Hearing on

"International Trade Commission (ITC) Patent Litigation"

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

April 14, 2016

Testimony of Thomas L. Stoll
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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

[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).