ask the Supreme Court to review the case. And that would be the first Supreme Court review of an ITC case in a context where the ITC really does not have a role.

Ms. LOFGREN. Well, I just think the whole adventure into this area is very troubling to me. And, Mr. Chairman, I think we ought to talk about whether we should make it clear that we do not want the Commission to do what Congress decided not to do and at least as a possibility. And I see my time is expired so I yield.

Mr. ISSA. Would the gentlelady yield for a——

Ms. LOFGREN. I would yield, of course.

Mr. ISSA. I share with you that feeling that if we are going to have multiple places in which people can seek jurisdiction, and particularly in an Internet age, we have to figure out both the cost to the Federal Government of entities being in multiple areas, the cost to defendants who may find themselves unreasonably in two places.

But I think the last one was the point that you were bringing, too, which was the original intent of the ITC was to act against foreign entities. And, you know, you and I saw in SOPA that often it was a domestic entity that was a target and a foreign entity that was somewhat involved. We do need to recognize that Article III is the right place for domestic entities, and the ITC may have a role in exclusively foreign entities, and I look forward to working with the gentlelady. And I think you have hit exactly on the role

of, how do we divide the difference between trade, which is foreign entities, and the Article III courts we oversee for domestic.

Ms. LOFGREN. Thank you, Mr. Chairman, I yield back.

Mr. ISSA. Thank you very much. We now recognize with great pleasure the Ranking Member of the full Committee, Mr. Conyers.

Mr. CONYERS. Thank you, Mr. Chairman. And I apologize for having to remove myself. I hope this is something that has not been answered already, but I would like to know from anyone that would care to assist in this question, is there data indicating whether the number of patent assertion entities that have filed cases at the ITC is going up or down since our hearing in this Committee about 3 years ago?

Mr. THORNE. I can quickly answer that.

Mr. CONYERS. Please.

Mr. THORNE. In my written testimony, the number of companies sued by NPEs hit a high point in 2012, of 54 percent of the companies sued that year. In the last 3 years, 2013, 2014, 2015, the number of NPE-sued companies is now down to a quarter of the docket. So 75 percent are not sued by NPEs, but a quarter still are.

Ms. SCOTT MORTON. But an NPE is not the same as a PAE, okay? And a non-practicing entity does not sell anything that is a widget. It just sells intellectual property. A patent assertion entity might be asserting patents and also have other businesses. But I think that the—this is a narrow definition that Mr. Thorne is putting forward. The problem is probably bigger than that.

Ms. OKUN. Could I just add something on the data?

Mr. CONYERS. Yes, please do.

Ms. OKUN. Which is the International Trade Commission helpfully lists on its website and puts up Section 337 data, including the number of Section 337 investigations brought by NPE and they have a definition of an NPE one and two, two being closer to a patent assertion entity. So those numbers indicate that in 2015 there were two patent assertion entities, 2014, three, 2013, six. So again, the number has gone down and it is publicly-available to look at.

Mr. CONYERS. Let me just ask this question for Tom Stoll. In light of ITC changes made in recent years to I hope better define the domestic industry as it relates to NPEs and to implement the 100-day pilot program, do you believe additional reforms are necessary to combat abusive patent litigation?

Mr. STOLL. Well, I think it is clear to everyone that whatever problem there was in 2011, 2012, when the number of filings reached their peak, when the number of NPE—if we—you know, using the U.S.—using the ITC's term NPE—the number of those filings have both gone down significantly. And I think it warrants a further look but maybe not legislative action at this point. At least, you know, let us sit back and let us monitor and let us see, you know, if this is going to be a long-term fix or not.

The ITC has clearly proven capable of addressing these issues through the domestic industry requirement, through the pilot program, and I think what we are seeing as a result of that is that people are not bringing frivolous claims. And I really think when we talk about abuse of the patent system, we are talking about people bringing frivolous claims, not legitimate claims.

Mr. CONYERS. Any other comments on that?

Mr. STOLL. I want to make one other point, you know, with this patent hold-up if I could. You know, the ITC has an EPROMs analysis, so that if a patented invention is just a tiny component of a larger product, it is one of the many factors that they will consider in determining, you know, which articles will be excluded.

So in that case, the case involved chips, but when the ITC took a look at it they saw, you know, not only chips but circuit boards in automobiles. And they said, "Well, we will exclude chips, we will exclude, you know, some of these computers, but we are not going to go so far as to allow this to extend to automobiles." And I think that is a reasonable application of their authority.

Ms. SCOTT MORTON. I just wanted to point out that a patent assertion entity seeking money for its intellectual property need not be a frivolous lawsuit. So I do not think that these parties who would like to be monetized for legitimate intellectual property are doing anything wrong by seeking monetization. I think they should seek it in Federal court so that they get the correct number. So it does not mean that the patent is frivolous or that the—or seeking of royalties is frivolous. Just want to make that——

Mr. ISSA. Mr. Whitaker, I know you have been trying to get in.

Mr. WHITAKER. Just one quick comment. One thing that has not been addressed here at all today is that not all exclusion orders, not all remedies at the ITC are the same. There are limited exclusion orders and general exclusion orders, limited being focused just on the respondents that are named, and general exclusion orders, directed to entities that you never can find, and goods that are being brought into the United States that we do not know their source.

And so I think it is important that we state that context that the ITC has a very important role. And I know for clients that I have represented, that is a very important thing. And I think some of the statistics will bear out that as many as 40 percent of the exclusion orders that are issued by the ITC actually rise to the level as being general exclusion orders.

Mr. CONYERS. Thank you, and thank you, Chairman Issa. I will be going over some of these comments from these very worthy six witnesses that we had today.

Mr. ISSA. Thank you, Mr. Conyers. I now ask unanimous consent that a letter from the Consumer Technology Association dated April 13, also to Mr. Farenthold, be placed in the record in support of H.R. 4829. Without objection so ordered.

[The information referred to follows:]

Consumer
Technology
Association

1919 S. Eads St.
Arlington, VA 22202
703-907-7600
CTA.tech

April 13, 2016

The Honorable Tony Cardenas
United States House of Representatives
1510 Longworth House Office Building
Washington, DC 20512

The Honorable Blake Farenthold
United States House of Representatives
1027 Longworth House Office Building
Washington, DC 20515

Dear Representatives Cardenas and Farenthold,

On behalf of the Consumer Technology Association (CTA)™ and our more than 2,200 member companies, I am writing to express support for H.R. 4829, the Trade Protection Not Troll Protection Act. This legislation would help to protect American business from abusive patent suits at the International Trade Commission (ITC).

The ITC promotes and facilitates trade, while keeping counterfeit foreign products out of the U.S. market. This makes it an important resource for the technology industry. Unfortunately, the ITC has also become a desirable venue for patent trolls -- entities that do not create anything, but rather use ITC suits to extort American companies. If Congress wants to give small- and medium-sized businesses a fighting chance against patent abuse at the ITC, reforms like H.R. 4829 are needed.

By modifying the domestic industry standard for ITC cases, H.R. 4829 will make sure that companies filing ITC cases either produce products themselves or license their technologies to companies that put them into production. Patent trolling drains $1.5 billion a week from the American economy. It is not a domestic industry. For or the purposes of standing at the ITC, H.R. 4829 would clarify that the business of filing frivolous lawsuits is not considered a domestic industry.

CES

Thank you for your efforts to ensure that the ITC continues to be a robust resource for U.S. companies, while also making it a less attractive venue for frivolous patent extortion. We look forward to working with you to expand the bipartisan momentum for patent reform.

Sincerely,

Gary Shapiro
President and CEO
Consumer Technology Association

Mr. ISSA. I am going to be very, very brief just to summarize what we have done, and Mr. Nadler if he wants to, too. Mr. Thorne, you brought up a point that I want to make sure I understand because you talked in terms of, if you will, the opportunistic nature of how you would work on either side of a case. Under current law—and we, of course, have limited jurisdiction, but we have absolute jurisdiction over the Federal courts—under current law, Ms. Okun clarified that the 1988 Act specifically prohibited, as a matter of fact, directed, if you will, the—an Article III court to stay, and it effectively prohibited them from ordering the ITC to stay their case.

Taking that at face value, do you think an Article III judge should have or does have the authority, given a—let's just use the example you had, which is an already royalty-based organization that has agreed to give one and all royalties—if they go to the ITC, do you believe that creates a breach of that agreement, and do you believe that an Article III judge today would have the ability to dismiss the case in that they are seeking a remedy—not stay the case, dismiss the case—because they are seeking a remedy which would nullify their claim for dollars?

Mr. THORNE. I believe that if a patent holder in a standards form—these are where competitors come together to collaborate—one of the rare exceptions——

Mr. ISSA. Right, and I am using that example because I think it is unique.

Mr. THORNE. In that situation you make promise—I will enforce my patent only by asking for reasonable royalties. If you breach that promise by seeking an exclusion order from the ITC, I believe a district court has power to enjoin that breach and continued actions in support of that breach so that you could enjoin someone who had gone to the ITC.

Now I read the statute differently than Ms. Okun. I believe that the ability to stay a district court decision is in the—that that option is held by the person sued, not the patent holder.

Ms. OKUN. That is correct. I clarify that. It is the respondent under the statute who can ask for a stay and that was in response to, you know, amendments with the Uruguay Round to make our lock-in system.

Mr. THORNE. Right.

Mr. ISSA. Okay, but I just want to make sure we got that one point in, because likely, anything that Mr. Nadler and Mr. Conyers and the rest of us would work on would be primarily directed toward the Article III judges and what we would guide them to do. Does anyone here want to bet whether or not the Supreme Court is going to get that case since today apparently is the date?

Mr. THORNE. Well, my prediction is that if the ITC asks the Supreme Court to take the question, should the ITC start working on the Internet, I believe the Supreme Court will decline that invitation.

Mr. ISSA. Okay, so we not only have a prediction—we do not have a prediction of will they, but we have the results. Ms. Okun.

Ms. OKUN. Well as you said, there is just a question of Chevron deference in the case, as well, that may be more interesting to the Supreme Court.

Mr. ISSA. As a matter of fact, Justice Roberts constantly says that we had one hearing on Chevron, they have them every day. So I would not be surprised that, A, you could both be right in this matter. We have covered a lot of points.

There were a number of Members who could not make it here, so I would ask all of you, would you be willing for the next 5 days to take follow-up questions for the record?

I have a yes from everybody, and I very much appreciate it.

Do any of you need to make a—I am sorry, Mr. Nadler do you have any——

Mr. NADLER. Well I just—thank you, Mr. Chairman. I just have a general observation. It seems to me very questionable why you would have—and maybe we ought to do something about it—why you would have a situation where one body can issue decrees, call them what you will, that flout the normal equitable considerations that an Article III court would impose.

And also, the question is why you have these dual jurisdictions, we can at least remove a case. These are questions that I am going to look into further. So you should develop one body of case law, and enable the normal equitable considerations to apply because I do not see any reason, unless someone can show me a reason, why you have one area where equity does not—where the equitable principles do not apply, because we all agree on equitable principles, at least I always thought we did. Thank you.

Mr. ISSA. With that I want to thank all of you for participation and we stand adjourned.

[Whereupon, at 11:55 a.m., the Subcommittee adjourned subject to the call of the Chair.]

APPENDIX

Material Submitted for the Hearing Record

International Trade Commission 337 Statistics Report

April 7, 2016

Number of New, Completed, and Active Investigations by Fiscal Year (Updated Quarterly)

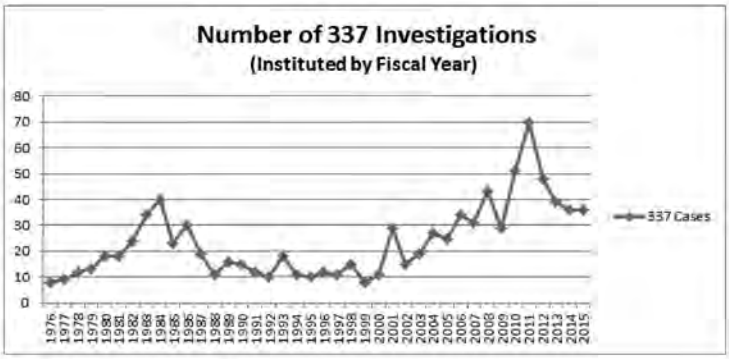
Fiscal year	New Complaints and Ancillary Proceedings	Investigations and Ancillary Proceedings Completed	Active Investigations
2006	40	30	70
2007*	33	35	73
2008	50	38	89
2009	37	43	89
2010	58	52	103
2011	78	58	129
2012	56	57	129
2013	52	72	124
2014**	49	59	100
2015	47	50	88
Q2 FY 2016	38	16	76

*In FY 2007, the USITC started to include proceedings based on remands from the U.S. Court of Appeals for the Federal Circuit in its calculation of ancillary proceedings.

**In FY 2014, the USITC also started to include proceedings based on a request for the rescission of an exclusion order in its calculation of the number of ancillary proceedings filed.

Source: USITC, Budget Justifications, FY 2008–FY 2016; USITC, Performance and Accountability Report, FY 2006–FY 2010; USITC, Annual Performance Report FY 2011–FY 2012; USITC, Annual Performance Plan FY 2014–2015 and Annual Performance Report FY 2013; USITC, Annual Performance Plan FY 2015–2016 and Annual Performance Report FY 2014; USITC, Year in Review, FY 2006–FY 2010; U.S. International Trade Commission FY 2011 At A Glance; U.S. International Trade Commission FY 2012 At A Glance; U.S. International Trade Commission FY 2013 At A Glance

337 Investigations Instituted by Fiscal Year

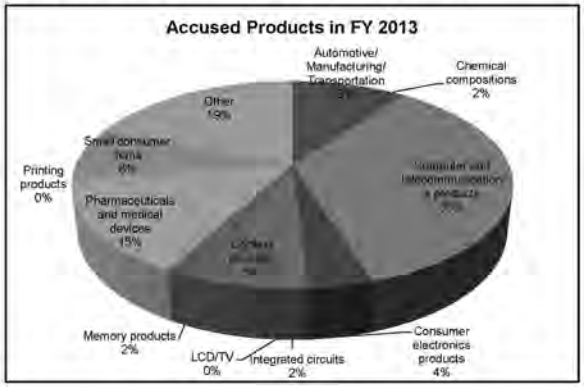


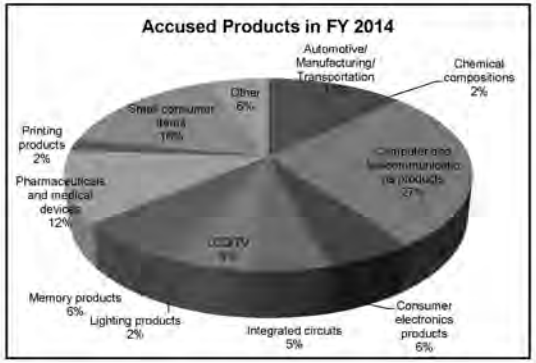
Note: This line chart does not include ancillary proceedings.

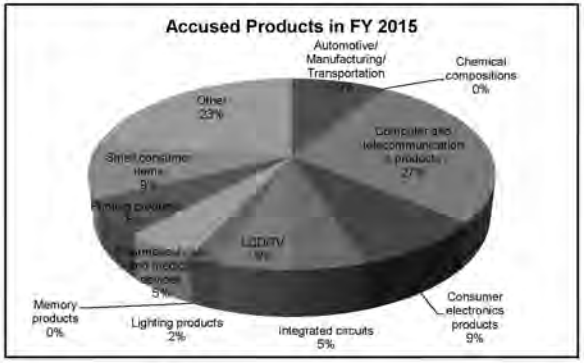
April 7, 2016

Types of Accused Products in New Filings by Fiscal Year (Percent of Total Cases Filed) (Updated Annually)

Product Type	2009	2010	2011	2012	2013	2014	2015
Automotive/Manufacturing/ Transportation	7%	5%	4%	4%	8%	11%	9%
Chemical compositions	2%	0%	1%	2%	2%	2%	0%
Computer and telecommunications products	17%	19%	25%	27%	35%	27%	27%
Consumer electronics products	10%	12%	15%	18%	4%	6%	9%
Integrated circuits	12%	14%	6%	16%	2%	5%	5%
LCD/TV	7%	14%	17%	4%	0%	5%	5%
Lighting products	7%	3%	5%	2%	5%	2%	2%
Memory products	7%	3%	5%	0%	2%	6%	0%
Pharmaceuticals and medical devices	7%	2%	5%	5%	15%	12%	5%
Printing products	5%	9%	4%	2%	0%	2%	6%
Small consumer items	5%	3%	8%	10%	8%	16%	9%
Other	14%	16%	5%	10%	19%	6%	23%





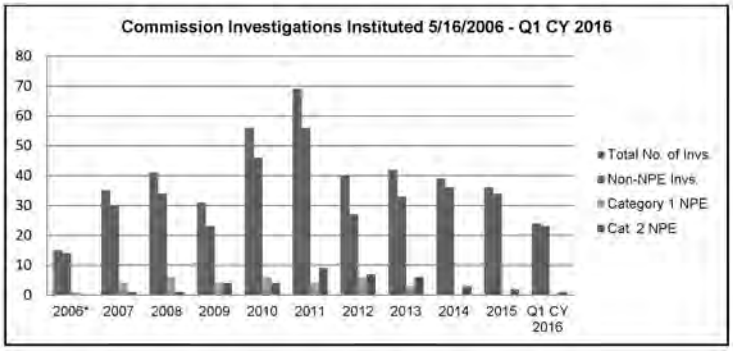


Source: USITC, 337Info.

April 7, 2016

Number of Section 337 Investigations Brought by NPEs (Updated Quarterly)

Calendar Year	Total No. of Invs.	Non-NPE Invs.	Category 1 NPE	Cat. 2 NPE
2006*	15	14	1	0
2007	35	30	4	1
2008	41	34	6	1
2009	31	23	4	4
2010	56	46	6	4
2011	69	56	4	9
2012	40	27	6	7
2013	42	33	3	6
2014	39	36	0	3
2015	36	34	0	2
Q1 CY 2016	24	23	0	1



*Partial year. The data reflects investigations instituted on or after May 16, 2006.

Note: No commonly accepted definition of an NPE exists. For analytical purposes, the Commission has gathered data using the following categories:

Category 1 NPEs. Entities that do not manufacture products that practice[1] the asserted patents, including inventors who may have done R&D or built prototypes but do not make a product covered by the asserted patents and therefore rely on licensing to meet the domestic industry requirement; research institutions, such as universities and laboratories, that do not make products covered by the patents, and therefore rely on licensing to meet the domestic industry requirement; start-ups that possess IP rights but do not yet manufacture products that practice the patent; and manufacturers whose own products do not practice the asserted patents.

Category 2 NPEs. Entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.

[1] To "practice" the patent in the context of section 337 means that a product exists that satisfies at least one claim of each patent asserted in the investigation.

Source: USITC, Budget Justifications, FY 2008–FY 2016; USITC, Performance and Accountability Report, FY 2006–FY 2010; USITC, Annual Performance Report, FY 2011–FY 2012; USITC, Annual Performance Plan FY2014–2015 and Annual Performance Report FY 2012; USITC, Annual Performance Plan FY 2015–2016 and Annual Performance Report FY 2014; USITC, Year in Review, for Fiscal Years 2006–2010; U.S. International Trade Commission FY 2011 At A Glance; U.S. International Trade Commission FY 2012 At A Glance; and U.S. International Trade Commission FY 2013 At A Glance; the USITC's Electronic Docket Information System (EDIS); USITC_337Info

April 7, 2016

Settlements and Withdrawn Complaints as a Percentage of Total Section 337 Investigations Terminated by Fiscal Year[a] (Updated Annually)

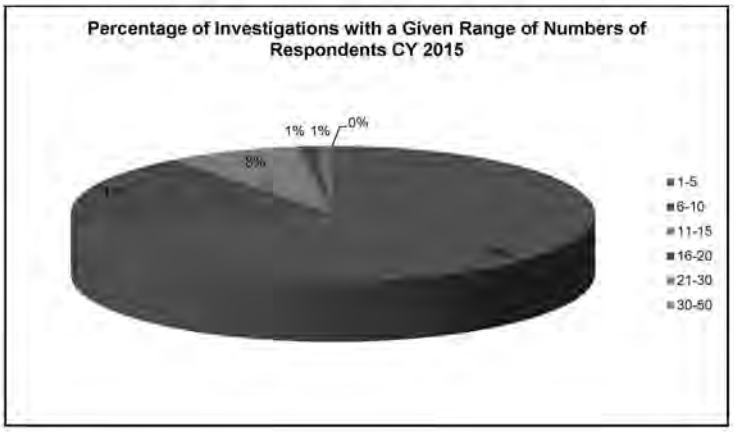
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total No. Investigations	26	29	34	35	45	49	47	63	42	34
Settlement/ Consent Order	46%	37%	35%	45%	51%	57%	40%	40%	47%	59%
Complaints Withdrawn	8%	10%	15%	9%	4%	8%	13%	27%	10%	9%
Total Settlement/Consent Order or Withdrawn	54%	47%	50%	54%	55%	65%	53%	67%	57%	68%

[a] Data represent terminations of original investigations instituted during the period FY 2006–FY 2014. Ancillary proceedings are not included in these data

Source: USITC 337info

Percentage of Investigations with a Given Range of Numbers of Respondents by Calendar Year (Updated Annually)

No. of respondents	2009	2010	2011	2012	2013	2014	2015
1-5	58%	61%	58%	53%	61%	54%	69%
6-10	16%	19%	16%	15%	17%	10%	17%
11-15	16%	7%	13%	10%	15%	23%	8%
16-20	7%	7%	3%	2%	0%	0%	1%
21-30	3%	4%	6%	13%	7%	5%	1%
30-50	0%	2%	4%	7%	0%	8%	0%



Source: USITC 337info

Response to Questions for the Record from Deanna Tanner Okun, former Chairman, International Trade Commission, and Partner, Adduci, Mastriani & Schaumberg, LLP

Ms. Deanna Tanner Okun
June 7, 2016

Page 1

Responses to Questions for the Record from Representative Darrell Issa (CA-49)

Question 1:

You state in your testimony that: "There is a direct link between the protection of U.S. IPR and American competitiveness. Section 337, by serving as a mechanism for protecting U.S. IPR, promotes economic growth and domestic job creation."

Let me ask you to comment on a recent case filed by a Luxembourgian NPE called Enterprise that brought an investigatiou against 80% of the smartphone market, iuclnding Apple, Samsung and LG. Enterprise relied upon Microsoft's domestic activities to meet the domestic industry requirement and was able to do so based on a license that Microsoft entered with Siemens many years prior when Siemens owned the patents. I note that Microsoft, the alleged "domestic industry" being protected, submitted a trial statement that the investigation had adversely impacted it and that it did not desire the relief requested. How does such an investigation "promote economic growth and domestic job creation"?

Response 1:

Section 337, by serving as a border enforcement mechanism for the protection of U.S. intellectual property rights, does, in my view, help promote U.S. economic growth and competitiveness. One outlier case involving a possibly questionable complainant—which did not result in a decision by the Administrative Law Judge ("ALJ") or the Commission—does not alter my view of the overall effectiveness of the statute in meeting the mission delegated to the ITC by Congress.

The ability for an individual, university, start-up, or large company to protect its intellectual property ("IP") ensures that the investments in developing or exploiting that IP are not futile. Licensing IP is an important instrument for disseminating and rewarding innovation that would not otherwise be made available; but if IP owners are unable to protect their IP, companies will be less willing to license in the future. Thus, failure to protect IP hurts the economy by discouraging innovation. Notably, licensing revenues deliver billions to the U.S. economy every year, which facilitates a cycle of innovation, allowing IP owners to fund the development of future creations.[1]

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[1] Economics and Statistics Administration and U.S. Patent and Trademark Office joint report, "*Intellectual Property and the U.S. Economy: Industries in Focus*" at 56-59 (Mar. 2012). *See also id.* at 2 (stating that IP licensing helps drive the U.S. economy forward by "[c]reating a platform for financial

As a result of this economic reality, Congress amended Section 337 in 1988 to provide protection to entities that create and exploit IP in the United States. Congress recognized that industries based on research and development, engineering, and licensing—just like manufacturers—need a remedy against infringing imports. Therefore, non-practicing entities ("NPEs") have the ability to obtain relief under the statute, but only if they can meet the threshold requirement of establishing a domestic industry by detailed pleadings demonstrating substantial investment in the protected articles' exploitation. The Commission's stringent application of the statute to the specific facts of a given case is reflected in its denial of relief to multiple complainants based on a failure to establish the required domestic industry. In fact, since 2011, only three NPEs have succeeded in establishing a licensing-based domestic industry before the Commission.[2] And, while ITC complainants can, technically, rely on the U.S. activities of their licensees in trying to establish a domestic industry, such contentions are typically pleaded in conjunction with the complainant's own U.S. activities. In the last five years, not one NPE has succeeded in establishing a domestic industry based solely on the activities of its licensee.

In the unusual case you reference, *Communications or Computing Devices, & Components Thereof*, Inv. No. 337-TA-925, the complainant, Enterprise Systems Technologies S.A.R.L. ("Enterprise"), relied solely on the U.S. activities of its licensee, Microsoft, for its alleged domestic industry. The ALJ, however, denied a motion for summary determination on domestic industry, stating that the complainant had not established the required nexus between Microsoft's domestic research and development and the technology claimed in the asserted patents.[3] The case settled shortly after this ruling and is consistent with the data cited above, indicating that relying on an unwilling licensee is likely an ineffective strategy at the ITC.

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investments in innovation" and "[e]nabling a more efficient market for technology transfer and trading in technology and ideas").

See also https://www.uschamberfoundation.org/enterprisingstates/assets/files/Executive-Summary-OL.pdf. *See also* http://www.uspto.gov/about-us/news-updates/us-department-commerce-issues-report-role-patent-reform-supporting-innovation (Department of Commerce report finding that approximately 75 percent of the nation's post-World War II growth is linked to technological innovation).

[2] *Certain Liquid Crystal Display Devices*, Inv. No. 337-TA-741/749, Comm'n Op. (July 25, 2012) (the complainant was Thomson Licensing SAS, a subsidiary of Technicolor SA); *Certain Wireless Consumer Elecs. Devices*, Inv. No. 337-TA-853, Comm'n Op. (Mar. 21, 2014) (the complainant was Technology Properties Limited, LLC); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Comm'n Op. (Mar. 26, 2014) (the complainant was InterDigital Technology Corporation).

