

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

Hearing on International Trade Commission Patent Litigation

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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.

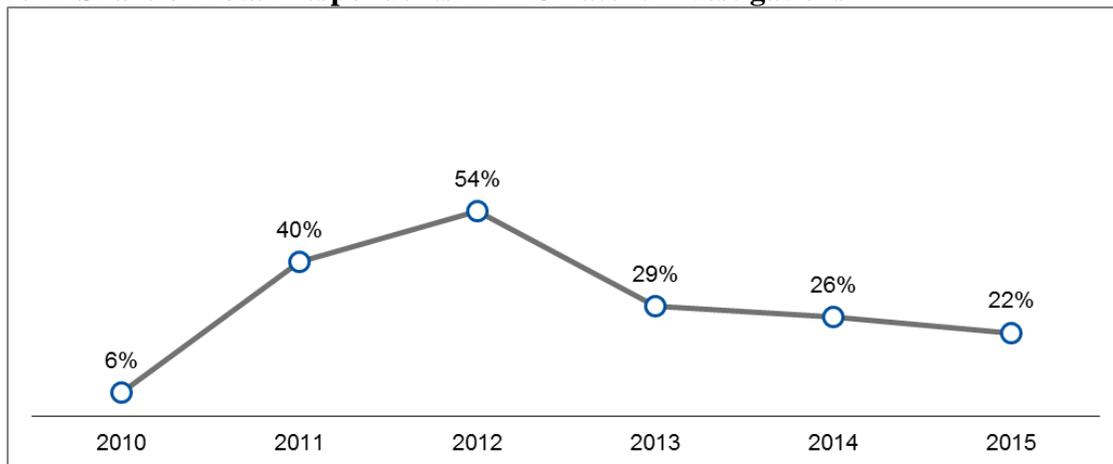
I would make two points. First, despite Congress's requirement that the ITC limit the availability of its parallel patent forum to protect a domestic industry involving "significant investment in plant and equipment," "labor or capital," or "engineering, research and development, or licensing," 17 U.S.C. § 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 Investigations¹



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

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

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.

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).

John Thorne

John Thorne is a partner with Kellogg, Huber, Hansen, Todd, Evans & Figel, PLLC, in Washington, DC. His practice focuses on antitrust, intellectual property, and complex commercial litigation, as well as on representation before the antitrust enforcement agencies in merger and other matters. From 2000 to 2012 Mr. Thorne was senior vice president and deputy general counsel at Verizon Communications Inc. where he headed Verizon's competition and intellectual property practice groups. Global Counsel Awards named his IP group the best in the world in 2011 (one of the top five in the world in 2008 and 2010). Global Counsel Awards named him the best corporate competition lawyer in the world in 2009. Mr. Thorne testified in 2005 before the Antitrust Modernization Commission regarding regulated industries; in 2007 before a joint hearing of the Department of Justice Antitrust Division and Federal Trade Commission regarding antitrust remedies; in 2010 before a joint hearing of the Antitrust Division and the Federal Trade Commission regarding the revised horizontal merger guidelines; and in 2010 before the House Subcommittee on Courts and Competition Policy regarding antitrust in regulated industries. Mr. Thorne is a co-author of the principal telecom law treatises and numerous articles, and taught telecom law for ten years at Columbia Law School and for two years at Georgetown University Law Center. Mr. Thorne graduated summa cum laude in three years from Kenyon College with high honors in mathematics. He graduated Order of the Coif and was law review articles editor at Northwestern University Law School. He clerked for Chief Judge Walter J. Cummings of the U.S. Court of Appeals for the Seventh Circuit. Mr. Thorne is a member of the Illinois and District of Columbia bars, and the bars of the U.S. Supreme Court, and the DC, Federal, Second, Fifth, Seventh, and Ninth Circuits. Mr. Thorne was the founding board chair of the Bishop John T. Walker School for Boys, a private school for boys from low-income families in S.E. Washington, DC.