Committee on the Judiciary
United States House of Representative
Hearing
"Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions"

Prepared Statement of
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Mr. Chairman and distinguished members of the Subcommittee, thank you for the opportunity to testify on patent litigation. This Subcommittee has consistently shown leadership in addressing the problems of the patent system. Thanks to the diligent work of Chairman Goodlatte, former Chairman Smith, Chairman Coble, Ranking Members Conyers and Watt, as well as Representative Lofgren, the America Invents Act ("AIA") was passed in 2011. This was an important step toward improving our country's patent system to better serve innovation and the growth of our economy.

I have testified before this Committee on this topic in the past. My views are well known to the Committee on the economically destructive nature of certain aspects of our patent litigation system. I am here today, however, because this problem has spread to my customers and partners - small business owners, retailers like JC Penney, as well as large enterprises like auto companies and the telecom companies that use our equipment. In short, this problem now has spread from Silicon Valley to Main Street.

We support four legislative changes to have the patent system operate as it did for over two hundred years before being transformed by 21st century profiteers into a casino unrelated to innovation: Passage of the SHIELD act or similar legislation; completing a technical fix to the post-grant opposition provision passed by the AIA; stemming the PAEs' use of the International Trade Commission as another shakedown mechanism; and amending the reach of prior user rights to ensure that American businesses are not at a disadvantage internationally.

We also advocate continued focus by the courts to rationalize patent damages calculations and rein in excessive damages awards, which are perhaps the biggest incentive to patent profiteering; and by the PTO to modify their examination procedures to increase claim clarity and limit functional claiming abuses.

I. Introduction

I am Senior Vice President and General Counsel of Cisco Systems. My responsibilities include both intellectual property and litigation for the world's largest manufacturer of the telecommunications equipment that powers the Internet. We employ over 36,000 people in the United States and spend over $6 billion annually on research and development. This year we expect to reach the milestone of 10,000 issued U.S. patents, a reflection of our long term investment in telecommunications innovation and our commitment to a strong and balanced patent system. Our portfolio is regularly recognized as the strongest in the telecommunications industry.

Our ability to innovate and invest in the future, however, is being hindered by PAE litigation, the scale of which we have never seen in our company's history. We currently spend more than fifty million dollars per year on outside lawyers fighting about 50 PAE lawsuits, making up virtually my entire litigation docket. In 2000, we had none. These millions could otherwise be spent on our own innovation and patent filings. In fact, to meet my legal department budget requirements, I have reduced funding for new patent applications in order to fund this litigation. That is not the trade-off American industry should face.

I would like to share with you one specific example of abusive patent litigation that illustrates the impact of PAEs not just on Cisco, but on an entirely new swath of American industries, since the passage of the AIA.

This particular PAE was formed solely to acquire a set of patents that had been assigned and reassigned to and from several suppliers of telecommunications equipment. The PAE's plan was to assert the patents against users of equipment that provide a form of wireless Internet access commonly known as "Wi-Fi." By the time the patents were assigned to the PAE, however, the patents had already been broadly cross-licensed to competitors and were nearing the end of their patent terms. Additionally, the prior owners had made binding contractual commitments to license all comers on fair and reasonable terms.

This PAE produces no goods and services and performs no research and development. Its sole goal is to use its patents to threaten and extract money from American businesses. Its targets -- it has sent over 13,000 letters threatening litigation -- often are non-profits, local and state governments, and small and medium-sized businesses including retirement homes, children's health clinics, coffee shops, cafes, restaurants, and convenience stores. These entities are targets because they (like almost every modern business) provide Wi-Fi on their premises, using equipment supplied by Cisco and other manufacturers. Some of this equipment is already licensed under the patents-in-suit because of broad licenses previously granted by the previous owners. But the PAE doesn't tell their targets this, or that the patents are subject to commitments to license on a reasonable and nondiscriminatory basis to all comers. Instead, the PAE tells these targets, who may

have spent as little as $40 on their wireless equipment, that, unless they pay at least $2,000 or $3,000 per location within two weeks, they will be sued and have to engage counsel to review thousands of pages of documents. These targets don't have the money or resources to engage counsel to fight the PAE's claims, as even a small patent case can cost millions of dollars to defend.[1] When faced with paying millions in lawyer's fees or settling for a few thousand, many companies choose the latter, regardless of the merits.