[3] *Certain Commc'ns or Computing Devices & Components Thereof*, Inv. No. 337-TA-925, Order No. 30 (May 8, 2015).

Indeed, the ITC employs numerous measures to protect the tribunal from frivolous litigation and from unscrupulous complainants.[4] Even if the aforementioned case were, in fact, an example of a complainant that did not belong at the ITC, I would caution against legislative changes that would prevent any prospective complainant from relying, in part, on the activities of its licensees because, of course, it is through licensees that many products reach the market. As one leading inventor, Dean Kamen, described the virtuous cycle, "You can have a great new machine, but unless you have the resources, the distribution, and the reach, you risk it becoming nothing but a science fair project."[5] Over the years, Mr. Kamen has invented many things, yet instead of holding onto the rights and manufacturing products on his own, he partners with companies that can mass-produce his inventions and make them more accessible to the public. For example, he partnered with Life Science Company, Bayer International, in order to make his dialysis device more accessible. Like many inventors, Mr. Kamen licenses his good ideas and his licensees play the crucial role of putting his patents into practice in the marketplace.

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[4] ITC rules require detailed fact pleading for complaints and complaints are reviewed prior to filing by the Commission's Office of Unfair Import Investigations. Drafting a complaint sufficient to meet the ITC's requirements for institution of an investigation is a serious and often expensive undertaking. Other measures adopted by the Commission include: rules that enhance the evidentiary record on the public interest factors; a 100-day pilot program to identify potentially dispositive issues—e.g., domestic industry or standing—and instruct the ALJ to issue an up-front, expedited ruling on that issue; and, simplified discovery procedures to reduce the burden on parties. The Commission has announced additional rulemaking to consider: formalizing the 100 day program with changes to allow input from parties and ALJs; clarifying that, where a complaint asserts multiple unrelated patents or technologies that would result in an unwieldy or lengthy investigation, it may institute multiple investigations based on that complaint; allowing ALJs to sever an investigation into two or more investigations when doing so would provide for more efficient adjudication.

[5] http://www.wired.com/2003/03/segway/ (Mar. 1, 2003).

Question 2:

Of the 8% of PAEs identified in the ITC Datasheet, how many have (or had) parallel district court actions? All of them? Isn't it clear that PAE's don't actually want the only remedy available in the ITC?

Response 2:

I would first note that I am unsure about the reference to the 8% data point in your question. However, as the official ITC data demonstrate, in 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by Category 2 NPEs, also referred to as PAEs.[6]

ITC data do not identify which investigations are included in the statistics, so you would need to seek the specific information from the Commission. However, my research suggests the following investigations are likely the five Category 2 NPE filings from 2014 and 2015: *Certain Wireless Devices, Including Mobile Phones & Tablets II*, Inv. No. 337-TA-905; *Certain Communications or Computing Devices, & Components Thereof*, Inv. No. 337-TA-925; *Certain Wireless Devices, Including Mobile Phones & Tablets III*, Inv. No. 337-TA-942; *Certain Electronic Products, Including Products with Near Field Communication System-Level Functionality and/or Battery Power-Up Functionality, Components Thereof & Products Containing the Same*, Inv. No. 337-TA-950; and *Certain Silicon-on-Insulator Wafers*, Inv. No. 337-TA-966.

These investigations do or did have related district court cases. I am not in a position to comment on the litigation goals of any complainant at the ITC. Yet I can observe, based on my experience at the ITC and in private practice, that the fact-based pleading requirement, along with the fast-paced schedule of Section 337 investigations, discourages frivolous filings. Companies must be prepared to invest time and money to have a case instituted, and litigating a Section 337 case requires significant effort and a substantial investment in legal fees. In my view, the decision by a complainant, whether it is an NPE or an operating company, to also file a district court action is generally to mitigate risks, rather than an indication that ITC complainants do not desire the relief afforded by the ITC.

The relief afforded by the ITC is often essential to ensuring meaningful protection of U.S. IP. Plaintiffs asserting IP rights in district court typically seek monetary damages. However, a U.S. company cannot easily obtain relief in district court against an infringing foreign manufacturer. Sometimes it is impossible even to identify foreign manufacturers because their official identities shift constantly, while the flow of infringing goods into the U.S. market

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[6]https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm. The ITC's data defines *Category 2 NPEs* as "entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents."

continues unabated. ITC complainants, on the other hand, may obtain remedial orders that direct U.S. Customs and Border Protection to block the importation of infringing goods (an exclusion order) or prohibit the marketing and sale of domestic inventories of such goods (a cease and desist order). Section 337 provides the ITC with *in rem* jurisdiction over articles imported into the United States. As such, the ITC's *in rem* jurisdiction is a critical tool in protecting U.S. IP because it provides the ability for complainants to reach overseas companies operating offshore and often outside the reach of Article 3 courts, and to avoid the "whack a mole" problem of forcing a domestic industry to pursue multiple district court cases to try to block manufacturers and suppliers of the infringing products. Furthermore, the ITC's expeditious adjudication helps prevent foreign infringers from gaining U.S. market share while litigation against them languishes in backlogged district courts. Indeed, many fast-evolving technologies run on a short life cycle and the ITC's quick and effective relief is crucial to the viability of those products. To many American companies, the ITC is not a "redundant" tribunal; instead, it is an essential forum for obtaining necessary import relief.

Moreover, I do not agree that NPEs that file ITC complaints do not actually want the relief available at the ITC. IP rights are, by definition, property rights. The enforcement of a property right is inherently beneficial to the owner of that right. And at its core, a patent right is the right to exclude. Thus, the ITC is a particularly efficient means by which to enforce the fundamental purpose of a patent. Furthermore, many NPEs that have filed Section 337 complaints actually developed, or had an affiliate develop, the asserted IP. And some NPEs that assert IP at the ITC may be trying to protect their licensees, who may be American manufacturers, from unfair, infringing imports. Those are precisely the types of entities that Congress had in mind when it amended the domestic industry requirement in 1988, finding that such entities were equally entitled to Section 337 relief as manufacturing companies.[7] Thus, NPEs making legitimate, substantial investments in the U.S. economy are entitled to ITC remedies, otherwise Congress would not have amended the statute expressly to authorize them to bring complaints.[8]

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[7] 19 U.S.C. § 1337(a)(3)(C) (emphasis added); *See also* H.R. Rep. No. 100-40, at 155-59 (1987) (stating that "the fundamental purpose for the amendments . . . is to strengthen the effectiveness of section 337 in addressing the growing problems being faced by U.S. companies from the importation of articles that infringe U.S. intellectual property rights . . . |t|he definition |of domestic industry| could, however, encompass universities and other intellectual property owners who engage in extensive licensing of their rights to manufacturers."; *See also* S. Rep. No. 100-71, at 127-30 (1987) (stating that the amendments "contain provisions which are designed to strengthen U.S. intellectual property right protection both domestically and internationally. The Committee places great importance on this issue because it believes that the technology and innovativeness of U.S. companies is unparalleled in the world. However, without adequate protection of these intellectual property rights, U.S. companies are at a significant disadvantage in competing in the world marketplace").

I would also observe that filing a parallel court action does not mean the ITC is a redundant tribunal. To the contrary, the ITC's focus on border enforcement reflects "the long-standing principle that importation is treated differently than domestic activity."[9] Indeed, there are "different statutory underpinnings for relief before the Commission in Section 337 actions and before the district courts in suits for patent infringement."[10] Moreover, Section 337 specifically states that the unfair acts it regulates "shall be dealt with, *in addition to any other provision of law* . . . ."[11] Congress thus long ago recognized that Section 337 addresses issues different from those addressed by the patent statutes and preserved Section 337 as an additional, distinct source of redress for U.S. industries harmed by infringing imports.

In any event, redundancy is a characteristic of the American judicial system. Most cases involving businesses and individuals can be brought in either state or federal court. State court is usually the default forum, with litigants gaining access to a federal court under the doctrine of " diversity jurisdiction." Commercial entities often prefer to be in federal rather than state court, in part because they fear an anti-business bias from state courts. The federal-state redundancy thus serves the purposes of corporations by permitting them to avoid the perceived anti-business bias of state tribunals.

State courts have no jurisdictional authority to hear disputes regarding IP or international trade; such matters are exclusively within the purview of federal courts and agencies. Thus, ITC respondents are already exempted from any similar actions in state court, meaning there is less redundancy with respect to Section 337 than the vast majority of U.S. laws. Moreover, ITC respondents are not forced to defend simultaneously a similar lawsuit in federal court. Pursuant to 28 U.S.C. § 1659, a district court must, at the timely request of an ITC respondent that is also a defendant in the related civil action, stay the civil action until termination of the Section 337 proceeding.

Therefore, the ITC and federal district courts are not identical adjudicatory bodies. The sole purpose of Section 337 is to protect domestic industries from unfair practices in import trade. For some domestic industries, an expeditious, expert forum that provides border relief is a critical tool in maintaining their innovative edge against infringing imports.

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[8] In 1988, Congress modified the statute so that companies making a "substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing," could establish the existence of a domestic industry and obtain relief under the statute. *See* 19 U.S.C. § 1337(a)(3)(C) (emphasis added).

[9] *Spansion, Inc. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

[10] *Id.* at 1358.

[11] 19 U.S.C. 1337(a)(1) (emphasis added).

Responses to Questions for the Record from Representative Blake Farenthold (TX-27):

Question 1:

In recent years we have seen investigations filed where non-practicing entities (NPEs) seek exclusion of large percentages of the U.S. market for various products, smartphones, televisions and other consumer products (respondents with 50-80% is not uncommon) How would consumers/U.S. taxpayers be served if such relief were granted?

Response 1:

First, I am not aware of data showing that non-practicing entity ("NPE") complainants have regularly sought ITC relief against respondents that represent 50-80 percent of the U.S. market. And, more importantly, I am not aware of any exclusion orders issued over the last ten years that cover products representing a majority of the market.[12] Second, the statutory public interest factors already provide a mechanism for the Commission to evaluate whether the exclusion of a product will have adverse effects on the public. Third, the ability of ITC complainants to name multiple respondents is not the result of the Commission's practices or decision-making, and, in any event, such a set-up actually reduces the amount of litigation and reduces administrative costs. Fourth, combatting infringement of intellectual property has benefited, not harmed, U.S. consumers based on numerous reports. [13] I will address each of these points.

As a threshold matter, I do not see evidence that NPEs are abusing the ITC to the detriment of U.S. consumers. NPEs rarely file Section 337 complaints. In 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by NPEs.[14] In fact, according to Commission data, between 2006 and 2015, Category 1 NPEs (research institutions, start-ups, and individual inventors) accounted for just eight percent of Section 337 investigations, and Category 2 NPEs (whose business model focuses on purchasing and asserting patents) accounted for just nine percent of cases. Moreover, of the 67 exclusion orders issued by

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[12] *See* attachment.

[13] http://cpip.gmu.edu/2013/11/12/adam-mossoff-on-patented-innovation-licensing-litigation-transcript/. *See also* http://www.wsj.com/news/articles/SB10001424127887324432404579053633559235404.

[14] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

the Commission since May 2006, only four were on behalf of an NPE complainant and all four were limited exclusion orders tailored narrowly to the respondents' products. In each of the four investigations, the Commission weighed the public interest factors to ensure that the limited exclusion orders did not adversely impact the public interest. In addition, recent changes to the Commission's rules, procedures, and case law analyses—including with respect to early domestic industry hearings, public interest inquiries, discovery practices, and tailoring remedies—have made it even more difficult for NPEs to succeed at the ITC.

Second, before issuing any remedial orders, the Commission is required by statute to consider the effect of such relief on the public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive articles in the United States, and U.S. consumers.[15] The Commission analyzes these factors prudently and evaluates whether they weigh against adopting an exclusion order. Thus, if limiting the supply of a product to the market is an issue in an investigation, the Commission thoroughly weighs this impact in its public interest analysis, as demonstrated through the case law.

For example, the ITC has tailored exclusion orders due to public interest concerns. In *Certain Baseband Processor Chips*, Inv. No. 337-TA-543, the Commission provided carve-outs from the exclusion order in view of the then-developing 3G wireless network and the need for first responders to use that network. In *Certain Personal Data & Mobile Communications Devices*, Inv. No. 337-TA-710, the Commission: (a) delayed enforcement of the remedial orders by four months to provide network carriers time to replace infringing smartphones; and (b) permitted the respondent to import replacement parts to be provided to customers under warranties and insurance contracts.

Also, ALJs have recommended modified remedies based on public interest concerns. This occurred, for example, in *Certain Microprocessors*, Inv. No. 337-TA-781, an investigation in which the complainant was an NPE. The ALJ found no violation but recommended, in the event the Commission found a violation, a nine-month delay of the entry of any exclusion order to allow respondents time to adjust their manufacturing operations to incorporate non-infringing components.[16]

Third, even if NPEs were often filing ITC complaints against large portions of certain product markets (which is not the case), that would not be the result of any ITC practice or precedent, and is not specific to NPEs. The ITC's April 2013 factsheet concludes that "[d]ue to the relatively small number of NPE investigations, data for average numbers of respondents per

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[15] *See* 19 U.S.C. § 1337(d)-(f).

[16] The Commission ultimately terminated the investigation with a finding of no violation. *See Certain Microprocessors*, Inv. No. 337-TA-781, Notice of Commission Determination (Feb. 15, 2013).

investigation by complainant category appear inconclusive."[17] The factsheet also states that "[d]ata concerning the total number of named respondents likewise indicate that the number of named respondents varies substantially from year to year across all complainant categories." Furthermore, according to the ITC's statistics on the percentage of investigations with a given range of numbers of respondents, the majority of Section 337 investigations involve 1-5 respondents.[18]

The increase in the number of respondents began, for the most part, following the Federal Circuit's decision in *Kyocera Wireless Corp. v. International Trade Commission*. The Federal Circuit held that the Commission did not have statutory authority to exclude the "downstream" products of companies that were not named as respondents in the investigation. Particularly in the high-tech sector, most infringement occurs at the "downstream" level; for example, infringing flash memory chips are typically imported as components of a consumer electronic device. Thus, for complainants to obtain meaningful relief against such infringement in the wake of the *Kyocera* decision, they must name as respondents the importers of the finished products. It is also important to note that the number of respondents in a Section 337 case is often misleading. Many companies have multiple branches, subsidiaries, and divisions named in a complaint, perhaps because various entities are involved in different aspects of the manufacturing, importing, and selling processes. So instead of a case simply being Company A v. Company B, there may be five different forms of Company B separately named in the complaint. For example, in *Certain Consumer Electronics*, the respondents included: Samsung Electronics Co., Ltd.; Samsung Electronics America, Inc.; Samsung Telecommunications America, L.L.C.; and Samsung Semiconductor, Inc. All of these entities are subsidiary and affiliate companies of the parent company, Samsung Group.[19] Thus, the practice of naming every potential importer artificially boosts the number of respondents, but does not mean that multiple companies are actually expending resources defending themselves in the action.

Finally, consumers are in fact served when IP is protected, especially in the context of infringing imports. This is particularly evident in the mobile technologies industry: an area of the economy that the vast majority of Americans use every day. Despite the plethora of IP litigation involving mobile technology over the past 10 years, innovations have continued and consumers have greatly benefited from these innovations. Dramatic improvements in mobile communications standards have propelled mobile to become the fastest adopted technology of all

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[17] https://www.usitc.gov/press_room/documents/featured_news/sec337factsupdate.pdf at 4.

[18] https://www.usitc.gov/intellectual_property/337_statistics_percentage_investigations_given.htm

[19] *See Certain Consumer Elecs. & Display Devices with Graphics Processing And Graphics Processing Units Therein*, Inv. No. 337-TA-932, Complaint (Sept. 11, 2014).

time.[20] As a result, user and network infrastructure costs have fallen significantly, data transmission speeds have skyrocketed, and industry-driven collaborations and patent licensing have helped solve technical problems. Companies in the mobile value chain, in turn, have continued to invest in infrastructure and research and development, leading to further improvements that benefit consumers and the broader economy. Indeed, mobile is a tremendous engine of economic prosperity: the mobile value chain generated over $3 trillion in revenue globally in 2014 and is directly responsible for 11 million jobs.[21] Strong patent protection (including enforcement through litigation) has helped drive this industry to the benefit, not detriment, of consumers.

The protection of IP has cultivated innovation to the benefit of the U.S. economy in countless other industries as well. Former Director of the United States Patent and Trademark Office, David Kappos, noted that the patent system affords both large and small innovators the ability to get their inventions to market, to reinvest into new innovations, and "… to sustain a competitive balance, ensuring collaboration is a fruitful enterprise for all participants."[22] This cycle of innovation fuels the U.S. economy.[23] For example, for large innovators such as Microsoft, or pharmaceutical company Pfizer, the patent system provides the opportunity to recoup their often enormous R&D expenses spent on new technology, or ground-breaking drugs, and allows them to reinvest the surplus into further innovation.[24] And for small companies, such as software startups, the patent system protects their inventions and facilitates collaboration through licensing with industry partners. Without proper patent protection, inventors would lose their investments and the cycle of innovation would be stunted to the detriment of consumers, who greatly benefit from new inventions. Thus, consumers and the public are served when IP is protected, especially in the context of infringing imports.

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[20] Boston Consulting Grp., *The Mobile Revolution: How Mobile Technologies Drive a Trillion-Dollar Impact*, at 4-5 (January 2015).

[21] *Id.* at 8.

[22] http://fortune.com/2015/05/08/why-americas-patent-system-is-not-killing-innovation/.

[23] *Id.*

[24] *Id.*

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Question 2:

A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITC's powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

Response 2:

The evidence demonstrates that whatever NPE "problem" may have previously existed at the ITC, the Commission has resolved through its decisions, guidance from the U.S. Court of Appeals for the Federal Circuit ("CAFC") and rulemaking procedures.

Although litigation at the ITC accounts for only a minute fraction of intellectual property litigation in the United States, Section 337 filings did increase in 2010 and 2011, from 31 investigations in 2009 to 56 and 69 investigations, respectively.[25] This increase was due in large part to business- and technology-driven developments, particularly in the mobile technologies industry. It is also true that some of the increase in Section 337 activity was the result of NPE filings. Since that time, however, the data confirm that the vast majority of Section 337 complainants are manufacturing companies.[26]

Since 2011, the number of Section 337 complaints filed by both manufacturing companies and NPEs has decreased every single year.[27] In 2014 and 2015, only 5 of the 75 total Section 337 investigations (under seven percent) were brought by NPEs.[28] This decrease is likely due to the Commission's increasingly rigorous examination of domestic industry, its enhanced procedures for examining the public interest, and its changes in administrative procedures, including procedures for deciding dispositive issues, such as domestic industry, early in the investigation. Indeed, since 2011, many NPEs have failed to establish a domestic industry, decisions that have been upheld by the CAFC. Meanwhile, the Commission's heightened application of public interest—through both its decisions and its rules changes—may have convinced many NPEs to assert their IP elsewhere. In addition, the ability of an NPE to extract a settlement has been substantially weakened by the introduction of a procedure to examine, up front, whether the domestic industry requirement is satisfied. The ITC has thus communicated,

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[25] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

[26] *Id.*

[27] *Id.*

[28] *Id.*

through its decisions and regulatory actions, that it is not the proper forum for complainants with questionable ties to the U.S. economy.

Although I am unclear about the reference in the question to the "loophole" allowing "trolls in," it was certainly Congress's intent, in amending the statute in 1988, to allow NPEs which could meet the threshold domestic industry requirement to request relief under Section 337. A statutory change that prevents any NPE from bringing a case would deny border relief to individuals, start-ups, universities, and other non-manufacturing entities that are making important and meaningful contributions to the U.S. economy through research and development, engineering and licensing.

The data demonstrate that the Commission is capable of preventing the tribunal from abuse by PAEs or other frivolous litigants. Congressional action should be reserved for a time when there is clear evidence the Commission is abusing its statutory mandate or that its decisions are adversely impacting the U.S. economy or the public interest. At present, there is no such evidence.

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Question 3:

Several witnesses have said that patent trolls haven't been a big problem in the ITC. But there's an obvious explanation for that: patent trolls favored software patents, and software isn't the kind of thing that is imported traditionally on ships, so the ITC's powers were pretty irrelevant. But things are changing. As Mr. Thorne pointed out, the ITC did make an attempt to expand its powers to reach software and Internet downloads, and though this has failed so far, if the ITC eventually gets its way that could open the door for all sorts of software patent trolls to enter the ITC. And in any event, the growing number of Internet of Things devices means that more and more software will actually be imported on ships-software embedded in thermostats, hoverboards, appliances, and other things. So isn't it pretty shortsighted to say that patent trolls aren't a problem at the ITC, when iu fact the Internet of Things is just about to open a golden opportunity for trolls at the ITC?

Response 3:

I see no basis in the statute, the data, or decisions by the Commission and its reviewing court (the CAFC) to predict that the Internet of Things will "open a golden opportunity for trolls at the ITC." First, the ITC has already demonstrated an ability to weed out questionable entities and weak claims. In 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by NPEs.[29] In fact, according to Commission data, between 2006 and 2015, Category 1 NPEs (research institutions, start-ups, and individual inventors) accounted for just 8 percent of Section 337 investigations, and Category 2 NPEs (whose business model focuses on purchasing and asserting patents) accounted for just 9 percent of cases. Moreover, of the 67 exclusion orders issued by the Commission since May 2006, only four were on behalf of an NPE complainant and all four were limited exclusion orders tailored narrowly to the respondents' products. This decrease in NPE investigations is likely due to the Commission's increasingly rigorous examination of domestic industry, its enhanced procedures for examining the public interest, and its changes in administrative procedures, including procedures for deciding dispositive issues, such as domestic industry, early in the investigation. Because the statute is technology- and business-model neutral, I see no reason to predict that a software "troll" will have more success at the ITC in the future than other PAEs have in the past.

Second, while software patents have increased, Section 337 filings have been decreasing since 2011, suggesting there is not a direct correlation between the number of software patents and the number of case filings. Although the ITC tracks the type of accused products in new filings by fiscal year,[30] it does not publish data on the type of patent asserted. A review of ITC

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[29]https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

[30]https://www.usitc.gov/intellectual_property/337_statistics_types_accused_products_new_filings.htm.

cases, however, indicates that software patents have been litigated at the ITC, and likely will continue to be litigated under the same rules and procedures as any other patent.

Finally, based on the CAFC decision in *ClearCorrect Operating, LLC v. International Trade Commission*, I see no basis for the concern that software patents implicated by internet downloads could lead to an increase in Section 337 litigation. In November 2015, the CAFC held that Section 337 does not provide the ITC with the power to regulate or exclude so-called digital transmissions. Specifically, the court concluded that "[T]he literal text, the context in which the text is found within Section 337, and the text's role in the totality of the statutory scheme all indicate that the unambiguously expressed intent of Congress is that 'articles' means 'material things' and does not extend to electronically transmitted digital data."[31] Then, after the ITC asked the full court to reconsider its decision, the court reaffirmed its conclusion.[32] Thus, digital transmissions are not considered "articles" within the scope of Section 337.[33]

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[31] Opinion at 30-31, *ClearCorrect Operating, LLC v. Int'l Trade Comm'n*, No. 2014-1527, (Fed. Cir. Nov. 10, 2015).

[32] Order at 8, *ClearCorrect Operating, LLC v. Int'l Trade Comm'n*, No. 2014-1527, (Fed. Cir. Mar. 31, 2016).

[33] The period of time for the Commission to request that the Supreme Court of the United States review the CAFC's decision in *ClearCorrect Operating, LLC v. International Trade Commission* has not yet passed. In the event the Supreme Court hears the case and reverses the CAFC decisions, the question of whether that decision will result in more software trolls at the ITC can be revisited.

Question 4:

Can you identify even a single instance in the last 10 years where an NPE was not able to get jurisdiction over some entity in the US against which to enforce its patent rights? Won't those NPEs (Universities or small engineering firms) be able to establish domestic industry under 337(a)(3)(C) for engineering or R&D?

Response 4:

I do not have the information available to answer your specific question about every case involving an NPE in the last 10 years, but, based on my understanding and experience, there are often companion district court cases to Section 337 investigations, regardless of whether the complainant is an NPE or a manufacturing company. The ability to litigate in district court, however, does not mean that the forums are redundant. The purpose of Section 337 is to provide prospective, permanent protection to the U.S. operations, employment and investments of domestic industries. A damages case brought in district court cannot provide this kind of broad, prospective relief to remedy harm to a U.S. industry – damages, at best, are a consolation prize for historical harm, and then only in the form of lost profits. In addition, many Section 337 investigations do involve foreign entities that are outside the reach of district courts. Moreover, even if a domestic industry can establish personal jurisdiction in district court, it may be impossible to enforce the collection of any monetary damages awarded. In such circumstances, the ITC offers the more effective remedy of stopping the importation of infringing goods into the United States.

The ITC is a trade remedy with *in rem* jurisdiction over articles imported into the United States. Thus, ITC complainants may obtain remedial orders that direct U.S. Customs and Border Protection to block the importation of infringing goods (an exclusion order) or prohibit the marketing and sale of domestic inventories of such goods (a cease and desist order). As such, the ITC's *in rem* jurisdiction is a critical tool in protecting U.S. IP because it provides the ability for complainants to reach overseas companies operating offshore and often outside the reach of Article 3 courts, and to avoid the "whack a mole" problem of forcing a domestic industry to pursue multiple district court cases to try to block manufacturers and suppliers of the infringing products.

Indeed, U.S. district courts are often powerless to protect U.S. industry from myriad suppliers of knock-off products, whose official identities shift constantly. Meanwhile, the flow of infringing goods may continue unabated. The following examples demonstrate the essential protection provided by Section 337 in such circumstances.

- In *Certain Loom Kits for Creating Linked Articles*, Choon's Design of Wixom, Michigan, sought relief from the importation of craft jewelry- and toy-making kits that infringed its patent. The Commission found that many infringing kits were being sold on the internet

by anonymous sellers from China.[34] The Commission noted that Choon's had filed nine district court lawsuits against infringers and had sent cease and desist letters to multiple websites selling infringing kits, to little avail. Accordingly, the Commission issued a general exclusion order against all imports of infringing loom kits, providing the type of relief needed to prevent further widespread infringement and the type of relief that Choon's was unable to obtain outside the ITC.

- In *Certain Electronic Paper Towel Dispensing Devices*, Georgia-Pacific of Atlanta, Georgia, sought relief against imports that infringed its U.S. patents. The Commission found, *inter alia*, that: (a) there was interchangeability of manufacturers; (b) the products were easy and inexpensive to manufacture; (c) there were many well-established distribution channels and internet retailers actively selling the articles; and (d) many of the infringing products were being sold unlabeled. The Commission thus concluded it was extremely difficult to identify the sources of the infringing articles. The Commission issued a general exclusion order prohibiting the importation of all electronic paper towel dispensers that infringed the asserted patents.[35] Given the nature of the supply chain, Georgia-Pacific could not have obtained any such relief in district court.

- In *Certain Hair Irons*, Farouk Systems of Houston, Texas, sought relief against the importation of hair irons that infringed its trademarks. The Commission noted that Farouk had litigated 21 district court actions seeking to stop the importation and sale of infringing products. The Commission also cited findings that the infringing manufacturers were improperly marking the country-of-origin of their products in an effort to increase confusion as to the actual source of the articles. Additionally, the Commission found that the infringing hair irons were primarily distributed over the internet, "a method that lends itself to anonymity and makes it difficult to determine the source of the infringing products."[36] The Commission issued a general exclusion order, the type of robust relief Farouk could not obtain from its 21 lawsuits in various federal courts.

- In *Certain Energy Drink Products*, Red Bull Energy Drinks of Santa Monica, California, sought relief against imports that violated its trademark and copyrights. The Commission

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[34] *See Certain Loom Kits for Creating Linked Articles*, Inv. No. 337-TA-923, Comm'n Op. at 12-14 (June 26, 2015).

[35] *See Certain Electronic Paper Towel Dispensing Devices & Components Thereof*, Inv. No. 337-TA-718, Comm'n Op. on Remedy, the Public Interest, and Bonding (Jan. 20, 2012).

[36] *Certain Hair Irons & Packaging Thereof*, Inv. No. 337-TA-637, Comm'n Op. on Remedy, the Public Interest, and Bonding at 4-5 (June 20, 2009).

found that numerous unspecified entities were producing and importing gray market energy drinks. The Commission noted that Red Bull had filed multiple cases in federal courts and had identified 250 suspected parties who were engaged in gray market activities across the United States.[37] The Commission issued a general exclusion order, providing Red Bull with relief it could not attain from its multitude of district court actions.

- In *Certain Inkjet Ink Cartridges with Printheads*, Hewlett-Packard of California and Texas obtained a general exclusion order against products that infringed its U.S. patents relating to inkjet printers.[38] Hewlett-Packard returned to the ITC in *Certain Inkjet Ink Supplies*, in which it obtained a general exclusion order relating to imports that infringed other patents.[39] In each instance the ITC noted that it was difficult to identify the origins of infringing products, in part because the imports were generically packaged and there were numerous, unnamed contract manufacturers—primarily in China—involved in the production of the infringing goods.

- In *Certain Hydraulic Excavators*, Caterpillar of Peoria, Illinois sought relief against the importation of gray market excavators that infringed its trademarks. A pattern of violation was shown by the identification of thousands of gray market excavators within the United States. Caterpillar proved that it could not establish the sources of these infringing products and that multiple foreign manufacturers were involved in the supply chain. The Commission issued a general exclusion order prohibiting the importation of the infringing excavators.[40] Caterpillar could not have obtained such relief in district court.

These examples demonstrate that the ITC is an indispensable forum for protecting U.S. IP owners from infringing imports. That is especially true with respect to knockoffs from China, the number one source of infringing products seized at the U.S. border. Of the 313 Section 337 investigations instituted between 2008 and 2015, approximately 80 percent of the accused products were imported from China, and over 25 percent of cases involved at least one Chinese

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[37] *See Certain Energy Drink Products*, Inv. No. 337-TA-678, Comm'n Op. on Remedy, the Public Interest, and Bonding (Sept. 8, 2010).

[38] *See Certain Inkjet Cartridges With Printheads & Components Thereof*, Investigation No. 337-TA-723, Comm'n Op. (Dec. 1, 2011).

[39] *See Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-730, Comm'n Op. (Feb. 24, 2012).

[40] *See Certain Hydraulic Excavators & Components Thereof*, Inv. No. 337-TA-582, Comm'n Op. (Feb. 3, 2009).

respondent. The ITC is not a "redundant" tribunal to these U.S. IP owners; instead, the ITC serves as an essential forum for obtaining needed import relief. Moreover, Congress amended Section 337 in 1988 to address the concern that the Commission was interpreting the statute too narrowly by refusing to find that companies that invested in exploiting patents through licensing could meet the domestic industry requirement.[41] Congress modified the statute to make clear that companies making "a substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing," could establish the existence of a domestic industry and obtain relief under the statute.[42] The legislative history does not evidence a concern that the companies who would meet the domestic industry requirement and therefore be eligible to seek border enforcement protection from infringing products already had the ability to seek relief through district courts. Moreover, the CAFC has confirmed that the *in rem* relief offered by the ITC "follows the long-standing principle that importation is treated differently than domestic activity."[43] And "[t]he legislative history of the amendments to Section 337 indicates that Congress intended injunctive relief to be the normal remedy for a Section 337 violation."[44] Further, the statute itself states that the activities it prohibits "shall be dealt with, *in addition to* any other provision of law."[45] Therefore, in my view the relevant inquiry is not whether an NPE or any domestic industry could establish personal jurisdiction. Instead, the focus should be on

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[41] The 1988 amendments were a reaction, in part, to a few ITC decisions denying relief to complainants. In particular, in *Certain Products with Gremlins*, the Commission found that a domestic industry did not exist where the U.S. company, Warner Brothers, Inc., relied on licensing to support its domestic industry claim. (*See Certain Products with Gremlins Character Depictions*, Inv. No. 337-TA-201, Comm'n Op. (Jan. 16, 1986)). Further, Congress sought to grant protection to entities like universities and small businesses that make substantial domestic investments but do not manufacture products. *See* H.R. Rep. No. 100-40, at 155-59 (1987) (stating that "the fundamental purpose for the amendments … is to strengthen the effectiveness of section 337 in addressing the growing problems being faced by U.S. companies from the importation of articles that infringe U.S. intellectual property rights …. [t]he definition [of domestic industry] could, however, encompass universities and other intellectual property owners who engage in extensive licensing of their rights to manufacturers."; *see also* S. Rep. No. 100-71, at 127-30 (1987) (stating that the amendments "contain provisions which are designed to strengthen U.S. intellectual property right protection both domestically and internationally. The Committee places great importance on this issue because it believes that the technology and innovativeness of U.S. companies is unparalleled in the world. However, without adequate protection of these intellectual property rights, U.S. companies are at a significant disadvantage in competing in the world marketplace").

[42] *See* 19 U.S.C. § 1337(a)(3)(C).

[43] *Spansion, Inc. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

[44] *Id.* at 45.

[45] (emphasis added).

ensuring that domestic industries facing foreign infringers have effective enforcement tools, including Section 337.

Congress recognized that large and small U.S. companies, as well as universities and research institutions that develop and utilize IP being infringed by unfair imports, should be afforded protection under Section 337. This is especially true considering that importers of infringing goods can gain market share by selling their products in the United States while infringement cases against them languish in backlogged district courts (district court IP cases typically last more than two years, and often much longer). This protection is critical not only for IP owners, but for American manufacturers who paid for a license to exploit the invention.

Because the Commission engages in an extremely fact-intensive analysis of whether a complainant has established a domestic industry, I cannot speculate on whether your hypothetical university or small engineering firm would succeed in establishing a domestic industry on research and development or engineering. I can, however, make two observations based on data.

First, a review of Section 337 complaints illustrates that most complainants attempt to establish a domestic industry under more than one of the factors. For example, in *Certain Muzzle-Loading Firearms*, complainants Thompson Center Arms Company and Smith & Wesson Corporation relied on all three subparts of the statute to establish a domestic industry, namely: significant investments in plant and equipment, significant employment in labor and capital, and substantial investments in exploitation of the asserted patents in the United States, including research and development and engineering.[46] In another investigation, complainant Choon's Design Inc. also relied on all three subparts of the statute and all three parts of subpart C to establish domestic industry, namely: significant investment in plant and equipment, significant employment of labor and capital, and substantial investment in the exploitation of its patent, including engineering, research and development, and licensing.[47]

Second, while the statute contemplates that a domestic industry can be established based on licensing activities,[48] only three NPEs have succeeded in establishing a licensing-based

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[46] *Certain Muzzle-Loading Firearms & Components Thereof*, Inv. No. 337-TA-777, Complaint at 24-27 (May 10, 2011).

[47] *See Certain Loom Kits for Creating Linked Articles*, Inv. No. 337-TA-923, Complaint at 28-30 (July 1, 2014). *See also* 19 U.S.C. § 1337(a)(3)(C).

[48] Under 19 U.S.C. § 1337(a)(3)(C), [a domestic 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, mark work, or design concerned—] "substantial investment in its exploitation, including engineering, research and development, *or* licensing" (emphasis added). Notably, IP licensing is one of the few industries in which the United States enjoys a significant trade surplus, delivering billions to the

domestic industry since 2011, when the Commission adopted a more stringent analysis for such allegations.[49] In 2012, three NPEs—*including two which had previously satisfied the domestic industry requirement*—failed to prove that their licensing investments were sufficient.[50] In 2013 and as recently as March 2016, more NPEs failed to establish a domestic industry based on licensing investments,[51] and in 2014 and 2015, additional complainants failed to satisfy the requirement because their purported research and development activities were insufficient.[52]

U.S. economy every year.[48] Moreover, IP licensing bolsters the U.S. economy by encouraging companies, domestic and foreign, to develop and disseminate IP in the United States.

[49] *See Certain Liquid Crystal Display Devices*, Inv. No. 337-TA-741/749, Comm'n Op. (July 2012) (the complainant was Thomson Licensing SAS, a subsidiary of Technicolor SA); *Certain Wireless Consumer Electronics Devices*, Inv. No. 337-TA-853, Comm'n Op. (Mar. 21, 2014) (the complainant was Technology Properties Limited, LLC); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Comm'n Op. (Mar. 26, 2014) (the complainant was InterDigital Technology Corporation). *See also, Certain Multimedia Display & Navigation Devices & Systems*, Inv. No. 337-TA-694, Comm'n Op. (Aug. 8, 2011). In this seminal 2011 case concerning a licensing-based domestic industry, the Commission held that the complainant must meet three threshold requirements: (1) the investments must constitute an exploitation of the individual asserted patent; (2) the investments must relate to licensing; and (3) the investments must be domestic, i.e., occur in the United States. Factors to assess in determining whether there has been substantial investment include the number of licensees, the amount of revenue generated from license agreements, and the number of U.S. employees involved in the relevant licensing efforts. Litigation expenses, alone, are insufficient to satisfy the test.

[50] *Certain Semiconductor Chips*, Inv. No. 337-TA-753, Comm'n Op. (Aug. 2012); *Certain Integrated Circuits*, Inv. No. 337-TA-786, Comm'n Op. (Oct. 2012); *Certain Video Game Systems & Controllers*, Inv. No. 337-TA-743, Comm'n Op. (Jan. 20, 2012).

[51] *Certain Microprocessors*, Inv. No. 337-TA-781, Initial Determination (Dec. 14, 2012) (the domestic industry finding was vacated by the Commission in a Feb. 15, 2013 notice, without reaching the merits, because the finding was non-dispositive in view of the Commission's adopted claim constructions); *Certain Products Having Laminated Packaging*, Inv. No. 337-TA-874, Comm'n Op. (Sept. 3, 2013); *Certain Lithium Metal Oxide Cathode Materials, Lithium-Ion Batteries for Power Tool Products Containing Same & Power Tool Products with Lithium-Ion Batteries Containing Same*, Inv. No. 337-TA-951, Initial Determination (Mar. 10, 2016) (currently pending possible review by the Commission).

[52] *See Certain Integrated Circuit Chips*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014); *Certain Sulfentrazone, Sulfentrazone, Compositions, & Processes for Making Sulfentrazone*, Inv. No. 337-TA-914, Initial Determination (Apr. 10, 2015) (domestic industry finding set aside by the Commission because no violation was found based on other grounds); *Certain Television Sets, Television Receivers, Television Tuners, & Components Thereof*, Inv. No. 337-TA-910, Comm'n Op. (Oct. 30, 2015).

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Question 5:

The tenor of your previous statements is that the ITC does not have a PAE problem, and that allegations to the contrary are "hype". What do you have to say to the many US operating companies, such as Avaya, who make products here, employ thousands of Americans, and who have a true "domestic" industry, when they are harmed by PAEs using the ITC to "hold" them up?

Response 5:

The data confirm that the ITC does not have a PAE problem. In 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by Category 2 NPEs.[53] The number of NPEs and PAEs filing Section 337 complaints has dropped considerably since 2011, almost certainly a reaction to the Commission's heightened requirements and administrative changes.

The purpose of Section 337 is to assure that competition from products made overseas respects U.S. property rights, especially those protected by statute, such as patents. Section 337, being a border enforcement remedy, provides the ITC with *in rem* jurisdiction over imported products; thus, to be accused of violating the statute, a company must be engaged in the importation, sale for importation, or sale within the United States after importation of an allegedly infringing product. This explains why U.S. companies whose products are manufactured offshore can be named as ITC respondents. Such companies can avoid any potential Section 337 liability by manufacturing domestically, as opposed to importing their products from overseas.

Notably, Section 337 does not discriminate based on the size of a company. Thus, as long as companies have a domestic industry as defined in the statute, it does not matter how small or how large they may be relative to the company whose products they accuse of infringement. Large companies are subject to the same infringement liabilities as small companies, and being a small entity, such as an inventor or a start-up, does not preclude one from seeking relief to protect a legitimate domestic industry. The ITC seeks, as it must, to provide relief to companies of all sizes.

Importantly, the definition of "importation" is not specific to Section 337 or the ITC. The ITC interprets the term consistently with the definition applied by U.S. Customs & Border Protection—namely, "the bringing of goods within the jurisdictional limits of the United States

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[53]https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm; The ITC's data defines *Category 2 NPEs* as "entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents."

with the intention to unlade them."[54] U.S. law thus does not allow the ITC (or any other agency or court) to treat imports by a domestic-headquartered company differently from imports by a foreign-based company. In addition, making such a distinction would violate the General Agreement on Tariffs and Trade, and thus subject the United States to a possible WTO action. Again, U.S.-headquartered companies can avoid any issues with Section 337 by manufacturing domestically instead of importing products from abroad.

The concern expressed by some companies that patent litigation is used abusively to "hold up" respondent implementers of technology is certainly not an ITC-specific issue. Nevertheless, over the past few years, the Commission has taken administrative and regulatory actions to protect the tribunal from abuse by litigants, including PAEs. For example, the Commission implemented a pilot program to identify a potentially dispositive issue—e.g., domestic industry or standing—and instruct the ALJ to issue an up-front, expedited ruling on that issue. This program can protect respondents from the expenses of a frivolous case, as a matter may conclude before discovery even begins. In the first case delegated to consider whether the complainant could establish a domestic industry, the ALJ found, and the Commission affirmed, that the complainant's licensing activities did not satisfy the domestic industry requirement—thus resulting in immediate termination of the investigation.[55] The Commission is currently considering a further modification to its rules that would: (a) allow parties to file a motion within 30 days of institution of an investigation requesting an early ruling on a potentially dispositive issue; and (b) authorize ALJs to designate a potentially dispositive issue for an early ruling. This program deters NPEs from filing cases at the ITC.

To the extent concerns also have been expressed that PAEs use the ITC to force settlements, a review of the data does not reflect a marked distinction between NPEs and other litigants. The ITC's June 2014 data update states that "[n]early half of all investigations instituted at the USITC ultimately terminate based on settlements or consent orders…Due to the relatively small number of NPE investigations, data breaking out settlements by complainant category appear inconclusive, but the data do not show a higher settlement rate for NPE investigations compared to non-NPE investigations."[56]

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[54] Headquarters Ruling 115311 (May 10, 2011) (quoting *Hollander Co. v. United States*, 22 C.C.P.A. 645, 648 (1935), and *United States v. Field & Co.*, 14 Ct. Cust. App. 406 (1927)).

[55] *Certain Products Having Laminated Packaging*, Inv. No. 337-TA-874, Comm'n Op. (Sept. 3, 2013). *See also*, *Portable Elec. Devices & Components Thereof*, Inv. No. 337-TA-994, Notice of Institution (May 5, 2016). (the most recent case where the Commission has directed the ALJ to use the 100 day program to determine the validity of the patent at issue).

[56] https://www.usitc.gov/press_room/documents/featured_news/337facts2014.pdf at 4.

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Question 6:

You've said in previous statements, as ITC Chair, that the ITC is not a policy making body. Is it your view that the ITC cannot prevent PAEs from bringing a 337 investigation? That is, must the ITC launch a 337 investigation if a PAE represents that it has a licensing industry? Based on the ITC's data sheets released over the past few years, PAEs are using the ITC. If the ITC is not a policy making body, and the ITC is not able to prevent PAEs from accessing the ITC (at least in your opinion), isn't it up to Congress to decide whether PAEs should be allowed access to the ITC? Do PAEs have a legitimate "trade" interest?

Response 6:

The ITC's organic statute does not provide it with substantive policy-making responsibilities.[57] Rather, the ITC's mission as an expert independent agency is to fairly and efficiently administer applicable trade laws as passed by Congress, including Section 337.[58]

The Commission can, however, adopt rules and procedures to prevent abuse of the forum and to ensure that the public interest is protected – regardless of whether a complaint is filed by a PAE or any other type of entity. For example, the Commission's rules require that, whenever a complaint is filed, a concurrent and separate statement be filed, addressing how the requested relief could affect "the public health and welfare in the United States, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, or United States consumers."[59] Furthermore, every time a complaint is filed, the Commission publishes a notice in the Federal Register inviting the public and the proposed respondents to file comments on any public interest issues implicated by the complaint or potential remedial orders.[60] These pre-institution measures afford the Commission the opportunity to receive important information from diverse sources relating to the potential effects of an investigation.

Moreover, the ITC is not compelled to institute a Section 337 investigation every time a new complaint is filed. The Commission is statutorily required to evaluate each complaint for

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[57] *See Certain Electronic Devices, Including Wireless Commc'n Devices, Portable Music & Processing Devices & Tablet Computs*, Inv. No. 337-TA-794, Comm'n Opinion, 113-14 n.23 (July 5, 2013) (citing "the Commission is not a policy-making body and is not empowered to make that [policy]decision").

[58] https://www.usitc.gov/documents/2017_cbj_consolidated_v15.pdf at 1-2.

[59] Title 19, Chapter II, § 210.8 (b)

[60] *Id.* § 210.8 (c).

sufficiency and compliance with various regulatory requirements.[61] The Commission has 30 days from receipt of a complaint to determine whether an investigation should be instituted. In certain instances the Commission has determined not to institute an investigation.[62] However, the statute states that "[t]he Commission *shall* investigate any alleged violation of this section on complaint . . ."[63] Therefore, it is only in rare circumstances that the Commission can properly decline to institute a case, regardless of the type of domestic industry pleaded.

If a case is instituted, the Commission can determine to direct the ALJ to oversee discovery, receive evidence, and make findings on the public interest implications of the requested relief. Over the past four years, at least 55 investigations have been delegated to ALJs for public interest fact-finding. In 2015, the Commission delegated public interest to the ALJ in over 25 percent of new investigations, including most of those with an NPE or PAE complainant. Notably, over half of investigations where public interest was delegated to the ALJ have ended in a settlement, and at least seven of those investigations ended by withdrawal of the complaint. It therefore appears the Commission's heightened focus on public interest is affecting parties' decisions either to pursue or back away from a Section 337 action.

In addition, the reality is that PAEs rarely file Section 337 complaints. In 2014 and 2015, only 5 of the 75 total Section 337 investigations—under seven percent—were brought by Category 2 NPEs.[64] And, of the 67 exclusion orders issued by the Commission since May 2006,

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[61] 19 CFR § 210.9 (a).

[62] The Supreme Court has recognized that a federal agency has discretion in determining whether to initiate proceedings pursuant to its statutory mandate. *See Heckler v. Chaney*, 470 U.S. 821, 823-24, 831 (upholding the U.S. Food and Drug Administration's discretion to decline to institute proceedings and stating "[t]his Court has recognized on several occasions over many years that an agency's decision not to prosecute or enforce, whether through civil or criminal process, is a decision generally committed to an agency's absolute discretion."). The ITC has exercised such discretion in certain situations. *See, e.g.*, *Certain Non-Contact Laser Precision Dimensional Measuring Devices & Components Thereof*, 1986 WL 379214 (May 23, 1986) (explaining that Commissioners' vote to institute would be superfluous if institution of all properly-pled complaints was mandatory); *Certain Vacuum Bottles & Components Thereof*, 1984 WL 273586 (Jan. 19, 1984) (recommending non-institution based on complaint alleging similar claims and involving similar facts and legal issues as an earlier investigation); *Certain Hydroxyprogesterone Caproate & Products Containing the Same*, Docket No. 2919, Letter from Acting Secretary to the Commission Lisa R. Barton (December 21, 2012) (declining institution because the FDA administers the statute on which the alleged unfair act was premised).

[63] 19 U.S.C. § 1337(b)(1) (emphasis added).

[64] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm; The ITC's data defines *Category 2 NPEs* as "entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents."

only four were on behalf on NPEs. (And in each of those investigations, the involved NPE or its subsidiary had developed the technology at issue).[65]

As to the question of whether certain types of patent owners have a "trade interest," Congress considered that question in 1988 and concluded the answer was "yes." Acknowledging that development and exploitation of IP had become an increasingly critical source of value for the U.S. economy, Congress amended Section 337 expressly to authorize NPEs to bring complaints. Congress modified the statute so that companies making "a substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing," could establish the existence of a domestic industry and obtain relief under the statute.[66] Congress recognized that large and small U.S. companies, as well as universities and research institutions that develop and utilize IP being infringed by unfair imports, have legitimate trade interests and should be afforded protection under Section 337. This reality is especially true today, when many American manufacturers take licenses to certain patents while foreign infringers (their unfair competition) refuse to take such licenses. Protecting U.S. IP in such contexts is increasingly important to the U.S. economy. [67]

Congress could reverse course and amend Section 337 to bar these types of innovators from utilizing an effective tool to address rampant infringement by imported products. However, in my view, this would be a bad idea and harmful to the U.S. economy. Diminishing the Commission's Section 337 jurisdiction would contradict the rest of the Federal Government's concern and efforts to bring manufacturing back to the United States. Indeed, restricting the ITC's jurisdiction would further incentivize off-shore manufacturing—exactly the opposite of what the U.S. economy needs.

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[65] https://www.usitc.gov/press_room/documents/featured_news/337facts.pdf.

[66] *See* 19 U.S.C. § 1337(a)(3)(C).

[67] Economics and Statistics Administration and U.S. Patent and Trademark Office joint report, "*Intellectual Property and the U.S. Economy: Industries in Focus*" at 56-59 (Mar. 2012). *See also id.* at 2 (stating that IP licensing helps drive the U.S. economy forward by "[c]reating a platform for financial investments in innovation" and "[e]nabling a more efficient market for technology transfer and trading in technology and ideas").

See also https://www.uschamberfouudation.org/euterprisingstates/assets/files/Executive-Summary-OL.pdf. *See also* http://www.uspto.gov/about-us/news-updates/us-department-commerce-issues-report-role-patentreform-supporting-innovation (Department of Commerce report finding that approximately 75 percent of the nation's post-World War II growth is linked to technological innovation).

ITC Number	Inv. Name	Complainant	Type of Exclusion Order	Date of Issuance of EO
337-494	Automotive Measuring Devices, Products Containing Same, and Bezels for Such Devices	Auto Meter Products, Inc.	LEO	1/24/2005
337-498	Insect Traps	American Biophysics Corporation	LEO	12/10/2004
337-500	Purple Protective Gloves	Kimberly-Clark Corporation and Safeskin Corporation	GEO	12/22/2004
337-505	Gun Barrels Used In Firearms Training Systems	Beamhit and SafeShot	LEO	2/3/2005
337-511	Pet Food Treats	Thomas J. Baumgartner and Hillbilly Smokehouse, Inc.	LEO	6/1/2005
337-512	Light-Emitting Diodes and Products Containing Same	OSRAM	LEO	1/11/2006
337-514	Plastic Food Containers	Newspring Industrial Corp.	GEO	5/23/2005
337-518	Ear Protection Devices	180s LLC	LEO	6/3/2005
337-522	Ink Markers and Packaging Thereof	Sanford, L.P.	GEO	10/25/2005
337-528	Foam Masking Tape	3M and Jean Silvestre	GEO	10/31/2005
337-539	Tadalafil or Any Salt or Solvate Thereof, and Products Containing Same	Lilly ICOS LLC	GEO	6/13/2006
337-541	Power Supply Controllers and Products Containing Same	Power Integrations	LEO	8/11/2006
337-543	Baseband Processor Chips and Chipsets, Transmitter and Receiver(Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets	Broadcom	LEO/C&DO rescinded 01/22/2009	6/7/2007
337-545	Laminated Floor Panels	Unilin Beheer, Flooring Industries, Unilin Flooring N.C.	GEO	1/5/2007
337-549	Ink Sticks for Solid Ink Printers	Xerox Corporation	LEO	4/11/2006
337-551	Laser Bar Code Scanners and Scan Engines, Components Thereof and Products Containing the Same	Symbol Technologies, Inc.	LEO/C&DO (rescinded due to settlement agreement)	5/30/2007
337-557	Automotive Parts	Ford Global Technologies	GEO	6/6/2007
337-563	Portable Power Stations and Packaging Therefor	Roadmaster (USA) Corp.	LEO	11/9/2006
337-564	Voltage Regulators, Components Thereof and Products Containing Same	Linear Technology Corporation	LEO	9/24/2007
337-565	Ink Cartridges and Components Thereof	Epson Portland, Epson America, and Seiko Epson Corp.	GEO & LEO; modified 04/16/2012	10/19/2007
337-567	Foam Footwear	Crocs, Inc.	GEO; C&DO	7/15/2011
337-575	Lighters	Zippo Manufacturing Co. and ZippMark, Inc.	GEO	7/24/2007
337-588	Digital Multimeters, and Products with Multimeter	Fluke Corporation	GEO/C&D0	5/14/2008
337-590	Coupler Devices for Power Supply Facilities, Components Thereof, and Products Containing Same	Topower Computer Industrial Co., Ltd.	LEO/C&DO	12/20/2007
337-602	GPS Devices and Products Containing Same	Global Locate	LEO/C&DO	1/15/2009
337-603	DVD Players and Recorders and Certain Products Containing Same	Toshiba	LEO/C&DO	3/14/2008
337-604	Sucralose, Sweeteners Containing Sucralose, and Related Intermediate Compunds Thereof	Tate & Lyle Technology and Tate & Lyle Sucralose	LEO	4/6/2009
337-606	Semiconductor Chips with Minimized Chip Package Size and Products Containing Same	Tessera	LEO/C&DO	5/20/2009
337-611	Magnifying Loupe Products and Components Thereof	General Scientific Corp	LEO	7/24/2008
337-615	Ground Fault Circuit Interrupters and Containing Same	Pass & Seymour	LEO/C&DO	3/9/2009
337-617	Digital Televisions and Certain Products Containing Same and Methods of Using Same	Funai	LEO/C&DO	4/10/2009
337-625	Self-Cleaning Litter Boxes and Components Thereof	Applica and Waters Research Company	LEO/C&DO	4/7/2009
337-629	Silicon Microphone Packages and Products Containing The Same	Knowles Electronics	LEO	8/18/2009
337-631	Liquid Crystal Display Devices and Products Containing the Same	Samsung	LEO/C&DO; modified 12/14/2009; rescinded	10/24/2009
337-634	Liquid Crystal Display Modules, Products Containing Same, and Methods for Using the Same	Sharp	LEO; C&DO; rescinded	11/9/2009

337-636	Laser Imageable Lithographic Printing Plates	Presstek, Inc.	LEO	11/30/2009
337-637	Hair Irons and Packaging Thereof	Farouk Systems	GEO	7/29/2009
337-638	Intermediate Bulk Containers	Schutz Container Systems and Protechna	LEO (only against Shanghai)	9/11/2008
337-643	Cigarettes and Packaging Thereof	Philip Morris	GEO	7/21/2009
337-644	Composite Wear Components and Products Containing the Same	Magotteaux International S/A and Magotteaux, Inc.	LEO (AIA and Vega only)	11/24/2009
337-650	Coaxial Cable Connectors and Components Thereof and Products Containing Same	John Mezzalingua Associates, Inc.	GEO ('194 patent), LEO ('076 patent)	3/31/2009
337-655	Cast Steel Railway Wheels, Certain Processes for Manufacturing or Relating to Same and Certain Products Containing Same	Amsted Industries	LEO/C&DO	2/16/2010
337-661	Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers and Products Containing Same	Rambus	LEO/C&DO	7/26/2010
337-669	Optoelectronic Devices, Components Thereof, and Products Containing the Same	Avago Technologies	LEO/C&DO	7/12/2010
337-678	Energy Drink Products	Red Bull	GEO; corrected 10/1/2010	9/8/2010
337-679	Products Advertised As Containing Creatine Ethyl Ester	UNeMed Corp.	LEO/C&DO	4/1/2010
337-691	Inkjet Ink Supplies and Components	Hewlett-Packard	GEO/C&DO (for Mextec)	1/11/2011
337-700	Mems Devices and Products Containing Same	Analog Devices, Inc.	LEO	5/10/2011
337-710	Personal Data and Mobile Communications Devices and Related Software	Apple Inc., NeXT Software	LEO	12/19/2011
337-718	Electronic Paper Towel Dispensing Devices and Components Thereof	Georgia-Pacific Consumer Products LP	GEO/C&DO (for Stefco and Cellynne)	12/1/2011
337-720	Biometric Scanning Devices, Components Thereof, Associated Software, and Products Containing the Same	Cross Match Technologies, Inc.	LEO/C&DO (for Mentalix)	10/24/2011
337-722	Automotive Vehicles and Designs	Chrysler	LEO/C&DO	3/10/2011
337-723	Inkjet Ink Cartridges with Printheads and Components Thereof	Hewlett-Packard	GEO	10/24/2011
337-725	Caskets	Batesville Services, Inc.	LEO	12/13/2010
337-730	Inkjet Ink Supplies and Components Thereof	Hewlett-Packard	GEO	11/29/2011
337-739	Ground Fault Circuit Interrupters and Containing Same	Leviton Manufacturing	GEO/C&DO (defaulting respondents only)	4/27/2012
337-740	Toner Cartridges and Components Therof	Lexmark	GEO/C&DO	9/27/2011
337-744	Mobile Devices, Associated Software, and Components Thereof	Microsoft	LEO	5/18/2012
337-754	Handbags Luggage Accessories, and Packaging Thereof	Louis Vuitton	GEO	5/30/2012
337-755	Starter Motors and Alternators	Remy International, Inc. and Remy Technologies, L.L.C.	LEO/C&DO	3/30/2012
337-759	Birthing Simulators and Associated Systems	Gaumard Scientific Co., Inc.	LEO/C&DO	8/29/2011
337-763	Radio Control Hobby Transmitters and Receivers and Products Containing Same	Horizon Hobby, Inc.	LEO	9/27/2011
337-776	Lighting Control Devices including Dimmer Switches	Lutron Electronics Co., Inc.	GEO/C&DO	10/23/2012
337-780	Protective Cases	Otter Products	GEO/C&DO	11/6/2012
337-791/826	Electric Fireplaces	Twin-Star International, Inc.; TS Investment Holding Corp.	LEO	5/6/2013
337-794	Mobile Electronic Devices, including Wireless Communication Devices, Portable Music and Data Processing Devices and Tablet Computer	Samsung	LEO - President disapproved 08/03/2013	6/10/2013
337-796	Electronic Digital Media Devices	Apple Inc.	LEO/C&DO	8/15/2013
337-804	LED Photographic Lighting Devices	Litepanels	GEO	1/24/2013
337-807	Photo Frames and Image Display Devices	Technology Properties Limited, LLC	LEO/C&DO	3/18/2013
337-823	Kinesiotherapy Devices	Standard Innovation	GEO/C&DO	6/21/2013
337-829	Toner Cartridges	Canon	GEO/C&DO	7/5/2013

337-832	Ink Application Devices	Nouveau Cosmetique USA Inc. MT.Derm GmbH	LEO	10/23/2013
337-849	Rubber Resins and Processes for Manufacturing Same	SI Group, Inc.	LEO	1/15/2014
337-860	Optoelectronic Devices for Fiber Optic Communications	Avago Technologies U.S. Inc. Avago Technologies General IP (Singapore) PTE. Ltd. Avago Technologies Fiber IP (Singapore) PTE. Ltd.	C&DO LEO	4/17/2014
337-867/861	Cases for Portable Electronic Devices	Speculative Product Design, LLC	GEO	6/20/2014
337-878	Electronic Devices having Placeshifting or Display Replication Functionality	Sling Media, Inc.	LEO	12/2/2013
337-883	Opaque Polymers	Rohm and Haas Chemicals LLC Rohm and Haas Company The Dow Chemical Company	LEO	4/17/2015
337-887	Crawler Cranes	Manitowoc Cranes, LLC	LEO	4/16/2015
337-890	Sleep-Disordered Breathing Treatment Systems	ResMed Inc. ResMed Corp ResMed Ltd	LEO Suspended pending remand proceedings	12/23/2014
337-894	Tires	Toyo Tire & Rubber Co., Ltd. Toyo Tire Holdings of Americas Inc. Toyo Tire U.S.A. Corp. Nitto Tire U.S.A. Inc. Toyo Tire North America Manufacturing Inc.	LEO	7/24/2014
337-895	Mulitple Mode Outdoor Grills and Parts	A&J Manufacturing, Inc. A&J Manufacturing, LLC	LEO C&DO	2/3/2015
337-918	Toner Cartridges and Components Thereof	Canon Inc. Canon U.S.A., Inc. Canon Virginia, Inc.	GEO	8/31/2015
337-919	Archery Products and Related Marketing Materials	SOP Services, Inc. Bear Archery, Inc.	LEO	12/3/2014
337-921	Marine Sonar Imaging Devices, Including Downscan and Sidescan Devices	Navico Holding AS Navico, Inc.	LEO, CDO's	12/1/2015
337-923	Loom Kits for Creating Linked Articles	Choon's Design Inc.	GEO	5/21/2015
337-926	Marine Sonar Imaging Systems, Products Containing the Same, and Components Thereof	Johnson Outdoors Marine Electronics, Inc. Johnson Outdoors Inc.	LEO	11/18/2015
337-929	Beverage Brewing Capsules	ARM Enterprises, Inc. Adrian Rivera	LEO, CDO	3/17/2016
337-933	Stainless Steel Products, Certain Processes for Manufacturing or Relating to Same and Certain Products Containing Same	Acciaierie Valbruna S.p.A. Valbruna Stainless Inc. Valbruna Slater Stainless, Inc.	LEO, CDO	5/25/2016
337-934	Dental Implants	Nobel Biocare USA, LLC Nobel Biocare Services AG	LEO	4/26/2016
337-935	Personal Transporters, Components Thereof, and Manuals Therefor	Segway Inc. DEKA Products Limited Partnership	GEO, LEO, CDO	3/10/2016
337-946	Ink Cartridges	Seiko Epson Corporation Epson America, Inc. Epson Portland Inc.	LEO, C&DO	5/26/2016

Response to Questions for the Record from John Thorne, Partner, Kellogg, Huber, Hansen, Todd, Evans & Figel, PLLC

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June 16, 2016

By Email

Hon. Bob Goodlatte
Chairman
Committee on the Judiciary
House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515-6216
Attention: Mr. Eric Bagwell
Eric.Bagwell@mail.house.gov

Re: International Trade Commission Patent Litigation

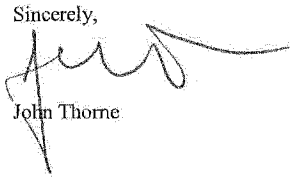
Dear Chairman Goodlatte:

Attached to this letter are responses to the questions addressed to me following the April 14, 2016 hearing before the Subcommittee on Courts, Intellectual Property, and the Internet regarding ITC patent litigation.

Again, thank you for the opportunity to appear before the Subcommittee.

Let me know if I can be of further assistance.

Sincerely,



John Thorne

cc: Mr. Vishal Amin

Hon. Bob Goodlatte
June 16, 2016
Page 2

Questions for the record from Representative Darrell Issa (CA-49):

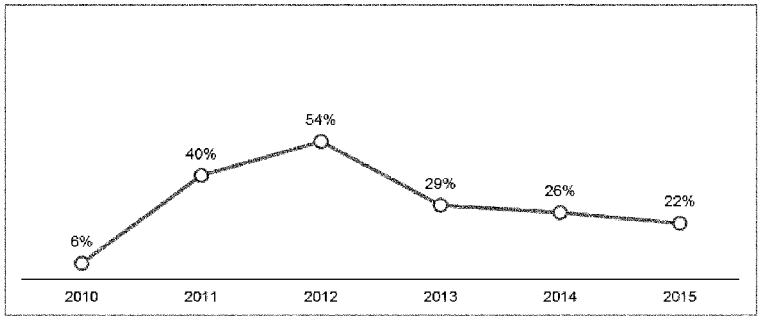
Question 1:

Mr. Thorne, it has been three years, since we last held a hearing on the ITC. What are some of the significant improvements that the ITC has made over that time, and what work remains to be done?

Are there steps that the ITC should take immediately, within their existing statutory authority, to ensure that domestic industry requirements are meaningful, and that only those cases that meet the economic and public interest tests are taken up, while others remain with the district court?

Response: Over the past three years, the proportion of the ITC's patent docket due to non-practicing entities (NPEs) has remained roughly constant. Prior to 2006, no ITC investigation had been brought by any NPE. In 2012 more than half the companies sued at the ITC for patent infringement were sued by NPEs. In the most recent three years, NPEs accounted for about one quarter of the ITC's patent docket measured by the number of companies sued in those years.

NPE Share of Total Respondents in ITC Patent Investigations[1]



Measuring the NPEs' use of the ITC according to the number of companies sued rather than the number of cases filed more accurately reflects the cost and burden created by these

[1] Source: RPX Corp. RPX defines NPEs as entities that have substantially no assets other than the patent and substantially no revenue other than licensing. RPX counts multiple respondents that are part of a single company as one respondent. E.g., an NPE complaint against Cisco System, Inc., Cisco Consumer Products, Cisco Systems International, and Cisco-Linksys LLC would be counted as a complaint against a single respondent. This convention conservatively *reduces* the percentage of NPE respondents compared to a simple count of all named respondents. Investigations were reported based on the year an investigation was initiated, and complaints that had not led to an investigation by the end of 2015 were not included in the data set.

cases. A single case filed at the ITC may name a large number of companies. Each of the targeted companies will need to hire counsel, will be subject to discovery, and will face the risk that if an exclusion order issues its business will be disrupted. In the America Invents Act of 2011, in an effort to reduce NPEs' leverage in district courts, Congress restricted a plaintiff's ability to name multiple defendants in a suit by allowing a plaintiff to join only those defendants whose alleged infringement arises from the same transaction or occurrence.[2] The ITC has not limited joinder of unrelated respondents; NPEs continue to name numerous respondents whose only connection is the import of a component or product that potentially infringes the same patent. In 2011, the year in which the AIA passed, NPEs filed a surge of new ITC investigations, naming an unprecedented number of respondents.[3] NPEs have named as many as 45 respondents in a single investigation.[4]

The NPEs' continuing substantial use of the ITC is problematic for several reasons. First, because NPEs don't have an operating business to protect, they don't actually want the only relief that the ITC is able to grant. They want to tax the target companies with a license, not to disrupt imports. An ITC exclusion order or a cease and desist order is useful to an NPE only as leverage in extracting a license payment. The threat of shutting down a business, even temporarily, by denying it needed imports creates huge leverage that has no relation to the value of the allegedly infringed patent. In sharp contrast to the ITC's practice, following the Supreme Court's decision in *eBay v. MercExchange*, 547 U.S. 388 (2006), district courts do not grant injunctions in patent cases where money damages would be an adequate remedy or where the harm of an injunction to the operating company or to the public outweighs the benefit of the injunction to the patent holder.

Second, the NPEs' business of buying and asserting patents is not the sort of domestic industry that Congress had in mind for the ITC to protect. The statute limits the ITC to protecting a domestic industry involving "significant investment in plant and equipment," "labor or capital," or "engineering, research and development, or licensing." 17 U.S.C. § 1337(a)(3). The "industry" of an NPE is comprised mostly of hedge funds that finance purchases of patents and legal entrepreneurs that create leverage through lawsuits.

In the past three years, the ITC took a partial step toward enforcing Congress's requirement that there must be a real domestic industry when that industry is based on licensing.

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[2] *See* Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 19(d), 125 Stat. 284, 332-33 (2011) (codified as amended at 35 U.S.C. § 299(a) (2012) ("parties that are accused infringers may be joined in one action as defendants . . . only if—(1) any right to relief is asserted . . . with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences . . .; and (2) questions of fact common to all defendants . . . will arise in the action."); *see* Bryan T. Yeh, Cong. Research. Serv., R42668, *An Overview of the "Patent Trolls" Debate* at 13-4 (Aug. 20, 2012). Prior to the amendment NPEs routinely joined multiple unrelated defendants in a single district court action based solely on alleged infringement of the same patent.

[3] *See* Colleen V. Chien, *Patent Trolls by the Numbers* (Mar. 13, 2013), Santa Clara Univ. Legal Studies Research Paper No. 08-13.

[4] USITC, *Facts and Trends Regarding USITC Section 337 Investigations* at 5-6 (June 10, 2014), *available at* http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf ("Category 2 NPEs," which "focus[] on purchasing and asserting patents," have named as many as 45 respondents in a single investigation).

The Federal Circuit held that a domestic industry based on licensing must be backed up by some licensee actually using the patented technology. *See Microsoft v. ITC*, 731 F.3d 1354, 1361-62 (Fed. Cir. 2013) ("Section 337 . . . unmistakably requires that the domestic company's substantial investments relate to actual 'articles protected by the patent,'" quoting 19 U.S.C. § 1337(a)(2), (3); such articles must be shown to "practice[] the . . . patent"); *Interdigital Commc'ns, LLC v. Int'l Trade Comm'n*, 707 F.3d 1295, 1287, 1303-04 (Fed. Cir. 2013) ("licensing" must be "with respect to the articles protected by the patent"). Following the Federal Circuit's decisions, the ITC said it will begin enforcing that requirement. *See Certain Computers & Computer Peripheral Devices, & Components Thereof, & Products Containing Same*, Inv. No. 337-TA-841, Comm'n Op. at 27-36 (Jan. 9, 2014) ("Until now, . . . our practice has been not to require a complainant to demonstrate for purposes of a licensing-based domestic industry the existence of protected articles practicing the asserted patents.").

The Federal Circuit also has suggested the ITC could (and perhaps must) go even further in tightening its licensing-based domestic industry requirement. On the one hand, licensing that is "substantial and directed toward … encourag[ing] adoption and development of articles that incorporated [the] patented technology" may satisfy the domestic industry requirement. *See Motiva, LLC v. Int'l Trade Comm'n*, 716 F.3d 596, 600-01 (Fed. Cir. 2013), citing *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n*, 707 F.3d 1295, 1299 (Fed. Cir. 2013) (clarifying that efforts directed toward licensing a patent can satisfy the domestic industry requirement where they would result in the production of "goods practicing the patents") and *John Mezzalingua Assocs. v. Int'l Trade Comm'n*, 660 F.3d 1322, 1328–29 (Fed. Cir. 2011) (discussing how the "Commission is fundamentally a trade forum, not an intellectual property forum" and holding that mere litigation expenses directed at preventing instead of encouraging manufacture of articles incorporating patented technology do not satisfy the domestic industry requirement). On the other hand, licensing and litigation that attacks independently developed technology where the patent holder "was only interested in 'extract[ing] a monetary award either through damages or a financial settlement'" should not be found to be a protected domestic industry. *Motiva*, 716 F.3d at 600. If the ITC followed this distinction, a patent holder that was not promoting use of its patent but instead seeking to tax existing uses must go to district court rather than the ITC.

The ITC has rejected this distinction. "We reject the . . . invitation to impose a production-driven requirement on licensing-based domestic industries. We note that we have expressed a preference – but not a requirement – for production-driven licensing, giving more weight to evidence of such licensing." *Certain Computers & Computer Peripheral Devices, & Components Thereof, & Products Containing Same*, Inv. No. 337-TA-841, Comm'n Op. at 37 (citation omitted).

The ITC could immediately help ensure that domestic industry requirements are meaningful by holding that it will no long permit cases based on licensing, where the licensing seeks only to tax, not promote, productive activity. As described above, the Federal Circuit would approve such a requirement as consistent with (if not required by) its decisions in *Motiva*, *Mezzalingua*, and *InterDigital*. The ITC itself notes a "preference" for licensing that leads to actual productive activity.

The ITC could take an additional step immediately, within its existing statutory authority, to reduce the use of its specialized forum when district courts are available to provide a remedy to the patent holder:

The ITC could revisit its refusal to follow the Supreme Court's decision in *eBay v. MercExchange*, 547 U.S. 388 (2006). The ITC's authority (if not requirement) to follow *eBay* is provided by Section 337(c) which states that "All legal and equitable defenses may be presented in all cases." Adequacy of money damages, a balance of harms favoring a defendant, and an adverse effect on the public interest are well-established defenses to injunctive relief. 547 U.S. at 391. Similarly, Section 337(d)(1) requires the ITC to consider the effect of an exclusion order on "the 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." In the typical NPE case, where the only domestic industry is a litigation and licensing campaign, the NPE is "only interested in 'extract[ing] a monetary award either through damages or a financial settlement'" (*Motiva*, 716 F.3d at 600), and a district court is available to hear the case. In such a case, the ITC could deny relief and allow the NPE to seek a remedy in district court.

Indeed, the ITC need not wait until the remedy stage of an investigation to dismiss a case that could be heard in district court. The ITC has construed the requirement of Section 337(b)(1) (ITC "shall investigate any alleged violation") to allow it to decline to institute an investigation if it is unlikely to issue a remedy or where an alternative forum is available to hear the claim. *See, e.g.*, Notice of Institution of Investigation, Certain Audio Processing Hardware and Software, Inv. No. 337-TA-949 (Mar. 12, 2015) (declining to institute on one of two alleged violations); ITC letter to complainant KV Pharmaceutical Company Concerning Hydroxyprogesterone Caproate (Dec. 21, 2012) (declining to institute an investigation of an unfair competition violation, supporting that determination in part because the Food and Drug Administration is charged with handling competition by generic drugs against patented drugs). Alternatively, the ITC could use more often its 100-day Pilot Program to accelerate the determination of whether defenses under Section 337(c) or the public interest considerations of Section 337(d)(1) would lead to the ITC's denying a remedy.

Question 2:

Should Congress clarify that the entire Patent Act applies to all ITC patent investigations? Should the doctrines of res judicata and collateral estoppel apply for federal court decisions that follow ITC proceedings? Would application of those doctrines promote greater efficiency and uniformity?

Response: Section 337, by using the phrase "infringe a valid and enforceable . . . patent," unmistakably refers to the Patent Act. A "valid and enforceable United States patent" is a patent that is valid and enforceable under the Patent Act. Likewise, the infringement described in Section 337 is the same infringement described in 35 U.S.C. § 271. It is generally understood that when Congress uses the same term in two statutes enforcing the identical property right, without giving the term different definitions, the term should be construed consistently. *Cf.*

Antonin Scalia & Bryan A. Garner, *Reading Law: The Interpretation of Legal Texts* 252 (2012) ("[L]aws dealing with the same subject . . . should if possible be interpreted harmoniously.").

Providing that res judicata and collateral estoppel should preclude litigation in district court following an ITC decision is an interesting idea but could have unintended consequences. When an NPE files a weak case at the ITC and loses it, such doctrines would preclude the NPE from getting a second bite at the apple. However, such doctrines might cut in both directions, and there may be concerns about the reliability of ITC decisions that warrant allowing a defendant to fully re-litigate a matter in district court. Several years ago Robert Hahn and Hal Singer performed a "twin study," comparing the results where both the ITC and district courts decided parallel patent cases involving the same patents and same accused products. Hahn & Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 Harv. J. L. & Tech. 457 (2008). They found substantial disagreement in the substantive decisions in the two forums. "When the ITC rules in favor a plaintiff, the likelihood that the district court agrees with the ITC's decision is not much better than chance." *Id.* at 462. *See also* Thomas F. Cotter, Comparative Patent Remedies 92 (2013) ("ITC proceedings are becoming increasingly popular . . .; in recent years, the percentage of ITC judgments favorable to patent owners usually has been higher than the comparable percentage in judicial proceedings.").

Question 3:

Mr. Thorne, if the ITC refuses to adjust their practices, do you think that it makes sense for the Federal Circuit to revisit their 2010 decision in Spansion, Inc. v. ITC, that allowed the ITC to diverge from District Court practice regarding automatic injunctive relief?

Response: Yes. The Federal Circuit's decision in *Spansion* was narrow: The court did not hold that the ITC would be barred from considering the same factors as a district court in issuing an injunction, only that the ITC "is not required to apply the traditional four-factor test for injunctive relief used by district courts." *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010). Following the Federal Circuit's decision, the Supreme Court has repeatedly held that special discretion-limiting rules in patent cases are suspect. *See, e.g.*, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, slip op. (U.S. June 13, 2016); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).

Here, the statute contains two provisions that permit (indeed may require) the ITC to withhold relief in circumstances where a district court would deny an injunction under *eBay*. Section 337(c) provides that "All legal and equitable defenses may be presented in all cases." Section 337(d)(1) requires the ITC to consider the effect of an exclusion order on "the 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."

Question 4:

Section 337(c) provides: "All legal and equitable defenses may be presented in all cases." If laches is a legal or equitable defense, the statute says it may be presented. Should laches be an available defense in a Section 337 investigation?

Response: Yes. Laches should be available as a defense in a Section 337 investigation. Unreasonable delay in asserting a patent can cause both evidentiary and economic prejudice. Witnesses become unavailable, memories fade, documents are lost, and in general claims and defenses become harder to prove. Accused infringers, especially those unaware of the possibility that they may be sued, make investments and other business decisions that may make it difficult or prohibitively expensive for them to stop infringing.

The available data show that NPEs believe there is a benefit to asserting patents later, after the target businesses have grown and become more locked into the technology. NPEs assert older patents than operating companies, who are more likely to sue near the time when infringement begins. RPX Corp. has collected data covering the larger universe of all district court patent cases. In 2015, most (~ 60%) NPE-asserted patents were *at least* 15 years old. The opposite was true for operating company-asserted patents: most (~ 60%) were *less than* 15 years old.

A legitimate ITC complainant that actually wants the remedy of an exclusion order will have every motivation to bring its case promptly. Only a bad actor benefits from delaying.

Question 5:

Can you identify even a single instance in the last 10 years where an NPE was not able to get jurisdiction over some entity in the US against which to enforce its patent rights? Won't those NPEs (Universities or small engineering firms) be able to establish domestic industry under 337(a)(3)(C) for engineering or R&D?

Response: I am unaware of any case where an NPE was unable to get jurisdiction over its target in district court. An NPE such as a university or engineering firm that engaged in substantial engineering or R&D may establish domestic industry under Section 337(a)(3)(C).

Question 6:

Of the 8% of PAEs identified in the ITC Datasheet, how many have (or had) parallel district court actions? All of them? Isn't it clear that PAE's don't actually want the only remedy available in the ITC?

Response: The ITC did not identify which specific investigations are included in its data. Of the 78 ITC investigations that RPX Corp. has identified as initiated by NPEs, all 78 have or had parallel district court actions. See the attached summary.

The NPEs are conducting licensing and litigation campaigns where the goal is to collect money. By definition they have no operating businesses to protect, and they are not actually seeking the ITC's remedy – except as leverage to extract more money.

Question 7:

As a way of protecting domestic industry, should complainants be prohibited from pursuing ITC actions against companies over which US district courts have personal jurisdiction?

Response: Yes.

Question 8:

Do ITC patent investigations complement or conflict with patent litigation in US district court?

Response: If a district court is available, a parallel ITC investigation is unnecessary, adds significant costs, and risks disruptions of innovation that will harm consumers.

Question 9:

As you know the DOJ opposes mergers or acquisitions where it finds the effect would be to unduly concentrate market share and eliminate competition to the detriment of consumers. For example, GE withdrew an attempted sale of its appliance business to Electrolux after the DOJ filed suit to block the sale based on such concerns. Arguably some of the same market conditions appear in ITC investigations, where Complainant seeks to ban a large percentage of the products and market players in question. Does the ITC adequately take into consideration such effects on competitive conditions as part of its public interest analysis?

Response: A good example of this concern occurred in the ITC's investigation of wireless devices that used Qualcomm chips, in which the ITC issued an exclusion order of "extraordinary breadth" even after hearing extensive evidence regarding the harm to competition and consumers. *See* Editorial, "Patent Bending," Wall St. J., June 9, 2007, at A8 ("Nobody, including Broadcom, actually makes competing chips in the U.S., so an import ban is tantamount to a total ban. . . . The ITC ban is in effect a bar to innovation by these U.S. companies – a fact recognized both by Chairman Pearson in his dissent, and by the administrative law judge who originally heard the case and refused to issue a broad ban in October 2006. Moreover, Broadcom is already suing Qualcomm in federal court over these very same patents. There is thus no need for the ITC to muscle in, except to expand its own bureaucratic turf in the patent field. The ITC's separate process was created only as a way to deal with patent infringers who were beyond the reach of U.S. courts.").

Question 10:

In its 2017 Budget Justification, the ITC states that its "IP enforcement efforts may thus contribute to strengthening the U.S. economy and employment." Are you aware of any evidence

or studies that show the effect of exclusion orders on the U.S. economy and employment in a given domestic industry? Are there any known instances where an exclusion order led to the creation of U.S. jobs? Does the ITC consider the extent to which the cost of an ITC investigation leads to a reduction in R&D budgets for some respondents? Does the ITC have the capacity and expertise to undertake such studies?

Response: Contrary to the ITC's assertion, providing a forum for attacking U.S. innovators may weaken the U.S. economy and employment. The net effects are worth studying. The Federal Trade Commission is completing a broader study of patent assertion entity conduct, which is expected to be completed shortly. The FTC might be well suited to conduct a study of the ITC's parallel patent enforcement.

Question 11:

Does NPE litigation cost more at the ITC than in district court? Does the fact that ITC decisions have no res judicata effect in district court, such that a Respondent who prevails in an ITC action may be forced to relitigate the same action in district court, inform or alter your opinion?

Response: NPE patent litigation at the ITC generally costs two or three times more than similar litigation in district court. These costs are duplicative of the costs that must be spent to litigate the district court action that usually accompanies an ITC investigation.

Question 12:

Should the ITC consider tailoring exclusionary relief more to the products actually found to be in violation rather than scope of relief simply tracking the caption of the investigation? Is the ITC's current practice on the wording of exclusion orders consistent with district court practice on issuance of injunctions?

Response: The scope of relief can be problematic. Often the asserted patent covers only one small aspect of a complex product but the exclusion order will be directed to the entire product or class of products. In the Qualcomm case mentioned above, the ITC wanted to "ban the import of an entire class of next-generation mobile phones" embodying hundreds of thousands of innovations because the phones infringed a patent Broadcom purchased that covered just one feature (a method of conserving battery life) that had been built into the Qualcomm chips. Editorial, "Chips, Ahoy," Wall St. J., June 4, 2007, at A16. The ITC was not deterred by the harm it would be inflicting on U.S. businesses and consumers. "The nice thing about the ITC – if you want to terrorize a competitor – is that it works fast, doesn't wait for a finding of infringement from a federal court, and can issue a permanent import ban." *Id.* District courts, by contrast, either deny or tailor relief to avoid devastating consequences.[5] For example, even in

[5] *See* Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, *supra* note 39, at 6; *see also eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring) ("When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.").

awarding reasonable royalties, the Federal Circuit has limited what can be charged for a patent on a minor feature of a complex product.[6]

The scope of relief can also be problematic where the ITC proceeding is resolved through a consent order. For example, the recent decision in *DeLorme Publishing Co. v. Int'l Trade Comm'n*, 805 F.3d 1328 (Fed. Cir. 2015), involved a consent order that prohibited "import into the United States, [sale] for importation ..., or [sale] ... after importation [of] any ... devices, system, and components thereof, that infringe" the patent. In order to comply with the consent order, the accused infringer DeLorme ceased importing the accused devices and moved its manufacturing to the United States. But in making one of the accused devices, DeLorme continued to use imported plastic belt clips that cost 18¢ apiece.

The ITC's administrative law judge attempted to apply common sense, and held that DeLorme's domestic manufacturing was not a violation of the consent order because the imported plastic belt clip, although a "part[] with foreign provenance," did not directly or indirectly infringe the patent. ALJ Enforcement Init. Det. at 98 (Mar. 7, 2014) (imported component did not directly infringe), 93-94 ("[o]n its own, the sale of the plastic housing is insufficient to find inducement"), 97-98. The full Commission, reversing the ALJ, held that the imported 18¢ plastic belt clips gave it power to assess more than $6 million in penalties because "DeLorme was required ... to 'stay several healthy steps away' from infringement." Comm. Op. at 20 (quoting *Certain Magnets* at *10).

While the ITC's decision imposing the civil penalty on DeLorme was on appeal, a district court ruled that the asserted patent claims were invalid because they were anticipated by prior inventors and obvious. The Federal Circuit affirmed the district court's ruling in a single-paragraph order. *DeLorme Publ'g Co. v. BriarTek IP, Inc.*, 60 F. Supp. 3d 652 (E.D. Va. 2014), *aff'd*, 622 F. App'x 912 (Fed. Cir. 2015). *See* U.S. Patent No. 7,991,380 (hand-drawn figures showing wristwatch that communicates with a satellite). The ITC has no more authority to enforce an invalid patent than a district court does. As the dissenting opinion recognized, the ITC's enforcement powers should "be confined ... [to] conduct that constitutes a violation of § 1337(a), which, in turn, ... requires that the respondent 'infringe a *valid* patent." 805 F.3d at 1341.

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[6] *E.g.*, *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67-68 (Fed. Cir. 2012) ("in any case involving multi-component products, patentees may not calculate damages based on sales of the entire product ... without showing that the demand for the entire product is attributable to the patented feature"); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1319-20 (Fed. Cir. 2011) (limiting "entire market value" rule); *Lucent v. Gateway*, 580 F.3d 1301, 1338 (Fed. Cir. 2009) (vacating damages award).

Questions for the record from Representative Blake Farenthold (TX-27):

Question 1:

Mr. Thorne, your testimony identifies quite a few ways in which the ITC has tried to expand its power as a federal agency. Obviously, many of us in Congress are very concerned about agencies expanding their power. Does this ITC activity suggest that Congress needs to rein in the agency, and if so, how?

Response: The ITC has been aggressively expanding its patent function because it believes it is following a broad mandate from Congress to exclude infringing articles. It may be helpful to the ITC to understand what Congress wants it to do.

Question 2:

In recent years we have seen investigations filed where non-practicing entities (NPEs) seek exclusion of large percentages of the U.S. market for various products, smartphones, televisions and other consumer products (respondents with 50-80% is not uncommon). How would consumers/U.S. taxpayers be served if such relief were granted?

Response: U.S. consumers are not served by exclusion orders that exclude a large percentage of a U.S. market for products.

Question 3:

A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITC's powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

Response: The ITC's 100-day "Pilot Program" was not designed to keep NPEs out, although it could be used to promptly resolve some of the threshold issues that would curb NPE use of the ITC. The ITC has used the 100-day expedited procedure only twice since the program was formalized, in Certain Audio Processing Hardware, Investigation No. 337-TA-949 and Certain Portable Electronic Devices, Investigation No. 337-TA-994.

Question 4:

Even if PAEs do not ultimately obtain a remedy, do you understand that PAEs use the ITC to get better negotiating leverage with operating companies?

Response: Yes. As the ITC told Congress in its Fiscal Year 2012 budget request, "since the U.S. Supreme Court's 2006 *eBay* decision, which has made it more difficult for patent holders that do not themselves practice a patent to obtain injunctions in district courts, exclusion orders

have increasingly been sought by non-practicing entities that hold U.S. patents." USITC, *Budget Justification: Fiscal Year 2012* at 21, *available at* http://www.usitc.gov/press_room/documents/budget_2012.pdf. The threat of an exclusion order provides huge leverage, and may enable a PAE to obtain a settlement from the target company for many times what a district court would find to be a reasonable royalty.

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-558	Intervideo Digital Technology Corporation	1/4/2006	Intervideo Digital Technology Corporation v. Dell Inc., 4:05-cv-03317, N.D. Cal., filed on August 15, 2005
337-TA-559	BIAX Corporation	1/17/2006	Biax Corporation v. Philips Semiconductors B.V., et al, 2:05-cv-00544, E.D. Tex., filed on December 9, 2005
337-TA-593	St Clair Intellectual Property Consultants Incorporated	2/21/2007	St. Clair Property v. Samsung Electronics, et al, 1:04-cv-01436, D. Del., filed on November 9, 2004
337-TA-601	Interdigital Technology Corporation	4/27/2007	Interdigital Communications Corporation et al v. Samsung Electronics Co. Ltd. et al, 1:07-cv-00165, D. Del., filed on February 23, 2007
337-TA-613	Interdigital Technology Corporation	8/7/2007	Interdigital Communications LLC et al v. Nokia Corporation et al, 1:07-cv-00489, D. Del., filed on August 7, 2007
337-TA-630	Tessera Incorporated	1/14/2008	Tessera, Inc. v. A-DATA Technology Co., Ltd. et al, 2:07-cv-00534, E.D. Tex., filed on December 7, 2007
337-TA-649	Tessera Incorporated	5/28/2008	Chipmos Technologies Inc et al v. Tessera, Inc., 4:08-cv-03827, N.D. Cal., filed on August 11, 2008 Siliconware Precision Industries Co, Ltd et al v. Tessera, Inc., 4:08-cv-03667, N.D. Cal., filed on July 31, 2008
337-TA-667	Norman IP Holdings LLC	12/19/2008	Saxon Innovations, LLC v. Nokia Corp. et al, 6:08-cv-00494, E.D. Tex., filed on December 19, 2008
337-TA-673	Norman IP Holdings LLC	2/23/2009	Saxon Innovations, LLC v. Samsung Electronics Co., Ltd. et al, 6:09-cv-00067, E.D. Tex., filed on February 18, 2009
337-TA-675	SPH America LLC	3/25/2009	SPH America, LLC v. High Tech Computer Corporation et al, 3:08-cv-02146, S.D. Cal., filed on November 20, 2008
337-TA-688	Paice LLC	9/3/2009	Paice, LLC. v. Toyota Motor Corporation et al, 2:07-cv-00180, E.D. Tex., filed on May 8, 2007 Paice, LLC. v. Toyota Motor Corporation et al, 2:08-cv-00261, E.D. Tex., filed on July 1, 2008
337-TA-605	Tessera Incorporated	10/16/2009	Tessera, Inc. v. Motorola, Inc. et al, 4:12-cv-00692, N.D. Cal., filed on February 22, 2012
337-TA-697	Prism Technologies LLC	12/2/2009	Prism Technologies v. Research in Motion, Ltd. et al, 8:08-cv-00537, D. Neb., filed on December 29, 2008
337-TA-726	Flashpoint Technology, Inc.	5/13/2010	FlashPoint Technology, Inc. v. HTC Corporation et al, 1:14-cv-00317, D. Del., filed on March 7, 2014

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337-TA-729	STC.UNM	6/23/2010	The Science and Technology Corporation of the University of New Mexico v. Toshiba America Electrontic Components, Inc. et al, 1:09-cv-00310, D. N.M., filed on March 30, 2009
337-TA-743	Motiva LLC	10/1/2010	Motiva LLC v. Nintendo Co Ltd et al, 2:10-cv-00349, W.D. Wash., filed on March 2, 2010
337-TA-748	Data Network Storage LLC	10/20/2010	Data Network Storage, LLC v. Cisco Systems, Inc. et al, 3:10-cv-02060, S.D. Cal., filed on October 4, 2010
337-TA-747	Rovi Guides, Inc.	10/20/2010	Rovi Corporation et al v. Toshiba Corporation et al, 1:10-cv-00931, D. Del., filed on October 29, 2010
337-TA-753	Rambus, Inc.	12/1/2010	Rambus, Inc. v. Freescale Semiconductor, Inc., 3:10-cv-05445, N.D. Cal., filed on December 1, 2010 Rambus, Inc. v. Mediatek, Inc., 3:10-cv-05447, N.D. Cal., filed on December 1, 2010 Rambus, Inc. v. STMicroElectronics, N.V. et al, 3:10-cv-05449, N.D. Cal., filed on December 1, 2010 Rambus Inc v. LSI Corporation, 3:10-cv-05446, N.D. Cal., filed on December 1, 2010 Rambus Inc v. Broadcom Corporation, 3:10-cv-05437, N.D. Cal., filed on December 1, 2010 Rambus, Inc. v. Nvidia Corporation, 3:10-cv-05448, N.D. Cal., filed on December 1, 2010
337-TA-770	Creative Kingdoms LLC	3/21/2011	Creative Kingdoms, LLC et al v. Nintendo Company, Ltd. et al, 3:11-cv-00351, D. Or., filed on March 21, 2011
337-TA-773	Ogma LLC	4/1/2011	Ogma LLC v Activision Blizzard Inc et al, 2:11-cv-00075, E.D. Tex., filed on February 3, 2011 Ogma LLC v. Nyko Technologies, Inc., 2:11-cv-00302, E.D. Tex., filed on June 27, 2011 Ogma LLC v Jakks Pacific Inc, 2:11-cv-00324, E.D. Tex., filed on July 18, 2011 Ogma LLC v. Sony Ericsson Mobile Communications (USA) Inc., 2:11-cv-00284, E.D. Tex., filed on June 13, 2011 Ogma LLC v. Mad Catz Inc, 2:11-cv-00288, E.D. Tex., filed on June 15, 2011 Ogma LLC v. Activision Blizzard Inc, 2:11-cv-00291, E.D. Tex., filed on June 17, 2011

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337-TA-775	Linex Technologies Incorporated	5/6/2011	Linex Technologies, Inc. v. Hewett-Packard Company et al, 1:11-cv-00400, D. Del., filed on May 6, 2011
337-TA-778	Mosaid Technologies Incorporated	5/17/2011	Cisco Systems Inc. v. Conversant Intellectual Property Management Inc., 1:10-cv-00687, D. Del., filed on August 13, 2010
337-TA-781	X2Y Attenuators LLC	5/31/2011	X2Y Attenuators, LLC v. Intel Corporation et al, 1:11-cv-00117, W.D. Pa., filed on May 31, 2011 X2Y Attenuators, LLC v. Intel Corporation et al, 1:11-cv-00218, W.D. Pa., filed on September 22, 2011
337-TA-787	Ogma LLC	6/13/2011	Ogma LLC v. Bensussen Deutsch & Associates Inc, 2:11-cv-00335, E.D. Tex., filed on July 21, 2011 Ogma LLC v. Performance Designed Products LLC, 2:11-cv-00365, E.D. Tex., filed on August 19, 2011
337-TA-795	ObjectVideo Incorporated	6/29/2011	ObjectVideo, Inc. v. Gmbh et al, 3:11-cv-00217, E.D. Va., filed on April 6, 2011
337-TA-803	Intellectual Ventures II LLC	7/12/2011	Intellectual Ventures I LLC & II LLC v. Hynix Semiconductor Inc. et al, 2:11-cv-01145, W.D. Wash., filed on July 11, 2011
337-TA-799	Mykey Technology Incorporated	7/22/2011	MyKey Technology Inc. v. CRU Acquisitions Group LLC, 1:11-cv-00444, D. Del., filed on May 20, 2011 MyKey Technology Inc. v. CRU Acquisitions Group LLC et al, 2:13-cv-02476, C.D. Cal., filed on April 8, 2013 MyKey Technology Inc. v. CRU Acquisitions Group LLC, 3:13-cv-05266, W.D. Wash., filed on April 9, 2013
337-TA-800	Interdigital Technology Corporation	7/26/2011	Interdigital Communications LLC et al v. Nokia Corporation et al, 1:11-cv-00654, D. Del., filed on July 26, 2011
337-TA-801	Rovi Guides, Inc.	7/26/2011	Rovi Corporation et al v. Sharp Corporation et al, 3:11-cv-00533, E.D. Va., filed on August 15, 2011
337-TA-804	Litepanels Incorporated	8/3/2011	Litepanels, Ltd et al v. Switronix, Inc et al, 6:09-cv-00171, E.D. Tex., filed on April 20, 2009
337-TA-805	Industrial Technology Research Institute	8/10/2011	Industrial Technology Research Institute v. LG Corporation et al, 2:12-cv-00948, D. N.J., filed on February 16, 2012
337-TA-807	Technology Properties Limited LLC	8/24/2011	Technologies Properties Limited, LLC v. Action Electronics Co., Ltd. et al, 2:11-cv-00372, E.D. Tex., filed on August 24, 2011
337-TA-809	Openwave Systems Incorporated	8/31/2011	Openwave Systems Inc. v. Apple Inc. et al, 1:11-cv-00765, D. Del., filed on August 31, 2011

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337-TA-815	Compound Photonics Limited	10/21/2011	Compound Photonics, Ltd. v. Sony Corporation et al, 3:13-cv-01684, S.D. Cal., filed on July 18, 2013
337-TA-814	Beacon Navigation Gmbh	10/21/2011	Beacon Navigation GmbH v. Hyundai Motor Company et al, 1:11-cv-00935, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Jaguar Land Rover North America LLC et al, 1:11-cv-00936, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Saab Automobile AB et al, 1:11-cv-00950, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Chrysler Group LLC, 1:11-cv-00922, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Mazda Motor Corporation et al, 1:11-cv-00941, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Honda Motor Co. Ltd. et al, 1:11-cv-00933, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Dr. Ing. h.c. F. Porsche AG et al, 1:11-cv-00947, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Bayerische Motoren Werke AG et al, 1:11-cv-00931, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Volkswagen AG et al, 1:11-cv-00958, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Kia Motors Corp. et al, 1:11-cv-00940, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v Ford Motor Company, 1:11-cv-00923, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Fuji Heavy Industries Ltd. et al, 1:11-v-00951, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Ford Motor Company, 1:11-cv-00924, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Bayerische Motoren Werke AG et al, 1:11-cv-00930, D. Del., filed on October 11, 2011

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337-TA-814 (cont.)			Beacon Navigation GmbH v. Volvo Car Corporation et al, 1:11-cv-00960, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Chrysler Group LLC, 1:11-cv-00921, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Audi AG et al, 1:11-cv-00928, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Audi AG et al, 1:11-cv-00929, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Mazda Motor Corporation et al, 1:11-cv-00942, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Nissan Motor Co. Ltd. et al, 1:11-cv-00945, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Dr. Ing. h.c. F. Porsche AG et al, 1:11-cv-00948, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Kia Motors Corp. et al, 1:11-cv-00939, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Saab Automobile AB et al, 1:11-cv-00949, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Honda Motor Co. Ltd. et al, 1:11-cv-00932, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Jaguar Land Rover North America LLC et al, 1:11-cv-00937, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Nissan Motor Co. Ltd. et al, 1:11-cv-00946, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Volvo Car Corporation et al, 1:11-cv-00959, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Toyota Motor Corporation et al, 1:11-cv-00955, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Daimler AG et al, 1:11-cv-00944, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. General Motors LLC, 1:11-cv-00925, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Daimler AG et al, 1:11-cv-00943, D. Del., filed on October 11, 2011

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337-TA-814 (cont.)			Beacon Navigation GmbH v. Hyundai Motor Company et al, 1:11-cv-00934, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. General Motors LLC, 1:11-cv-00927, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Suzuki Motor Corporation et al, 1:11-cv-00953, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Suzuki Motor Corporation et al, 1:11-cv-00954, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Fuji Heavy Industries Ltd. et al, 1:11-cv-00952, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Toyota Motor Corporation et al, 1:11-cv-00956, D. Del., filed on October 11, 2011 Beacon Navigation GmbH v. Volkswagen AG et al, 1:11-cv-00957, D. Del., filed on October 11, 2011
337-TA-817	ChriMar Systems, Inc.	11/1/2011	ChriMar Systems Inc. et al v. Cisco Systems Inc. et al, 4:13-cv-01300, N.D. Cal., filed on March 22, 2013
337-TA-818	Virnetx Inc.	11/4/2011	VirnetX Inc. et al v. Apple Inc., 6:12-cv-00855, E.D. Tex., filed on November 6, 2012
337-TA-820	Rovi Guides, Inc.	11/15/2011	United Video Properties, Inc. et al v. Haier Group Corp. et al, 1:11-cv-01140, D. Del., filed on November 16, 2011 Rovi Corporation et al v. VIZIO Inc., 1:11-cv-01129, D. Del., filed on November 16, 2011

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337-TA-827	Digitude Innovations LLC	12/2/2011	Digitude Innovations LLC v. Pantech & Curitel Communications Inc. et al, 1:11-cv-01255, D. Del., filed on December 16, 2011 Digitude Innovations LLC v. Samsung Electronics Co. Ltd. et al, 1:11-cv-01197, D. Del., filed on December 2, 2011 Digitude Innovations LLC v Amazon.com Inc., 1:11-cv-01191, D. Del., filed on December 2, 2011 Digitude Innovations LLC v LG Electronics Inc. et al, 1:11-cv-01193, D. Del., filed on December 2, 2011 Digitude Innovations LLC v. Motorola Mobility Holdings Inc., 1:11-cv-01194, D. Del., filed on December 2, 2011 Digitude Innovations LLC v Research In Motion LTD. et al, 1:11-cv-01196, D. Del., filed on December 2, 2011 Digitude Innovations LLC v HTC Corporation et al, 1:11-cv-01192, D. Del., filed on December 2, 2011 Digitude Innovations LLC v. Sony Corporation et al, 1:11-cv-01198, D. Del., filed on December 2, 2011 Digitude Innovations LLC v. Nokia Corporation et al, 1:11-cv-01195, D. Del., filed on December 2, 2011
337-TA-824	Walker Digital LLC	12/5/2011	Walker Digital LLC v. Ayre Acoustics Inc. et al, 1:11-cv-00321, D. Del., filed on April 11, 2011
337-TA-828	Mondis Technology Limited	1/13/2012	Mondis Technology Ltd v. LG Electronics, Inc. et al, 2:07-cv-00565, E.D. Tex., filed on December 31, 2007

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337-TA-836	Graphics Properties Holdings Incorporated	3/5/2012	Graphics Properties Holdings Inc. v. Apple Inc., 1:12-cv-00385, D. Del., filed on March 27, 2012 Graphics Properties Holdings Inc. v. Samsung Electronics Co. Ltd. et al, 1:12-cv-00388, D. Del., filed on March 27, 2012 Graphics Properties Holdings Inc. v. Sony Corporation et al, 1:12-cv-00390, D. Del., filed on March 27, 2012 Graphics Properties Holdings Inc. v. LG Electronics Inc. et al, 1:12-cv-00389, D. Del., filed on March 27, 2012 Graphics Properties Holdings Inc. v. Research In Motion LTD. et al, 1:12-cv-00386, D. Del., filed on March 27, 2012 Graphics Properties Holdings Inc. v. HTC Corporation et al, 1:12-cv-00387, D. Del., filed on March 27, 2012
337-TA-839	Pragmatus AV LLC	3/13/2012	Pragmatus AV LLC v. Research In Motion Corp. et al, 1:12-cv-00201, D. Del., filed on February 17, 2012 Pragmatus AV LLC v. Asustek Computer Inc et al, 1:12-cv-00199, D. Del., filed on February 17, 2012
337-TA-840	Microchip Technology Incorporated	3/23/2012	Microchip Technology Incorporated v. Intersil Corporation et al, 2:12-cv-00629, D. Ariz., filed on March 23, 2012

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337-TA-841	Technology Properties Limited LLC	3/27/2012	Technology Properties Limited v. Acer Inc et al, 6:12-cv-00200, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Hewlett-Packard Company, 6:12-cv-00208, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Canon, Inc. et al, 6:12-cv-00202, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Microdia Limited, 6:12-cv-00212, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Kingston Technology Co., Inc., 6:12-cv-00210, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Jasco Products Company, 6:12-cv-00209, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Seiko Epson Corporation et al, 6:12-cv-00216, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Brother Industries Ltd et al, 6:12-cv-00201, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Systemax, Inc., 6:12-cv-00218, E.D. Tex., filed on March 28, 2012

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337-TA-841 (cont.)			Technology Properties Limited, LLC v. Dell, Inc., 6:12-cv-00204, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Dane Elec Corp. USA et al, 6:12-cv-00203, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Shuttle, Inc. et al, 6:12-cv-00217, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Fujitsu Limited et al, 6:12-cv-00206, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Sabrent, 6:12-cv-00214, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Samsung Electronics Co. Ltd. et al, 6:12-cv-00215, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. HiTi Digital, Inc. et al, 6:12-cv-00207, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Lexar Media, Inc. et al, 6:12-cv-00211, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Falcon Northwest Computer Systems, Inc., 6:12-cv-00205, E.D. Tex., filed on March 28, 2012 Technology Properties Limited, LLC v. Newegg Inc et al, 6:12-cv-00213, E.D. Tex., filed on March 28, 2012

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337-TA-843	Anu IP LLC	4/18/2012	Anu IP, LLC v. JVC Kenwood Corporation et al, 2:12-cv-00228, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Centon Electronics, Inc., 2:12-cv-00223, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Emtec Electronics, Inc., 2:12-cv-00225, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Lexar Media, Inc., 2:12-cv-00230, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Aluratek, Inc., 2:12-cv-00220, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. iRiver, Inc., 2:12-cv-00227, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. General Imaging Company, 2:12-cv-00226, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Corsair Memory, Inc., 2:12-cv-00224, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Office Depot, Inc., 2:12-cv-00218, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Option NV et al, 2:12-cv-00233, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Ritek Corporation et al, 2:12-cv-00219, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Archos S.A. et al, 2:12-cv-00221, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Latte Communications, Inc., 2:12-cv-00229, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. BlueStar Alliance, LLC, 2:12-cv-00222, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Samsung Electronics Co., Ltd. et al, 2:12-cv-00216, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Olympus Corporation of the Americas et al, 2:12-cv-00232, E.D. Tex., filed on April 17, 2012

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337-TA-843 (cont.)			Anu IP, LLC v. Maxell Corporation of America, Inc., 2:12-cv-00231, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Coby Electronics Corporation, 2:12-cv-00217, E.D. Tex., filed on April 17, 2012 Anu IP, LLC v. Patriot Memory, LLC, 2:12-cv-00235, E.D. Tex., filed April 18, 2012 Anu IP, LLC v. Sakar International, Inc., 2:12-cv-00237, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. ViewSonic Corporation, 2:12-cv-00243, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Super Talent Technology Corporation, 2:12-cv-00240, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Yamaha Corporation et al, 2:12-cv-00245, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Sanyo Electric Co Ltd et al, 2:12-cv-00238, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Silicon Power Computer and Communication, Inc. et al, 2:12-cv-00239, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Panasonic Corporation et al, 2:12-cv-00234, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Toshiba America, Inc. et al, 2:12-cv-00242, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Supersonic, Inc., 2:12-cv-00241, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Voxx International Corporation et al, 2:12-cv-00244, E.D. Tex., filed on April 18, 2012 Anu IP, LLC v. Provantage LLC, 2:12-cv-00236, E.D. Tex., filed on April 18, 2012
337-TA-845	Rovi Guides, Inc.	5/1/2012	Rovi Corporation et al v. Roku, Inc., 5:12-cv-02185, N.D. Cal., filed on May 1, 2012 Rovi Corporation et al v. LG Electronics Inc. et al, 1:12-cv-00545, D. Del., filed on May 1, 2012 Rovi Corporation et al v. Mitsubishi Electric Corp. et al, 1:12-cv-00547, D. Del., filed on May 1, 2012 Rovi Corporation et al v. VIZIO Inc., 1:12-cv-00546, D. Del., filed on May 1, 2012

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337-TA-850	Flashpoint Technology, Inc.	5/23/2012	Flashpoint Technology, Inc. v. Huawei Technologies Ltd. et al, 1:12-cv-00647, D. Del., filed on May 23, 2012 Flashpoint Technology, Inc. v. Pantech Co. Ltd. et al, 1:12-cv-00648, D. Del., filed on May 23, 2012 Flashpoint Technology, Inc. v. ZTE Corporation et al, 1:12-cv-00649, D. Del., filed on May 23, 2012
337-TA-851	Industrial Technology Research Institute	5/31/2012	Industrial Technology Research Institute v. LG Electronics, Inc. et al, 2:12-cv-03282, D. N.J., filed on May 31, 2012
337-TA-852	ObjectVideo Incorporated	6/27/2012	ObjectVideo, Inc. v. Pelco, Inc., 3:12-cv-00363, E.D. Va., filed on May 11, 2012
337-TA-853	Technology Properties Limited LLC	7/24/2012	Technology Properties Limited, LLC et al v. ZTE Corporation et al, 3:12-cv-03876, N.D. Cal., filed on July 24, 2012 Technology Properties Limited, LLC et al v. Garmin Ltd. et al, 3:12-cv-03870, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Sierra Wireless, Inc. et al, 3:12-cv-03878, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Huawei Technologies Co., Ltd. et al, 3:12-cv-03865, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Nintendo Co., Ltd et al, 3:12-cv-03881, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Novatel Wireless, Inc., 3:12-cv-03879, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. LG Electronics, Inc. et al, 3:12-cv-03880, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Amazon.com Inc., 4:12-cv-03861, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Samsung Electronic Co., LTD et al, 3:12-cv-03877, N.D. Cal., filed on July 24, 2012 Technology Properties Limited LLC et al v. Barnes & Noble, Inc., 3:12-cv-03863, N.D. Cal., filed on July 24, 2012
337-TA-858	VirnetX Inc.	9/14/2012	VirnetX Inc. et al v. Apple Inc., 6:12-cv-00855, E.D. Tex., filed on November 6, 2012

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337-TA-868	InterDigital Technology Corporation	1/2/2013	InterDigital Communications Inc. et al v. Huawei Technologies Co. Ltd et al, 1:13-cv-00008, D. Del., filed on January 2, 2013 InterDigital Communications Inc. et al v. ZTE Corporation et al, 1:13-cv-00009, D. Del., filed on January 2, 2013 InterDigital Communications Inc. et al v. Nokia Corporation et al, 1:13-cv-00010, D. Del., filed on January 2, 2013 InterDigital Communications Inc. et al v. Samsung Electronics Co. Ltd. et al, 1:13-cv-00011, D. Del., filed on January 2, 2013
337-TA-871	ADAPTIX, Inc.	1/24/2013	Adaptix, Inc. v. Ericsson, Inc. et al, 6:13-cv-00050, E.D. Tex., filed on January 10, 2013
337-TA-873	Tela Innovations Incorporated	2/8/2013	Tela Innovations Inc. v. LG Electronics Inc. et al, 1:13-cv-00217, D. Del., filed on February 8, 2013 Tela Innovations Inc. v. Nokia Corporation et al, 1:13-cv-00219, D. Del., filed on February 8, 2013 Tela Innovations Inc. v. HTC Corporation et al, 1:13-cv-00216, D. Del., filed on February 8, 2013 Tela Innovations Inc. v. Pantech Co Ltd. et al, 1:13-cv-00220, D. Del., filed on February 8, 2013 Tela Innovations Inc. v. Motorola Mobility LLC, 1:13-cv-00218, D. Del., filed on February 8, 2013

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-874	Lamina Packaging Innovations LLC	2/20/2013	Lamina Packaging Innovations, LLC v. Cognac Ferrand USA, Inc. et al, 2:13-cv-00174, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Remy Cointreau USA, Inc., 2:13-cv-00168, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Moet Hennessy USA, Inc., 2:13-cv-00166. E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations LLC v. Diageo North America Inc, 2:13-cv-00170, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. John Jameson Import Company, 2:13-cv-00164, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Freixenet USA, Inc., 2:13-cv-00160, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Beats Electronics, LLC, 2:13-cv-00148, E.D. Tex., filed February 21, 2013 Lamina Packaging Innovations, LLC v. Hasbro, Inc., 2:13-cv-00163, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Pernod Ricard USA LLC, 2:13-cv-00167, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. L'Oreal USA, Inc., 2:13-cv-00165, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Maisons Marques & Domaines USA, Inc. et al, 2:13-cv-00171, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Sidney Frank Importing Co., Inc., 2:13-cv-00169, E.D. Tex., filed on February 21, 2013 Lamina Packaging Innovations, LLC v. Camus Wines and Spirits Group, 2:13-cv-00173, E.D. Tex., filed on February 21, 2013

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-882	Black Hills Media, LLC	5/13/2013	Black Hills Media LLC v. Sharp Corporation, 1:13-cv-00804, D. Del., filed on May 6, 2013 Black Hills Media, LLC v. Samsung Electronics Co. Ltd. et al, 2:13-cv-00379, E.D. Tex., filed on May 6, 2013 Black Hills Media LLC v. LG Electronics Inc. et al, 1:13-cv-00803, D. Del., filed on May 6, 2013 Black Hills Media LLC v. Toshiba Corporation et al, 1:13-cv-00805, D. Del., filed on May 6, 2013 Black Hills Media LLC v. Panasonic Corporation et al, 1:13-cv-00806, D. Del., filed on May 6, 2013
337-TA-884	Graphics Properties Holdings Incorporated	5/17/2013	Graphics Properties Holdings Inc. v. VIZIO Inc., 1:13-cv-00867, D. Del., filed on May 17, 2013 Graphics Properties Holdings Inc. v. Toshiba America Information Systems Inc. et al, 1:13-cv-00866, D. Del., filed on May 17, 2013 Graphics Properties Holdings Inc. v. Panasonic Corporation of North America et al, 1:13-cv-00865, D. Del., filed on May 17, 2013
337-TA-889	Pragmatus Mobile LLC	6/27/2013	Pragmatus AV LLC v. Asustek Computer Inc et al, 1:12-cv-00199, D. Del., filed on February 17, 2012
337-TA-892	Straight Path IP Group, Inc.	8/1/2013	Straight Path IP Group, Inc. v. VIZIO, Inc. et al, 1:13-cv-00934, E.D. Va., filed on August 1, 2013
337-TA-897	Optical Devices LLC	9/3/2013	Optical Devices LLC v. Panasonic Corporation et al, 1:13-cv-00726, D. Del., filed on April 25, 2013 Optical Devices LLC v Mediatek Inc. et al, 1:13-cv-01527, D. Del., filed on September 3, 2013 Optical Devices LLC v Lenovo Group Ltd et al, 1:13-cv-01526, D. Del., filed on September 3, 2013 Optical Devices LLC v. Nintendo Co. Ltd. et al, 1:13-cv-01528, D. Del., filed on September 3, 2013 Optical Devices LLC v. Toshiba Corporation et al, 1:13-cv-01530, D. Del., filed on September 3, 2013 Optical Devices LLC v. Samsung Electronics Co Ltd et al, 1:13-cv-01529, D. Del., filed on September 3, 2013 Optical Devices LLC v. LG Electronics Inc. et al, 1:13-cv-01033, D. Del., filed on June 7, 2013

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-905	Pragmatus Mobile LLC	12/18/2013	Pragmatus Mobile LLC v. Samsung Electronics Co. Ltd. et al, 1:13-cv-01683, D. Del., filed on October 10, 2013 Pragmatus Mobile LLC v. Sony Mobile Communications (USA) Inc., et al, 1:13-cv-01762, D. Del., filed on October 28, 2013 Pragmatus Mobile LLC v. Nokia Corporation et al, 1:13-cv-01685, D. Del., filed on October 10, 2013 Pragmatus Mobile LLC v. ZTE (USA) Inc., 1:13-cv-01684, D. Del., filed on October 10, 2013
337-TA-906	Tela Innovations Incorporated	12/23/2013	Tela Innovations Inc. v. Taiwan Semiconductor Manufacturing Company Limited et al, 1:13-cv-02087, D. Del., filed on December 23, 2013
337-TA-924	IP Holdings LLC	6/20/2014	Sunlight Supply, Inc. et al v. Universal Garden Supply & Manufacturing, Inc., 3:14-cv-05239, W.D. Wash., filed on March 19, 2014
337-TA-923	Choon's Design LLC	7/1/2014	Choon's Design, Inc. v. Altatac, Inc., 2:14-cv-11442, E.D. Mich., filed on April 8, 2014 Choon's Design, Inc. v. Jayfinn, LLC, 2:14-cv-11802, E.D. Mich., filed on May 5, 2014 Choon's Design, Inc. v. My Imports USA, 2:14-cv-12259, E.D. Mich., filed on June 6, 2014
337-TA-925	Enterprise Systems Technologies S.a.r.l.	7/16/2014	Enterprise Systems Technologies S.a.r.l. v. HTC Corporation et al, 6:14-cv-00614, E.D. Tex., filed on July 16, 2014 Enterprise Systems Technologies S.a.r.l. v. LG Electronics, Inc. et al, 6:14-cv-00615, E.D. Tex., filed on July 16, 2014 Enterprise Systems Technologies S.a.r.l. v. Samsung Electronics Co., Ltd. et al, 6:14-cv-00555, E.D. Tex., filed on June 17, 2014 Enterprise Systems Technologies Sarl v. Cirrus Logic Inc., 1:14-cv-00767, D. Del., filed on June 17, 2014 Enterprise Systems Technologies Sarl v. Apple Inc., 1:14-cv-00765, D. Del., filed on June 17, 2014

337-TA-930	RevoLaze LLC	8/18/2014	RevoLaze LLC v. Eddie Bauer LLC, 1:14-cv-01811, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. VF Corporation, 1:14-cv-01820, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Roberto Cavalli S.p.A., 1:14-cv-01819, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. The Gap, Inc., 1:14-cv-01821, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. BBC Apparel Group, LLC et al, 1:14-cv-01800, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. DL 1961 Premium Denim Inc., 1:14-cv-01807, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Diesel S.p.A., 1:14-cv-01806, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Abercrombie & Fitch Co., 1:14-cv-01797, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Buffalo International ULC et al, 1:14-cv-01803, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Fashion Box S.p.A., 1:14-cv-01815, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Koos Manufacturing, Inc., 1:14-cv-01814, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. The Buckle, Inc, 1:14-cv-01801, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Eddie Bauer LLC, 1:14-cv-01809, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. American Eagle Outfitters, Inc., 1:14-cv-01799, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. H&M Hennes & Mauritz AB et al, 1:14-cv-01812, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Guess?, Inc, 1:14-cv-01818, N.D. Ohio, filed on August 15, 2014 RevoLaze LLC v. Levi Strauss & Co., 1:14-cv-01816, N.D. Ohio, filed on August 19, 2014 RevoLaze LLC v. Lucky Brand Dungarees, Inc., 1:14-cv-01817, N.D. Ohio, filed on August 19, 2014

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-942	Pragmatus Mobile LLC	11/24/2014	Pragmatus Mobile LLC v. ASUSTek Computer Inc. et al, 1:14-cv-00437, D. Del., filed on April 7, 2014
337-TA-943	One-E-Way	12/8/2014	One-E-Way Inc v. JayBird Gear LLC, 2:12-cv-06135, C.D. Cal., filed on July 16, 2012 One-E-Way Inc v. Harman International Industries Inc, 2:12-cv-00603, C.D. Cal., filed on January 23, 2012 One-E-Way Inc v. Imation Corporation, 2:12-cv-00608, C.D. Cal., filed on January 23, 2012 One-E-Way Inc v. JayBird Gear LLC, 2:12-cv-00601, C.D. Cal., filed on January 23, 2012 One-E-Way Inc v. Audiovox Corporation, 2:12-cv-00580, C.D. Cal., filed on January 23, 2012 One-E-Way Inc v. Plantronics Inc et al, 2:11-cv-06673, C.D. Cal., filed on August 12, 2011
337-TA-949	Andrea Electronics Corporation	2/9/2015	Andrea Electronics Corporation v. Lenovo Holding Company, Inc. et al, 2:15-cv-00212, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Acer Inc. et al, 2:15-cv-00210, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Realtek Semiconductor Corp., 2:15-cv-00215, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Dell Inc., 2:15-cv-00209, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Toshiba Corporation et al, 2:15-cv-00211, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Hewlett-Packard Company, 2:15-cv-00208, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. ASUSTeK Computer Inc. et al, 2:15-cv-00214, E.D.N.Y., filed on January 14, 2015 Andrea Electronics Corporation v. Toshiba Corporation et al, 2:14-cv-04492, E.D.N.Y., filed on July 25, 2014

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-976	AAVN, Inc.	10/1/2015	AAVN, Inc v. AQ Textiles, LLC, 2:15-cv-01527, E.D. Tex., filed on September 15, 2015 AAVN, Inc. v. Globe Cotyarn Private Limited, 2:15-cv-01533, E.D. Tex., filed on September 16, 2015 AAVN, Inc. v. Creative Textile Mills Private Limited, 2:15-cv-01534, E.D. Tex., filed on September 16, 2015 AAVN, Inc. v. GHCL Limited, 2:15-cv-01532, E.D. Tex., filed on September 16, 2015 AAVN, Inc. v. Indo Count Global, Inc., 2:15-cv-01531, E.D. Tex., filed on September 16, 2015 AAVN, Inc. v. E & E Company, Ltd. d/b/a/ JLA Home, 2:15-cv-01657, E.D. Tex., filed on October 17, 2015
337-TA-3093	Intellectual Capital Consulting Limited	10/23/2015	Intellectual Capital Consulting, LTD v. Volvo Car Corporation et al, 1:15-cv-01994, D. Colo., filed on September 11, 2015 Intellectual Capital Consulting, Ltd. v. Hyundai Motor Company et al, 2:15-cv-00917, E.D. Tex., filed on June 1, 2015
337-TA-982	Parkervision, Inc.	12/15/2015	Parkervision, Inc. v. Apple Inc. et al, 3:15-cv-01477, M.D. Fla., filed on December 14, 2015

ITC Case #	ITC Complainant	ITC File Date	Companion Case Information
337-TA-984	Advanced Silicon Technologies LLC	12/28/2015	Advanced Silicon Technologies, LLC v. Toyota Motor Corporation et al, 1:15-cv-01180, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Bayerische Motoren Werke AG et al, 1:15-cv-01178, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Fujitsu Ten Limited et al, 1:15-cv-01174, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Volkswagen AG et al, 1:15-cv-01181, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Texas Instruments Incorporated, 1:15-cv-01175, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. NVIDIA Corporation, 1:15-cv-01177, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC V.Renesas Electronics Corporation et al, 1:15-cv-01176, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Harmon International Industries Incorporated et al, 1:15-cv-01173, D. Del., filed on December 21, 2015 Advanced Silicon Technologies, LLC v. Honda Motor Co., Ltd. et al, 1:15-cv-01179, D. Del., filed on December 21, 2015
337-TA-1001	Rovi Guides, Inc.	4/6/2016	Rovi Guides, Inc. et al v. Comcast Corporation et al, 2:16-cv-00321, E.D. Tex., filed on March 31, 2016 Rovi Guides, Inc. v. Comcast Corporation et al, 2:16-cv-00322, E.D. Tex., filed on April 1, 2016
337-TA-998	Paice LLC	4/15/2016	Paice LLC et al v. Hyundai Motor Company et al, 1:12-cv-00499, D. Md., filed on February 16, 2012 Paice, LLC. v. Toyota Motor Corporation et al, 2:07-cv-00180, E.D. Tex., filed on May 8, 2007 Paice LLC et al v. The Ford Motor Company, 1:14-cv-00492, D. Md., filed on February 19, 2014
337-TA-3150	Tessera Incorporated	5/23/2016	Tessera, Inc. et al v. Broadcom Corporation, 1:16-cv-00379, D. Del., filed on May 23, 2016

Total NPE Cases: 78

Total NPE Cases with Companion District Court Cases: 78

Response to Questions for the Record from Mark L. Whitaker, Partner, Morrison & Foerster LLP

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June 2, 2016

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Mr. Eric Bagwell
Committee on the Judiciary
6310 O'Neill Federal Building
Washington, DC 20515

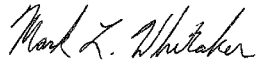
Re: Committee on the Judiciary's Subcommittee on Courts, Intellectual Property, and the Internet Hearing on "International Trade Commission Patent Litigation," Thursday, April 14, 2016 – Questions for the Record

Dear Mr. Bagwell:

Thank you for the opportunity to testify at the referenced Judiciary Committee hearing. As requested, I enclose my written answers to question for the record submitted by committee members.

Please contact me if you have any questions concerning my testimony or responses to the posed questions.

Sincerely,



Mark L. Whitaker

Enclosure

Responses to Questions for the Record Submitted to the Committee on the Judiciary's Subcommittee on Courts, Intellectual Property, and the Internet

Questions for the record from Representative Darrell Issa (CA-49):

Question 1:

Of the 8% of PAEs identified in the ITC Datasheet, how many have (or had) parallel district court actions? All of them? Isn't it clear that PAE's don't actually want the only remedy available in the ITC?

Answer:

The possible reasons behind filing in the ITC and/or District Court are the same whether the Complainant is a practicing entity or PAE/NPE. District court patent actions are filed to preserve past money damages – lost profits or reasonable royalty. Plaintiffs may also seek injunctive relief. ITC complaints are filed seeking to cut off further flow of infringing articles into U.S. and/or to obtain a cease and desist order to foreclose the sale and distribution of infringing articles already in the United States. Like practicing entities, PAEs often file parallel district court complaints to avail themselves of damages in addition to ITC remedies. Thus, the remedy sought by any party, whether practicing or non-practicing, largely depends on how it desires to be compensated for infringement or protected from market dilution based on an unfair act – exclusion order, injunction, money damages, or licensing. It should also be noted that in a civil action involving parties that are also parties to a proceeding before ITC under Section 337, at the request of a party to the civil action that is also a respondent in the proceeding before the Commission, the district court shall stay proceedings in the civil action, until the determination of the Commission becomes final.

Questions for the record from Representative Blake Farenthold (TX-27):

Question 1:

In recent years we have seen investigations filed where non-practicing entities (NPEs) seek exclusion of large percentages of the U.S. market for various products, smartphones, televisions and other consumer products (respondents with 50-80% is not uncommon). How would consumers/U.S. taxpayers be served if such relief were granted?

Answer:

In response to your question, it is important for us to first define what is meant by "NPE" (non-practicing entities). In the context of this discussion, I will recite to the definitions employed by the ITC. The ITC places NPEs into two categories:

- Category 2 NPEs. Entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.
- Category 1 NPEs. All other entities that do not manufacture products that practice the asserted patents, including inventors who may have done R&D or built prototypes, but do not make a product covered by the asserted patents, and therefore, rely on licensing to meet the domestic industry requirement; research institutions, such as universities and laboratories, that do not make products covered by the patents, and therefore rely on licensing to meet the domestic industry requirement; start-ups that possess IP rights but do not yet manufacture products that practice the patent; and manufacturers whose own products do not practice the asserted patents.

It is should be noted that NPEs are not filing *en masse* at the ITC. In fact, the numbers of NPE-filed cases according to ITC statistics, are *de minimus* when compared to the total number of filings in district courts:

- Number of Section 337 Investigations Brought by Category 2 NPEs:
  - 2014: 3
  - 2015: 2
  - Q1 2016: 1

By contrast, the number of NPEs bringing cases in U.S. district courts is thousands of times greater than the number brought in the ITC. One reporting service, RPX Rational Patent Corporation, publishes reports on trends and activities in the NPE patent litigation space. Its 2015 NPE Activity Highlights Report (https://www.rpxcorp.com/wp-content/uploads/sites/2/2016/01/RPX-2015-NPE-Activity-Highlights-FinalZ.pdf) indicated the following:

- In 2013, 3,734 patent cases were filed by NPEs
- In 2014, 2,903 patent cases were filed by NPEs
- In 2015, 3,621 patent cases were filed by NPEs

Further, the ITC notes the following in its June 2014 Update to USITC Section 337 Facts and Trends Regarding Caseload and Parties: Since the *eBay* decision issued in 2006, only four NPEs have been successful in obtaining exclusion orders: two Category 1 NPEs and two

Category 2 NPEs. **In each of these four investigations, the involved NPE or its subsidiary developed the technology at issue in the investigation.**

- Category 1 NPEs:
  - Tessera in Inv. No. 337-TA-605 (Limited Exclusion Order (LEO) Issued)
  - UNeMed Corp. in Inv. No. 337-TA-679 (LEO Issued)
- Category 2 NPEs:
  - Rambus in Inv. No. 337-TA-661 (LEO Issued)
  - Technology Properties Limited in Inv. No. 337-TA-807 (LEO Issued)

To ensure that the public is being served by remedial orders, before issuing such orders, the ITC assesses its impacts on consumers by looking to four public interest factors. The ITC can deny an exclusion order or tailor an exclusion order to account for any adverse impact to the public interest. The public interest factors are:

- Public health and welfare in the United States
- Competitive conditions in the United States economy
- The production of like or directly competitive articles in the United States
- United States consumers

Finally, the President, acting through the United States Trade Representative, has the authority to disapprove of any remedial order for policy reasons. The U.S. Trade Representative has 60 days to review the Commission's determination. In 2013, the U.S. Trade Representative disapproved the Commission's remedial orders stemming from the Commission's determination in Inv. No. 337-TA-794, which excluded from importation certain Apple iPhone and iPad models found to infringe a standard-essential-patent owned by Samsung. The U.S. Trade Representative explicitly mentioned the public interest factors in the disapproval letter.

Question 2:

A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITC's powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

Answer:

In 1988, Congress passed the Omnibus Trade and Competitiveness Act of 1988 to amend Section 337 to allow licensing of intellectual property as an independent and sufficient "domestic industry." *See Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-559, Order No. 24 at 93 (2007) ("It is clear

that the intent of Congress was to allow entities that were actively licensing their patents in the United States to be able to meet the domestic industry requirement under the statute.").

Based on the statistics recited in response to Question 1, it does not appear that there is a patent troll "problem" at the ITC. Rather, the problem appears to be most acutely prevalent in district courts. However, even if there is a perceived troll problem at the ITC, a solution must be exhaustively studied and crafted so that Category 1 NPEs are not adversely affected.

Question 3:

Several witnesses have said that patent trolls haven't been a big problem in the ITC. But there's an obvious explanation for that: patent trolls favored software patents, and software isn't the kind of thing that is imported traditionally on ships, so the ITC's powers were pretty irrelevant. But things are changing. As Mr. Thorne pointed out, the ITC did make an attempt to expand its powers to reach software and Internet downloads, and though this has failed so far, if the ITC eventually gets its way that could open the door for all sorts of software patent trolls to enter the ITC. And in any event, the growing number of Internet of Things devices means that more and more software will actually be imported on ships-software embedded in thermostats, hoverboards, appliances, and other things. So isn't it pretty shortsighted to say that patent trolls aren't a problem at the ITC, when in fact the Internet of Things is just about to open a golden opportunity for trolls at the ITC?

Answer:

Software, as an accused article, has been embedded in a voluminous number of products (e.g., phones, laptops) that have been the subject of ITC investigations for many years. See e.g., *GPS Chips, Associated Software and Systems, and Products Containing Same*, Inv. No. 337-TA-596; *HSP Modems, Software and Hardware Components Thereof, and Products Containing Same*, Inv. No. 337-TA-439; *Commercial Food Portioners, Components Thereof, Including Software, and Process Thereof*, Inv. No. 337-TA-339. Given the previous and ongoing history of software cases at the ITC, there is little to suggest that the number of Internet of Things devices will exponentially grow the number of patent troll investigations.

Additionally, the ITC's 100-day pilot program for the identification and early adjudication of potentially dispositive issues, could include challenges related to software or business method patents pursuant to 35 U.S.C. § 101. In fact, in the recently instituted 994 investigation (*Portable Electronic Devices and Components Thereof*), the Commission has directed the Administrative Law Judge (ALJ) to determine, within 100 days of institution, whether the only asserted patent is invalid under Section 101. This is the first time that the Commission has called for an expedited decision on a Section 101 issue, and only the third time the Commission has identified a potentially dispositive issue for an early 100-day proceeding. This 994 investigation was filed by a non-practicing entity.

Question 4:

Can you identify even a single instance in the last 10 years where an NPE was not able to get jurisdiction over some entity in the US against which to enforce its patent rights? Won't those NPEs (Universities or small engineering firms) be able to establish domestic industry under 337(a)(3)(C) for engineering or R&D?

Answer:

As an initial matter, recall that in ITC investigations, jurisdiction is *in rem* over an article, not *in personam* over a person or entity. As to whether an NPE was not able to get jurisdiction over some entity in the US, however, the answer presumably is yes. *See e.g., Certain Equipment for Communications Networks, including Switches, Routers, Gateways, Bridges, Wireless Access Points, Cable Modems, IP Phones, and Products Containing Same* (Inv. No. 337-TA-778) (filed by MOSAID); and *Certain Dynamic Random Access Memory and NAND Flash Memory Devices and Products Containing Same* (Inv. No. 337-TA-803) (filed by Intellectual Ventures). Both NPE complainants sought a General Exclusion Order and only asserted a Domestic Industry under subsection (C) of the statute.

A "general exclusion order" may be issued against all infringing articles from any source, regardless whether or not the source was included in the investigation. General exclusion orders are only issued if additional findings are made that: (a) such an order is necessary to prevent circumvention of a limited exclusion order, or (b) there is a pattern of violation of the statute and it is difficult to identify the source of the infringing products. 19 U.S.C. § 1337(d)(2); *Certain Airless Paint Spray Pumps and Components Thereof*, Inv. No. 337-TA-90. It is this last point – "difficult to identify the source of the infringing products" – that precludes a party from seeking relief solely in district court because the source of the infringing products is not known.

Further, under the current statute, universities and small engineering firms may be able to meet the DI requirement (as intended when subpart (C) was added to the statute), but whether their activities relating to the technology and covered products (if any are actually performed) are substantial enough is decided case by case. Such entities do not automatically qualify as having a domestic industry.

Finally, there are many Section 337 Investigations where Respondents are foreign entities located overseas. Often, it does not appear on the face of the complaint that these entities have U.S. affiliates in order to be subject to personal jurisdiction.

Response to Questions for the Record from Fiona M. Scott Morton, Theodore Nierenberg Professor of Economics, Yale School of Management

19 May 2016

Professor Fiona Scott Morton
Yale School of Management

Dear Chairman Goodlatte:

Enclosed please find the responses to the questions you asked me concerning the hearing on Thursday April 14th entitled "International Trade Commission Patent Litigation."

From Mr. Issa:

1a. Do I believe that SEPs subject to FRAND commitments should be eligible for review by the ITC if a concurrent case has been filed in District Court?

No, I do not see how duplicative process benefits consumers or the economy.

1b. And if eligible, do I believe that the ITC case should be stayed instead of the District Court case?

Yes

2a. Should exclusion orders issue in patent cases involving SEPs?

Only in the limited circumstances pointed out by the FTC and DOJ, that is, when the implementer is not submitting to, or complying with, a legal process designed to determine appropriate money damages.

2b. Does the ITC provide a friendly forum for PAEs to disrupt the economy, stifle innovation, and undermine competition?

Yes, though the ITC has a pro-competitive role to play in our economy as well.

3. As to both for SEPS and implementation patents, can the exclusionary threat in an ITC investigation be used by complainant patent holders to hold up respondents in order to achieve supra-competitive royalty rates?

Yes; this is a major current problem in the US technology sector, in my opinion.

From Mr. Farenthold:

1. In recent years we have seen investigations filed where NPEs seek exclusion of large percentages of the US market for various products, smartphones, televisions and other consumer products (respondents with 50-80% is not uncommon). How would consumers/US taxpayers be served if such relief were granted?

Exclusion orders harm consumers by reducing choice and competition, and therefore should only be granted when the Supreme Court's *eBay* standard applies, as this requires the equities to be balanced. When US consumers are not able to access half the smartphones on the US market because of a dispute over the licensing terms to some small aspect of the product, obviously consumers are harmed through reduced choice and likely higher prices (charged by the remaining producers). The threat of the loss of the entire revenue of the phone (perhaps $500) over a much smaller dispute (should the royalty for the feature be 25 cents or 0.5 cents) hands the patent owner enormous and disproportionate leverage in that licensing dispute. Removing the exclusion threat so that the licensing dispute can be adjudicated in a fair way with appropriate process benefits consumers and competition. In such a venue the patent holder will be awarded a royalty commensurate with the value of its innovation.

2. A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITCs powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

Yes, I agree. The fundamental change that would remove their incentive to use the ITC is to make an injunction equally difficult to achieve at the ITC as it currently is in Federal court. There are a number of different legal changes that would achieve this goal.

3. Even if PAEs do not ultimately obtain a remedy, do you understand that PAEs use the ITC to get better negotiating leverage with operating companies?

Yes, most definitely. The threat of an injunction is enough to change the negotiation in favor of the PAE and away from the competitive outcome.

Response to Questions for the Record from Thomas L. Stoll, Principal, Stoll IP Consulting

Committee on the Judiciary's Subcommittee on Courts, Intellectual Property and the Internet Hearing on "International Trade Commission Patent Litigation" Held Aril 14, 2016

Response of Thomas L. Stoll to Questions for the Record from Representative Blake Farenthold (TX-27) Submitted June 3, 2016

Question 1:

In recent years we have seen investigations filed where non-practicing entities (NPEs) seek exclusion of large percentages of the U.S. market for various products, smartphones, television and other consumer products (respondents with 50-80% is not uncommon). How would consumers/U.S. taxpayers be served if such relief were granted?

As part of its statutorily-mandated public-interest analysis the Commission considers the impact any remedial order would have on U.S. consumers. During the hearing, Mr. Goodlatte, Chairman of the House Judiciary Committee, noted that as part of this analysis, the ITC must consider "the impact of an exclusion order on competition." In accordance with 19 U.S. C. § 1337(d)(1), the Commission cannot issue an exclusion order "unless, after considering the effect of such exclusion upon the 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, it finds that such articles should not be excluded from entry." In accordance with Commission Rule 210.8(b)-(c), the Commission will consider these issues at the beginning of an investigation including submissions from members of the public and proposed respondents on how issuance of the requested exclusion order could affect competitiveness and U.S. consumers.

In situations in which imports are found to infringe a valid patent but the issuance of an exclusion order might disrupt the availability of certain consumer products from the U.S. marketplace, the Commission and its Administrative Law Judges have considered and/or recommended delayed enforcement so that the market can compensate without undue impact on consumers. Regarding the impact of non-practicing entities, it is not clear that any NPE has successfully obtained an exclusion order with the effect described.

Patent laws protect investment in research and development and benefit society—including consumers—by fostering an environment where the creation of new ideas, and improvements on those ideas, constantly bring new and better products to market. Consumers are served by continuing to allow universities and small engineering firms the option of bringing an action in the ITC where the infringement is based on the importation of infringing products. Recognizing shifts in the U.S. economy, by which manufacturing has largely moved off-shore and that the

U.S. economy is more dependent on intellectual property and research and development than in the past, the 1988 Amendments to the Tariff Act were intended to enable universities and other U.S.-based research and development-focused entities to access the ITC more readily. Preventing universities, research firms, and other small businesses, who today do so much of the basic research in the U.S., from bringing ITC actions would disincentivize investment in research and development and possibly force the U.S. Government to spend much more taxpayer dollars on R&D. Without incentives to invest in R&D, consumers may not have the option of buying many of the great groundbreaking consumer products or life-saving drugs and medical devices that improve our health and our daily lives, and drive our economy. The alternative of allowing manufacturers in foreign countries to create infringing products for exportation into the U.S., even before a product with patent protection is made or sold in the U.S. under the patent, is the less preferred option. In his opening statement, the Ranking Member of the House Judiciary Committee, Mr. Conyers, correctly noted the need to protect those incentives to invent and avoid "any adverse impact [changes to Section 337] may have on American innovators."

Question 2:

A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITC's powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

As Subcommittee Chairman Issa correctly noted in his opening statement, "troll activities need to be prevented." "Patent trolling" is often defined as asserting a meritless claim of infringement based on either invalid or inapplicable patent claims, and using the threat of litigation to leverage the expense of a proceeding to extract an unjust settlement from an improperly accused infringer. Gene Sperling, then Director of the National Economic Council and Assistant to the President for Economic Policy, in 2013 aptly identified the problem not as the assertion of "legitimate intellectual property rights, or vigorous defen[se of] valid patents," but that trolling activity occurs when "rogue companies make a business model out of exploiting and abusing the system, using it not to protect invention but to bring frivolous lawsuits to extract settlements from companies trying to serve American consumers." [1]

If the ITC were regularly instituting proceedings based on purely frivolous claims of patent infringement, then some changes to their practice or to the law would be necessary to prevent abuse. With the rigor applied by the ITC to complaints filed there, however, there is little chance of the ITC instituting a proceeding based on a bogus claim of infringement.

[1] Gene Sperling, *Taking on Patent Trolls to Protect American Innovation*, White House Blog (June 4, 2013). https://www.whitehouse.gov/blog/2013/06/04/taking-patent-trolls-protect-american-innovation.

When a complaint brought to the ITC is based upon alleged infringement of intellectual property rights, the Commission's Rules require that the complaint be accompanied by specified background materials relating to the rights asserted. *See* Rule 210.12(c)-(g), 19 C.F.R. § 210.12(c)-(g). In patent cases, included in that list of materials are claim charts showing infringement of each asserted independent claim of the patents at issue. 19 C.F.R. § 210.12(a)(9)(vii). The required showing for a complainant at the ITC, therefore, is substantially higher than had been required in district court pleadings before the United States Supreme Court very recently adopted Congress's amendments to the Federal Rules of Civil Procedure, abolishing Form 18, which had allowed plaintiffs to merely state the title of the patent, the patent number, and generally allege infringement.[2] Even with that recent improvement, the ITC's pleading requirements remain more stringent than is currently required in district court.

To add to that, recent actions of the Commission, combined with recent decisions by the Federal Circuit and the U.S. Supreme Court, have made it virtually impossible to litigate an ITC case based on a frivolous claim of infringement. First, the Commission has significantly tightened up its enforcement of the "domestic industry" requirement making it much harder for a claimant to succeed based on licensing activities—where most of the alleged abuses exist. Second, the ITC has instituted a 100-day pilot program to quickly dispense with cases that lack merit, including those based on frivolous claims of infringement, significantly limiting the threat of unnecessary litigation in the ITC. As the Subcommittee Ranking Member, Mr. Nadler, noted in his opening statement, this program is intended to "weed out weak claims at an early stage and discourage many others from even being filed." Additionally, recent U.S. Supreme Court decisions significantly limiting the scope of patent-eligible subject matter and requiring greater clarity in patent claiming are likely deterring many patent owners from filing infringement claims in the ITC.

There is little available evidence to suggest that today complainants are filing frivolous complaints, or that the ITC lacks the authority to keep bad actors from abusing the ITC's proceedings. To the contrary, it appears that the combined efforts of Congress, the courts, and the ITC have set the bar sufficiently high to discourage the filing of ITC complaints based on weak infringement claims. As I discussed in detail at the hearing, if at some point in the past "patent trolls" were filing frivolous claims with the ITC, recent statistics published by the ITC of the number of proceedings instituted by NPEs show that there is not currently such a problem.[3]

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[2] *Supreme Court Adopts Amendments to Federal Rules That May Deter Patent Infringement Lawsuits, Especially Those Filed by Non-practicing Entities*, The National Law Review (November 3, 2015). http://www.natlawreview.com/article/supreme-court-adopts-amendments-to-federal-rules-may-deter-patent-infringement#sthash.64HGlB1h.dpuf.

[3] The number of Section 337 investigations brought by NPEs in the last few years is lower than it has been since 2006; only two investigations were brought in 2015. https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

Question 3:

Several Witnesses have said that patent trolls haven't been a big problem in the ITC. But there's an obvious explanation for that: patent trolls favored software patents, and software isn't the kind of thing that is imported traditionally on ships, so the ITC's powers were pretty irrelevant. But things are changing. As Mr. Thorne pointed out, the ITC did not make an attempt to expand its powers to reach software and Internet downloads, and though this has failed so far, if the ITC eventually gets its way that could open the door for all sorts of software patent trolls to enter the ITC. And in any event, the growing number of Internet of Things devices means that more and more software will actually be imported on ships—software embedded in thermostats, hoverboards, appliances, and other things. So isn't it pretty shortsighted to say that patent trolls aren't a problem at the ITC, when in fact the Internet of Things is just about to open a golden opportunity for trolls at the ITC?

On May 5, 2016, in *Certain Portable Electronic Devices and Components Thereof*, Inv. No. 337-TA-994, the ITC issued a notice of institution of an investigation and ordered the presiding Administrative Law Judge (ALJ) to, within 100 days, "hold an early evidentiary hearing, find facts, and issue an early decision, as to whether the asserted claims of the '433 patent recite patent-eligible subject matter under 35 U.S.C. § 101." The products at issue in the investigation are portable electronic devices, such as smart phones, and the patented methods relate to playing stored media files selected by a user from a hierarchical display. If the ALJ issues an initial decision finding that the asserted claims of the patent do not recite patent-eligible subject matter under 35 U.S.C. § 101, the ALJ will be required to stay the investigation. Thus, the ITC appears committed to using its pilot program to give respondents, including those that import software embedded products, an opportunity to challenge allegedly questionable claims of infringement at the initial stages of a proceeding.

Several high-profile U.S. Supreme Court decisions have made it much more difficult to secure or maintain a patent involving software. In *Bilski*,[4] the Court struck down as an unpatentable abstract idea claims covering a method for hedging risk by initiating a series of transactions. In *Alice*,[5] the Supreme Court dealt its greatest blow to software patents by holding a computer-implemented escrow service ineligible for patenting using a new less stringent two-part abstract idea test for assessing patent ineligibility. These are only a few of the many recent cases casting a huge cloud on the validity of countless software related patents and applications. As the Federal Circuit, district courts, and the USPTO follow the Supreme Court's lead,[6] many believe

[4] *Bilski v. Kappos*, 561 U.S. 593 (2010).
[5] *Alice Corp. v. CLS Bank International*, 573 U.S. __, 134 S. Ct. 2347 (2014).
[6] *See* Dennis Crouch, *New Section 101 Decisions: Patents Invalid*, PATENTLYO (Sept. 4, 2014), http://patentlyo.com/patent/2014/09/section-decisions-invalid.html; Benjamin E. Leace & Christopher H. Blaszkowski, *Curiouser and Curiouser Is Alice the Long Sought Troll Killer*, THE LEGAL INTELLIGENCER (Apr. 1, 2015), http://www.flatfeeipblog.com/files/2015/06/Curiouser-and-Curiouser-Is-Alice-the-Long-Sought-Troll-Killer-_-The-Legal-Intelligencer.pdf; Rob Sterne & Gene Quinn, *PTAB Death Squads: Are All Commercially Viable*

we are seeing just the beginning of what Circuit Judge Kimberly Moore predicted would be "the death of hundreds of thousands of patents, including… many computer implemented and telecommunications patents."[7] While the ultimate impact of the *Alice* decision remains to be seen, the cards are now clearly stacked against those who seek to frivolously or abusively assert allegations of infringement of software patents. The courts and the USPTO have been invalidating and rejecting business method and software related claims in unprecedented numbers. The USPTO recently reported a decline in the number of patents granted for the first time in years, which some attribute to the recent string of Supreme Court cases limiting patent eligibility. And new investigation filings with the ITC are down.[8]

Should patent owners bring fraudulent claims of patent infringement based on software patents that clearly are not patent eligible or not valid, in all cases including those involving products with embedded software, the ITC will invalidate those patents and under its new initiatives will do so quickly and relatively inexpensively.

Question 4:

Can you identify even a single instance in the last 10 years where an NPE was not able to get jurisdiction over some entity in the US against which to enforce its patent rights? Won't those NPEs (Universities or small engineering firms) be able to establish domestic industry under 337(a)(3)(C) for engineering or R&D?

Section 337 specifically declares the infringement of rights under a U.S. patent to be an unlawful import practice, including products made by foreign manufacturers with no ties to the U.S. Section 337 proceedings were established to allow patent owners to bring actions to stop the importation or sale of infringing articles. When Congress amended Section 337 so that it would provide protection for American industries that did not manufacture products but were engaged in engineering, research and development, or licensing of the technology that others used to make products, the amendment was directed at foreign firms that copy American inventions without permission, and then ship those products into the U.S. *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n*, 707 F.3d 1295, 1300 (Fed. Cir. 2013) ("InterDigital").

Accordingly, remedies available at the ITC to enforce a U.S. patent are "in rem," meaning they are meant to apply to products. An exclusion order, therefore, prevents the goods from entering the United States. There are two types of exclusion orders, limited and general. A limited exclusion order applies to goods manufactured or imported by a party to the ITC proceeding. A general exclusion order issues against all infringing articles from any source, regardless of

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Patents Invalid?, IPWATCHDOG (Mar. 24, 2014), http://www.ipwatchdog.com/2014/03/24/ptab-death-squads-are-all-commercially-viable-patents-invalid/id=48642/.

[7] *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1313 (Fed. Cir. 2013) (en banc) (Moore, J., dissenting-in-part).

[8] *Section 337 Statistics: Number of Section 337 Investigations Brought by NPEs* (June 2, 2016). https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

whether the source was included in the investigation. *Fuji Photo Film Co. v. ITC*, 474 F.3d 1281, 1286 (Fed. Cir. 2007). A general exclusion order applies to any good fitting a particular description, thereby allowing a complainant to file a single complaint to resolve the infringement and enabling the Commission to resolve the issues in a single investigation. Rather than serially sue foreign suppliers, who can operate under any number of different entity names and who use any number of individual importers (who can be replaced quickly), general exclusion orders were authorized to allow the ITC to issue a single exclusion order that applies to the product regardless of who the foreign manufacturer might be or who they use to import infringing products. "A party concerned about potential 'circumvention' of an [limited exclusion order] 'limited to products of named persons' or fearing the difficulty of identifying 'the source of infringing products' has the option to bring a case under either subsection 337(d)(2)(A) or 337(d)(2)(B)." *Kyocera Wireless Corp. v. Int'l Trade Comm'n*, 545 F.3d 1340, 1357 (Fed. Cir. 2008).

Foreign manufacturers sometimes make products for sale in the United States, but refuse to participate in proceedings before U.S. tribunals. "The Tariff Act of 1930 (Act) and its predecessor, the Tariff Act of 1922, were intended to provide an adequate remedy for domestic industries against unfair methods of competition and unfair acts instigated by foreign concerns operating beyond the in personam jurisdiction of domestic courts." *Sealed Air Corp. v. U. S. Int'l Trade Comm'n*, 645 F.2d 976, 985 (C.C.P.A. 1981). In *Sealed Air Corp. v. U. S. Int'l Trade Comm'n*, 645 F.2d 976, 988 (C.C.P.A. 1981), the Federal Circuit's predecessor court held that the ITC was authorized to hold a respondent in default, in view of the foreign manufacturer's failure to respond to the complaint and notice of investigation, coupled with its failure to participate in discovery. Similarly, *John Mezzalingua Associates, Inc. v. Int'l Trade Comm'n*, 437 F. App'x 886 (Fed. Cir. 2010) (non-precedential), involved an appeal of an ITC complaint against four foreign respondents who also defaulted. *Id.* at 888.

The ITC does not provide statistics on the number of proceedings involving defaulting foreign entities, nor does it keep statistics on whether the complainant was able to obtain jurisdiction over respondents in federal court. But the above background and examples cited demonstrate the need for all U.S. patent owners to retain the right to bring a proceeding in the ITC.[9]

Universities or small engineering firms can establish domestic industry based on investment in engineering or R&D if they meet the criteria of 19 U.S. C. § 1337(a)(3)(C), so long as the investment is tied to the patents at issue. For example, in *InterDigital*, the Federal Circuit observed, "The 'substantial investment in [the patent's] exploitation, including engineering, research and development, or licensing' must be 'with respect to the articles protected by the patent,' which means that the engineering, research and development, or licensing activities must pertain to products that are covered by the patent that is being asserted. Thus, just as the 'plant

[9] Even in cases involving foreign entities that default, as in any others before the ITC, the Commission will make a determination on "whether the public interest lies in excluding or not excluding the goods involved." *Sealed Air*, 645 F.2d at 989.

or equipment' referred to in subparagraph (A) must exist with respect to articles protected by the patent, such as by producing protected goods, the research and development or licensing activities referred to in subparagraph (C) must also exist with respect to articles protected by the patent, such as by licensing protected products." *Id.* at 1298-98. If a university or small engineering firm cannot connect their investment in engineering or R&D to the patented technology, to meet the domestic industry requirement they would then have to show investment in licensing efforts connected to technology covered by the patent.

Response to Questions for the Record from Dominic Bianchi, General Counsel, United States International Trade Commission

Responses of Mr. Dominic Bianchi, General Counsel,
U.S. International Trade Commission to

COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET

QUESTIONS FOR THE RECORD

Hearing on
"International Trade Commission Patent Litigation"

April 14, 2016

Question 1 from Rep. Darrell Issa (CA-49)

Section 337(c) provides: "All legal and equitable defenses may be presented in all cases." If laches is a legal or equitable defense, the statute says it may be presented. Should laches be an available defense in a Section 337 investigation?

Answer:

Some Commission decisions have indicated that laches may not provide a respondent accused of patent infringement with any meaningful defense in a Section 337 proceeding because Section 337 relief is prospective only and laches serves to limit or deny damages to patent holders who do not diligently protect their patent rights.[1] However, the Commission may revisit the issue in view of *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC,* 807 F.3d 1311, (Fed. Cir. 2015) (*en banc*), *cert granted,* 578 U.S. – (May 2, 2016). The issue is currently before the Commission in several investigations, *i.e., Certain Network Devices, Related Software and Components Thereof (I),* Inv. No. 337-TA-944; *Certain Network Devices, Related Software and Components Thereof (II),* Inv. No. 337-TA-945; *and Certain Lithium Metal Oxide Cathode Materials, Lithium-Ion Batteries for Power Tool Products Containing Same, and Power Tool Products with Lithium-Ion Batteries Containing Same,* Inv. No. 337-TA-951. The Commission therefore cannot discuss at this time how it will resolve the issue in these investigations, but expects that the issue will be fully briefed by the parties in these investigations.

Question 2 from Rep. Darrell Issa (CA-49)

[1] *See, e.g., Certain Personal Watercraft and Components Thereof,* Inv. No. 337-TA-452, Order No. 54, at 2 (Sept. 19, 2001) (unreviewed ID); *Certain EPROM, EEPROM, Flash Memory and Flash Microcontroller Semiconductor Devices and Products Containing Same,* Inv. No. 337-TA-395, Supp. Views of Comm'r Bragg, at 11 n. 65 (July 9, 1998) ("The facts of this case suggest an attempt by respondents/intervenor to take what is essentially a laches defense and bootstrap it into prospective relief, which *Aukerman* holds to be impossible. The only remedies available under section 337, of course, are exclusion orders and cease and desist orders, both of which are forms of prospective relief."); *Certain Bearings and Packaging Thereof,* Inv. No. 337-TA-469, ID at 27 (Apr. 10, 2003), *reviewed* (68 Fed. Reg. 32766 (June 2, 2002), *upon review taking no position on laches,* Comm'n Op. at 1 (June 30, 2004) ("Upon review, we reverse the ALJ's determination that section 337 has been violated, and do not reach the issue of whether laches should be applied in this investigation to deny any particular form of relief to complainant.").

Of the 8%of PAE's identified in the ITC datasheet, how many have (or had) parallel district court actions? All of them? Isn't it clear that PAE's don't actually want the only remedy available in the ITC?

Answer:

The USITC makes available on its website certain statistics regarding its Section 337 investigations. Among these statistics is the number of Section 337 complaints filed by non-practicing entities (NPEs).[2] No commonly accepted definition of NPE exists. As such, the USITC uses certain parameters for considering whether a complainant may fall within one of two NPE categories.[3] Based on information available from complaints filed in CY 2010-2015 under Section 337 of the Tariff Act of 1930, the number of investigations in which a Category 2 NPE complainant has also filed a district court complaint on the same patents is 25 of 31.

It should be noted that the statute provides that "[t]he Commission shall investigate any alleged violation of this section on complaint under oath ...." 19 U.S.C. §1337(b)(1). The USITC Rules of Practice and Procedure implement this mandate by setting forth requirements for the content of each Section 337 complaint. *See* 19 C.F.R. § 210.12. With respect to the remedy requested by a complainant, Rule 210.12 requires that the complaint must "contain a request for relief, including a statement as to whether a limited exclusion order, a general exclusion order, and/or cease and desist orders are being requested...." 19 C.F.R. § 210.12(a)(11). Section 337 complaints must be made under oath, signed by the complainant or his representative, and include a statement attesting to the representations in the complaint under Rule 210.4(c)(1)-(3). 19 C.F.R. § 210.12(a)(1). By presenting the complaint to the USITC, the complainant certifies that the complaint "is not being presented for any improper purpose," that the claims are warranted under law, and that the allegations and factual contentions have evidentiary support. 19 C.F.R. § 210.4(c)(1)-(3). The USITC's rules provide for sanctions for violations of Rule 210.4(c).

[2] These data may be found of the USITC website at https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

[3] *Category 1 NPEs.* Entities that do not manufacture products that practice the asserted patents, including inventors who may have done R&D or built prototypes but do not make a product covered by the asserted patents and therefore rely on licensing to meet the domestic industry requirement; research institutions, such as universities and laboratories, that do not make products covered by the patents, and therefore rely on licensing to meet the domestic industry requirement; start-ups that possess IP rights but do not yet manufacture products that practice the patent; and manufacturers whose own products do not practice the asserted patents.
Category 2 NPEs. Entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.

Question 3 from Rep. Darrell Issa (CA-49)

Should the ITC consider tailoring exclusionary relief more to the products actually found to be in violation rather than scope of relief simply tracking the caption of the investigation? Is the ITC's current practice on the wording of exclusion orders consistent with district court practice on issuance of injunctions?

Answer:

With regard to the scope of articles accused in a Section 337 investigation, the complaint establishes the claims upon which the investigation is instituted and provides notice of both the infringement allegations and identification of the accused articles. Pursuant to Rule 210.12, the complaint must include a clear statement in plain English of the category of products accused. 19 C.F.R. § 210.12(a)(12). As the investigation proceeds through fact and expert discovery, claim construction, and the hearing before the administrative law judge (ALJ), the scope of the infringement allegations and accused products typically becomes narrower and more focused as patents and claims are withdrawn, allegations against certain accused articles are dropped, and respondents are terminated. Following issuance of the ALJ's final initial determination (ID), petitions for review of the final ID further narrow this scope. Thus, by the time the Commission issues its final determination, the articles covered by the Commission's remedial orders may be significantly more limited than the articles accused in the complaint.

The U.S. Court of Appeals for the Federal Circuit has stated that "the Commission has broad discretion in selecting the form, scope and extent of the remedy, and judicial review of its choice of remedy necessarily is limited."[4] In each investigation in which the USITC determines that there is a violation of Section 337, the USITC tailors the remedy to address the violation found upon consideration of the public interest factors set forth in the statute.[5] Considering the effect of a remedy on the statutory public interest factors, where the facts of a particular investigation show that it is necessary to modify the remedial orders to mitigate the impact of a remedial order on third parties, the USITC has moderated such adverse impacts, such as through delayed implementation of the orders or by limiting the scope of the orders, for example, through exemption of grandfathered products.[6] The USITC has also granted an exemption from its remedial orders for service and repair of existing devices to prevent harm to innocent third parties and U.S. consumers who have previously purchased infringing goods.[7]

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[4] *Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986).

[5] The statute requires the Commission to consider the effect that an exclusion order and/or cease and desist orders would have on (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) U.S. production of articles that are like or directly competitive with those that are subject to investigation, and (4) U.S. consumers. 19 U.S.C. §§ 1337(d)(1), (e)(1), (f)(1), (g)(1).

[6] *See, e.g., Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. No. 4331, Comm'n Op. at 83 (June 2012); *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Comm'n Op. at 149-54 (June 7, 2007).

[7] *See, e.g., Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. No. 4331, Comm'n Op. at 73 (June 2012); *Certain Sortation Systems, Parts Thereof, and Products Containing Same*, Inv. No. 337-TA-460, Comm'n Op. at 18-20 (Feb. 19, 2003) (exempting from the scope of the exclusion order replacement parts for a UPS hub facility); *Automated Mechanical Transmission Systems for*

Pursuant to longstanding precedent, the USITC generally does not enumerate specific product model numbers in its orders because "[a]n exclusion or cease and desist order which specifically lists the models to which it applies merely invites an unscrupulous respondent to change the model numbers to circumvent the order."[8]

USITC remedial orders apply only to infringing articles that are imported into the United States. Limited exclusion orders (LEOs) issued by the USITC specify that such orders apply only to imported articles that infringe the asserted patent claims (or other intellectual (IP) rights or unfair acts underlying the Section 337 violation) that are made or imported by a named respondent. The scope of the LEO covers both the articles adjudicated to be in violation of Section 337 in the proceeding as well as other articles of the named respondent that infringe these specified claims. General exclusion orders (GEOs) apply to articles adjudicated to infringe the asserted patent claims (or other IP rights or unfair acts underlying the Section 337 violation) regardless of source.[9] The scope of the GEO also covers other articles that infringe these specified claims.

With regard to the question of whether the scope of the USITC's remedial orders covers new products, the USITC encourages parties to present redesigns for adjudication in the investigation. However, such adjudication is not always feasible, for example when the redesigned articles are not sufficiently developed or have not been imported. Nevertheless, if a respondent believes that its redesigns do not violate section 337 and desires to import such products, it may avail itself of the procedures of Commission Rules 210.76 or 210.79, which permit a party to request an advisory or modification proceeding to determine whether such products are subject to a remedial order.[10] 19 C.F.R. §§ 210.76, 210.79. Likewise, complainants may avail themselves of the same procedures to seek adjudication of new products. In the framework of such a proceeding, the record could be developed to determine whether the subject articles infringe.[11] Alternatively, the parties may request a ruling from U.S. Customs and Border Protection under 19 C.F.R. Part 177.

Medium-Duty and Heavy-Duty Trucks, and Components Thereof, Inv. No. 337-TA-503, Comm'n Op. at 5 (May 9, 2005) (exempting from the scope of the exclusion order replacement parts for existing truck transmissions).

[8] *Certain Cellular Radiotelephones and Subassemblies and Component Parts Thereof*, Inv. No. 337-TA-297, USITC Pub. 2361, Comm'n Op. at 5 (Feb. 1991).

[9] Section 337(d) authorizes the Commission to issue a general exclusion order when either of two criteria has been established based on the evidence of record: "(A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products." 19 U.S.C. § 1337(d)(2)(A), (B). Thus, complainants bear the burden to prove that a general exclusion order is warranted under the facts of the investigation.

[10] The USITC initiated a pilot program to provide faster adjudication of redesigns in February 2015. *See* https://www.usitc.gov/press_room/featured_news/pilot_program_will_test_expe dited_procedures_usitc.htm ("U.S. importers, would-be importers, and intellectual property rights holders have expressed concern in recent years about how to obtain timely, transparent, and binding decisions on whether new and redesigned products are covered by remedial orders issued by the USITC following a violation of section 337. In an effort to clarify their options, and as part of its continuing efforts to improve its section 337 investigation processes, the USITC has launched a pilot program to test the use of expedited procedures for the Commission to evaluate and rule on new and redesigned products in modification and advisory opinion proceedings.")

[11] *See* 79 *Fed. Reg.* 38330 (Jul. 7, 2014) (adopting *Certain Kinesiotherapy Devices and Components Thereof*, Inv. No. 337-TA-823 (Advisory Opinion Proceeding), Report of the Office of Unfair Import Investigations on Whether Certain Kinesiotherapy Devices Are Covered by the Commission's Corrected General Exclusion Order and Corrected Cease and Desist Order Against Lelo Inc. (May 5, 2014) as the Commission advisory opinion).

The U.S. Court of Appeals for the Federal Circuit discussed the USITC's statutory authority to issue exclusion orders in contrast to the authority of district courts to issue injunctions in *Spansion, Inv. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331, 1357-60 (Fed. Cir. 2010).

Question 4 from Rep. Darrell Issa (CA-49)

Does the ITC currently consider whether the infringement allegations are directed to a minor component of a product, which at one point was called EPROMS analysis, as part of the public interest analysis? If not, should the ITC do so?

Answer:

The *EPROMs* analysis was developed in *Certain Erasable Programmable Read Only Memories*, Inv. No. 337-TA-276, USITC Pub. No. 2196, 1989 WL 1716252, Comm'n Op. (May 1989), *affirmed sub nom. Hyundai Elec. Indus. Co. v. U.S. Int'l Trade Comm'n*, 899 F.2d 1204 (Fed. Cir. 1990). The analysis was developed as a framework for deciding when downstream products containing an infringing component would be excluded from entry. The factors include: (1) the value of infringing articles compared to the value of downstream products and includes both the "monetary value of the components and the importance of the components to the operation of the downstream products; (2) the identity of the manufacturer of downstream products; (3) the incremental value to the complainant of the exclusion of downstream products; (4) the incremental detriment to the respondent due to the exclusion of downstream products; (5) the burdens imposed on third parties resulting from the exclusion of downstream products; (6) the availability of alternative downstream products that do not contain the infringing components; (7) the likelihood that the downstream products actually contain the accused articles; (8) whether an LEO pertaining to the infringing components would likely be evaded if the LEO does not extend to the downstream products; and (9) the enforceability of a limited exclusion order by Customs.

The *EPROMs* analysis was developed to ensure that complainants received the appropriate remedy in investigations where they sought relief from the importation of downstream products that contained a component found to be infringing. While the *EPROMs* analysis is anchored in the Commission's remedy analysis, factors 5 and 6 in particular take into account the Section 337 public interest factors concerning the effects of exclusion on the competitive conditions in the United States and U.S. consumers.

The *EPROMs* analysis is currently available in appropriate Commission investigations. However, downstream relief is not often sought by complainants. In a recent investigation where downstream relief was ostensibly sought, *Certain Television Sets, Television Receivers, Television Tuners, and Components Thereof*, Inv. No. 337-TA-910, the presiding administrative law judge found that the EPROMS analysis should not apply because there were no downstream products at issue; the televisions at issue were actually accused products. Final ID at 213. The Commission ultimately found no violation of section 337 in that investigation. Notice of Determination Terminating the Investigation with a Finding of No Violation of Section 337. 80 Fed. Reg. 60177 (Oct. 15, 2015). In another recent case, the presiding administrative law judge performed an *EPROMS* analysis, but the case settled before the Commission could take up the matter. *See Certain Graphics Processing Chips, Systems on a Chip, and Products Containing*

the Same, Inv. No. 337-TA-941, Notice of May 2, 2016 (extending target date for completion of the investigation so that private parties could finalize a settlement agreement).

Question 5 from Rep. Darrell Issa (CA-49)

In addition to one referral prior to the program's inception, the pilot 100-day program to date has only been used once despite dozens of requests by Respondents to refer an issue to the program. Are the ITC's decisions as to why a given request is granted or denied available to the public? Is there any publicly available guidance how the ITC determines which issues in which investigations should be assigned to the 100-day program? Could the ITC's recently stated goal of greater transparency in its decision making be furthered by explaining why such requests are denied and granted?

Answer:

The Commission has long recognized the importance of resolving cases at the earliest practicable time and has taken a variety of steps towards this end. One approach involves the resolution of potentially dispositive issues[12] concerning a violation at an early stage of the investigation. Beginning at least in 2006, if before an investigation was instituted the Commission had reason to believe that there was such an issue, the Commission's notice of investigation authorized the presiding ALJ to decide the potentially dispositive issue early in the investigation and waived certain rules to allow prompt Commission action on the ALJ's decision.[13] In most instances, the procedure was employed to decide what could broadly be characterized as jurisdictional issues.[14] This practice was recently formalized in the Commission's "100-day pilot program," discussed below, which was launched in 2013. Additionally, when a potentially dispositive issue becomes apparent during the course of an investigation, the Commission has established procedures for filing motions before the ALJ seeking an early decision of "no violation" to bring the investigation to a close. These procedures are discussed below.

The Commission announced its Early Disposition Pilot Program, also referred to as the 100-day pilot program, in June 2013.[15] The purpose of the pilot program is to streamline investigations when possible so that they could be decided both fairly and expeditiously, in accordance with the Commission's statutory mandate, while also conserving the resources of the parties and the Commission.[16] In the news release announcing the program, the Commission explained the

[12] A dispositive issue is an issue that by itself could decide the investigation's outcome.
[13] *See, e.g., Certain Products and Pharmaceutical Compositions Containing Recombinant Human Erythropoietin*, Inv. No. 337-TA-568, Notice of Investigation, 71 Fed. Reg. 27742, 27743 (May 12, 2006).
[14] Under Federal Circuit precedent, the Commission must institute an investigation if there is a properly pled complaint and then decide issues, including jurisdictional issues, on the merits.
[15] Pilot Program Will Test Early Disposition of Certain Section 337 Investigations, available at http://www.usitc.gov/press_room/featured_news/pilot_program_will_test_early_disposition_certain.htm.
[16] *Id*; *see also* Written Statement of Deanna Tanner Okun, before the United States House of Representatives Committee on the Judiciary Subcommittee on Courts, Intellectual Property and the Internet, "Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond" April 16, 2013, http://www.adduci.com/sites/default/files/Okun04162013.pdf.

procedures using, as an example, one potential violation issue, the domestic industry requirement—

> If an investigation is designated to participate in the pilot program, the Commission will set out specific timeframes for expedited activities in its notice of institution. In general, for such investigations, the Commission will direct the presiding ALJ to expedite fact-finding in the investigation on the domestic industry requirement (including an early evidentiary hearing) and issue an early ID on this matter within 100 days of institution. (The presiding ALJ will have the discretion to grant a limited extension of the early ID for good cause shown.)
>
> Petitions for review of IDs issued under the pilot program will be due five calendar days after the ID has been served on the parties, and replies will be due three business days after any petition for review has been served. The Commission will determine whether to review the early ID within 30 days after the ALJ issues it; if the Commission does not review the ID, it will become the Commission's final determination. Commission review will normally be completed within 30 days.
>
> If the ALJ issues an early ID finding that there is no domestic industry, that action would stay the investigation pending Commission action. Any other decision would not stay the investigation or delay a final ID covering other issues of the investigation. The Commission does not expect any delays in other investigations assigned to the presiding ALJ.[17]

The announcement of the pilot program followed on the heels of an investigation (*Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874) in which the Commission had tested this procedure by including pertinent language in the Notice of Investigation. In *Laminated Packaging* the Commission identified the economic prong of the domestic industry requirement as a potentially dispositive issue.[18] Following a short period of discovery related to the domestic industry issue, and a hearing which began about six weeks after the institution of the investigation, the ALJ issued an initial determination 99 days after the investigation was instituted, finding no violation of Section 337 based on the failure to meet the domestic industry requirement. The Commission determined not to review the initial determination and terminated the investigation about a month later.

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[17] "Pilot Program Will Test Early Disposition of Certain Section 337 Investigations,"available at http://www.usitc.gov/press_room/featured_news/pilot_program_will_test_early_disposition_certain.htm. An "ID" is an initial determination issued by the ALJ and subject to review by the Commission before it becomes the final determination of the Commission.

[18] In order for the complainant to show that it has a domestic industry, it must present evidence that it has made an economic investment in the United States in articles protected by the IP right through sufficient investment in plant and equipment, the employment of labor and capital, or the exploitation of the IP right that is the subject of the investigation through R&D, engineering or licensing. This economic investment is referred to as the economic prong of the domestic industry requirement.

Thus, the *Laminated Packaging* investigation and Early Disposition Pilot Program added an explicit time frame to the Commission's existing practice in investigations with a potentially dispositive issue, apparent at institution, which could be resolved with minimal discovery.[19]

On March 18, 2015, the Commission instituted *Certain Audio Processing Hardware and Software and Products Containing Same*, Inv. No. 337-TA-949.[20] In the Notice of Investigation, the Commission placed the investigation in the early disposition program and directed the ALJ to determine whether complainant had standing (a legal right) to assert allegations of infringement of the asserted patents within 100 days of institution.[21] This was the first investigation put into the pilot program.[22]

The Commission has recently designated *Certain Portable Electronic Devices and Components Thereof*, Inv. No. 337-TA-994, to the early disposition program on the question of whether the asserted claims of the patent at issue recite patent-eligible subject matter under 35 U.S.C. § 101.[23] The hearing on that issue is scheduled for July 7-8, 2016.

There are indications that the existence of the pilot program has led to some potential complaints not being filed, and some complaints being more carefully drafted and/or supplemented during the pre-institution period. During the Subcommittee's recent hearing, both Thomas Stoll and Former USITC Commissioner Okun recognized that the mere existence of the pilot program is having an impact by reducing the number of weak complaints filed.[24]

The early disposition program does not apply to cases in which potentially dispositive issues do not become apparent until after the investigation has commenced and the parties have exchanged information in the discovery process. In such investigations, parties, including OUII, have filed motions for summary determination under Commission Rule 210.18 prior to the hearing so that the dispositive issue can be considered and resolved at that point. Such motions have been filed on a variety of issues, including non-infringement (Inv. Nos. 337-TA-483,–485,–511, –562Enf,–689), no cognizable unfair act (Inv. No. 337-TA-469) and no domestic industry (Inv. Nos. 337-TA-799 and–886). Under Commission Rule 210.18, 19 C.F.R. § 210.18, respondents may file motions for summary determination any time after the notice of investigation has been published in the Federal Register.

Other proposals to reduce costs, burdens, and investigation length are actively under consideration by the Commission. On September 24, 2015, the Commission proposed new rules, which not only proposed to codify this early disposition program, but also proposed two

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[19] *See, e.g., Certain Products and Pharmaceutical Compositions Containing Recombinant Human Erythropoietin*, Inv. No. 337-TA-568, 71 Fed. Reg. 27742–43 (May 12, 2006).
[20] 80 Fed. Reg. 14159 (March 18, 2015).
[21] *Id.*
[22] In *Audio Processing*, the ALJ held a hearing in the investigation approximately 6 weeks after the Commission instituted the investigation and issued his initial determination finding that complainant had standing to pursue its allegations 85 days after institution of the investigation. Thirty days later, the Commission determined not to review that ID, thus resolving this one issue in the investigation, but not the entire investigation.
[23] 81 Fed. Reg. 29307 (May11, 2016).
[24] *Hearing on the International Trade Commission, Hearing Before the Subcomm. on Courts, Intell. Prop. and the Internet*, (April 14, 2016) (testimony of Thomas Stoll 1:36:06-33 and 2:01:30-51) (testimony of Deanna Okun at 1:37:10-29)

additional ways in which the early disposition program could be applied.[25] First, a party may request that an ALJ place a particular issue in an early disposition program.[26] Second, an ALJ may identify an issue for early disposition.[27] The Commission is reviewing all the comments it received regarding the rules package. After this review, the Commission will be better able to assess whether to adopt these versions of an early disposition program.

The Commission recognizes the importance of deciding whether there has been a violation of section 337 as quickly as possible. Indeed, the median time to trial in district courts has been shown to be 2.4 years,[28] while the average time to evidentiary hearing at the Commission is 9.5 months. Given the statutory mandate, the Commission has taken steps, including those outlined above, to resolve investigations with even greater speed and efficiency. The Commission continues to develop new ways to achieve faster and less expensive proceedings. The Commission balances these objectives against the overarching goal of deciding the issues fairly and correctly in accordance with governing law and in compliance with the Administrative Procedure Act. As noted earlier, the Administrative Procedure Act requires the agency to give all interested parties an opportunity to submit facts and arguments and to have them considered, as well as requiring it to allow for a full and true disclosure of the facts.[29]

Question 1 from Rep. Blake Farenthold (TX-27)

In recent years we have seen investigations filed where non-practicing entities (NPE's) seek exclusion of large percentages of the U.S. market for various products, smartphones, televisions and other consumer products (respondents with 50-80% is not uncommon). How would consumers/US taxpayers be served if such relief was granted?

Answer:

The USITC's Section 337 caseload reflects that many investigations have involved products of great interest to the general public, such as cellphones, computers, and other electronic consumer devices. As a result, there has been increased attention on the USITC's "public interest analysis" – that is, the requirement that the Commission take into account public interest factors in determining the appropriate remedy after a finding of violation. Under this requirement, the Commission must consider, *inter alia*, the effects of any order on U.S. consumers.[30]

The Commission has, on an ongoing basis, endeavored to improve its investigatory process and ensure that its decisions are based on a well-developed factual record. Recent changes in its procedures for gathering information for the public interest analysis are one such example of

[25] 80 Fed. Reg. 57556 (Sept. 24, 2015) at Proposed Rule 210.10(b)(3).
[26] *Id.* at Proposed Rule 210.22.
[27] *Id.* at Proposed Rule 210.14(i).
[28] *See* PWC, 2016 Patent Litigation Study, p. 15 (median time to trial in U.S. District Courts is approximately 2.4 years).
[29] 5 U.S.C. §§ 554, 556.
[30] Under the statute, if the Commission finds a violation of Section 337, it will issue an exclusion order to keep violating products out of the country (and may also issue cease and desist orders to violators), after considering the effects of a remedial order on the following: the 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. 19 U.S.C. §§ 1337(d)(1), (e)(1), (f)(1), (g)(1).

these efforts. After internal deliberations and consideration of comments submitted by the public, the Commission promulgated new rules and procedures to help it ensure that, in appropriate investigations, it has an expanded factual record for its public interest analysis.[31]

Under previous practice, the Commission solicited information on the public interest factors after the presiding ALJ had issued a final ID on violation and the Commission had decided whether it would review that decision. While this approach generally worked well, the Commission decided to consider ways to improve the investigatory records on the public interest. The initiative was to some extent spurred by the *Baseband Processors* investigation, in which public interest factors came to the forefront near the end of the investigation, as well as by the U.S. Trade Representative's interest in having more information on the public interest to use in the required Presidential policy review of Commission remedial orders.[32]

Following a successful and informative pilot program in 2010 and 2011, publication of proposed rules, and consideration of public comment on the proposed rules, the Commission issued new public interest rules, which became effective on November 18, 2011. Under the new rules, in investigations where it appears that public interest information developed earlier in the investigation would be beneficial, the Commission may direct the ALJ to collect evidence on the public interest factors.

The new rules require that, when filing a complaint, complainants also file a separate statement of public interest providing specific information on the public interest factors the Commission must consider. The Commission then publishes in the Federal Register a notice that it has received a new complaint and requests in that notice comments from any member of the public or government agencies on the public interest factors. Comments are due within 8 days of the publication of the notice. All complaints, public interest comments, and other public filings are available on the Commission's website.[33]

Based on the responses it receives, the Commission decides whether to direct the ALJ to gather evidence on the public interest factors. If the Commission does so, the ALJ is also directed to include findings on the statutory public interest factors in his recommended determination on remedy and bonding. In addition, in investigations where the Commission refers the public interest issue to the ALJ, respondents are required to submit a statement on the public interest factors to the ALJ and to participate in the development of factual evidence on these factors. Since 2010, the Commission has delegated authority to the ALJ to take evidence or other information and hear arguments on the statutory public interest factors in 59 investigations.[34]

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[31] Notice of Final Rules of Adjudication and Enforcement, 76 Fed. Reg. 64803 (Oct. 19, 2011).

[32] *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Comm'n Op. at 149-54(June 7, 2007).

[33] EDIS is the repository for all documents filed in relation to an investigation conducted by the United States International Trade Commission (USITC). EDIS provides the capability to file documents for an investigation as well as search for documents which have been submitted to the USITC. EDIS may be accessed at the following webpage: https://edis.usitc.gov/edis3-internal/app.

[34] A listing of these investigations may be found on the USITC website at https://usitc.gov/intellectual_property/337_statistics_identification_and_number_cases.htm.

In all investigations, the public has additional opportunities to comment on the public interest factors. A notice is published in the Federal Register when the ALJ's recommended determination on remedy and bonding is issued, and the public is invited to comment on how the recommended remedy may affect the public interest. And, the rules continue the Commission's past practice inviting the parties, government agencies, and members of the public to submit comments on the public interest after the Commission decides whether to review the ALJ's decision on violation (unless the Commission affirms an ALJ's decision that there is no violation).

Through these actions, the Commission is developing a more thorough and informed record on which to base its analysis of the public interest factors that it is required by law to consider in rendering its remedy decisions in section 337 investigations, including tailoring of its remedial orders as discussed above.

The USITC encourages interested persons to submit data concerning potential effects of the requested remedial order on U.S. consumers, among other factors, in its notice of request for public interest submissions following the filing of the complaint.[35] It is especially useful when such submissions include information regarding the percentage of the U.S. market that potentially could be affected by the issuance of relief requested by the complainant.

For the 18 complaints that were filed by Category 2 NPEs during the period CY 2012 through 2015, there were 15 public interest submissions that provided data regarding the percentage of the U.S. market that could potentially be impacted by the remedy requested by the complainant. For five of those complaints, the Commission received no public interest submissions. For two of those complaints, the Commission received public interest submissions but no information concerning the percentage of the U.S. market that could be potentially impacted. For the remaining 11 complaints only a few of the proposed respondents named in those complaints submitted public interest comments regarding how a percentage of the U.S. market could potentially be impacted by the remedy and any potential impact on U.S. consumers.

Question 2 from Rep. Blake Farenthold (TX-27)

A number of witnesses have talked about how the ITC is using its pilot program to try to prevent patent trolls and other undesirable entities from taking advantage of the ITC's powers. But fundamentally, the problem is that loopholes in the law of section 337 allow trolls in. No amount of procedure can patch up those problems. Doesn't that tell us that some actual changes to the law are necessary to be sure the trolls stay out of the ITC?

Answer:

The USITC does not comment on matters within the realm of legislative policy-making. The USITC is directed under the law to administer the statute as written, including making findings on domestic industry, importation, infringement of statutory IP rights or other unfair acts, validity and other defenses. "Patent trolls" and "undesirable entities" are terms that do not appear in the statute.

[35] *See, e.g., Certain Mobile Electronic Devices Incorporating Haptics (Including Smartphones and Smartwatches) and Components Thereof,* DN 3120, Notice of Receipt of Complaint; Solicitation of Comments Relating to the Public Interest, 81 Fed. Reg. 8220 (Feb. 18, 2016).

The USITC maintains statistical data concerning its Section 337 caseload including information regarding the number of Section 337 complaints filed by Category 1 and Category 2 NPEs.[36] To the extent it may be of interest, we provide these data below:

Number of Section 337 Investigations Brought by NPEs (Updated Quarterly)

Calendar Year	Total No. of Invs.	Non-NPE Invs.	Category 1 NPE	Cat. 2 NPE
2006	15	14	1	0
2007	35	30	4	1
2008	41	34	6	1
2009	31	23	4	4
2010	56	46	6	4
2011	69	56	4	9
2012	40	27	6	7
2013	42	33	3	6
2014	39	36	0	3
2015	36	34	0	2
Q1 CY 2016	24	23	0	1

To prove a violation of Section 337, a complainant must demonstrate that it has a domestic industry or, in the case of nascent U.S. industries, that the complainant is taking active steps toward establishing an industry in the United States. In an investigation based on alleged infringement of statutory IP rights such as patents, trademarks and copyrights, the statute requires that the complaining party establish significant investments in plant and equipment, significant employment of labor or capital, or substantial investment in the exploitation of the IP right concerned, including engineering, research and development or licensing relating to articles protected by the patent.[37] Thus, it is essential for a complainant to demonstrate significant or substantial investments in the United States in order to find a violation of section 337. Complaints based on unfair acts other than statutory IP rights, such as trade secret misappropriation, must also establish that a domestic industry in the United States is injured by unfairly traded imports.

Following guidance from the U.S. Court of Appeals for the Federal Circuit, the Commission also requires the complaining party to demonstrate the existence of articles protected by the asserted IP right concerned.[38] As a result, in every investigation, a complaining party must show that articles exist that incorporate or are produced through the benefit of the asserted IP right.

As part of its efforts to weed out non-meritorious claims, the Commission recently utilized a process similar to the 100-day pilot program (which did not exist at the time) in an investigation to assess at the outset whether or not a domestic industry exists. In that investigation the

[36] *See supra* notes 2 and 3.
[37] 19 U.S.C. §§ 1337(a)(2) and (3).
[38] *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same*, Inv. No. 337-TA-841, Comm'n Op. (December 20, 2013).

Commission determined that the complainant did not satisfy the domestic industry requirement and terminated the investigation.[39] The pilot program was implemented three months later while this investigation was pending. Thus, the Commission is careful to ensure that industries in the United States are making sufficient investments in terms of productive assets, employment of workers and capital, or exploitation of their IP rights in connection with articles protected by such IP rights.

[39] *Certain Products Having Laminated Packaging, Laminated Packaging , and Components Thereof*, Inv. No. 337-TA-874, Notice of Commission Decision to Review Initial Determination, Termination of the Investigation with a Finding of No Violation of Section 337 (August 6, 2013).