II. Patent Litigation System Imbalances

While we are pursuing our rights against this PAE in court, this is merely a symptom of systemic imbalances in our patent. Just as rats run through a maze when there is food at the end, PAEs simply respond to incentives built into their ecosystem. This is a maze that Congress needs to redesign so that patents are used to defend actual markets for real products, rather than for shakedown efforts.

I'd like to highlight three key characteristics of this phenomenon. First, most patents asserted by PAEs are weak – either invalid or asserted against technologies far beyond the boundaries of what actually was invented. Indeed, of those few PAE cases that are ultimately decided in court, the PAEs lose 92% of the time, compared to 60% percent for other plaintiffs.[2] Many PAE business models assume that few lawsuits will proceed to final judgment, because for any given assertion it makes financial sense for a company to settle if they can do so for substantially less than

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[1] *See, e.g.*, Sylvia Hsieh, *More patent cases are being taken on contingency fee basis*, LAWYERS USA (Aug. 14, 2006) ("An average patent case will cost between $3 million and $10 million, and take two to three years to litigate.").

[2] John R. Allison, *et al.*, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 694 (2011); *see also* Brian T. Yeh, Cong. Research Serv., R42668, AN OVERVIEW OF THE "PATENT TROLLS" DEBATE 5 (2012).

the cost of defense. Thus, PAE are perversely incentivized to purchase, enforce, and extract smaller amounts of money from tens, hundreds, or even thousands of companies based on low quality patents. Yet even when a defendant ultimately prevails, its defense costs are almost never recovered.

Second, PAEs have much to threaten and little to lose. While we believe in a system that fairly rewards innovation based on its contributed value, current damages calculation methodologies frequently lead to unreliable, uncertain, and speculative outcomes.[3] And the Supreme Court's *eBay* decision limiting PAEs' ability to get injunctions in district court has driven PAEs to use the ITC as an additional shakedown forum. We recently spent $13 million defending ourselves in the ITC against a Canadian PAE called MOSAID using patents purchased from a failed Israeli company, only to have MOSAID dismiss its claims after the ITC judge called out its "wrongdoing" for improperly trying to manufacture a domestic industry. The pace of PAE litigation at the ITC – which was intended to protect American manufacturers from foreign knock-offs – has increased dramatically. In 2006, there were only two PAE cases against eight respondents at the ITC; in 2011, there were 18 PAE cases against 155 respondents.[4]

Third, patent litigation costs are high and asymmetrical – particularly in the discovery phase – and in PAE cases those costs are unequally borne by the defendant, who may have millions of pages of emails and documents covering the

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[3] Brief of Amici Curiae in Support of Standards on Damages, *Apple Inc. v. Motorola, Inc.*, Nos. 12-1548 &15-1549 (Fed. Cir.)(filed Dec. 4, 2012), at 1 ("[C]urrent damages methodologies frequently lead to unreliable, uncertain, and speculative outcomes.").

[4] *See* RPX Research Patent Litigation Data (2006 - 2012) (attached as Appendix A).

various aspects of their accused businesses. In the ITC case I referred to, for example, Cisco produced over 3.5 million pages of documents, responded to 121 interrogatories (five times the amount permissible in a district court case), and presented 22 of its personnel for depositions (more than double the number permitted in a district court case) over a period of 28 days, all within the expedited schedule applicable to ITC investigations, and before the ITC Judge made the finding of wrongdoing that caused MOSAID to withdraw its complaint. On the other hand, a PAE may have nothing more than a box of documents relating to its patent. Because so much is left to the jury in patent cases, and there are no clear standards for admissibility of evidence regarding potential invalidity, the deck is stacked against the defendant who manufactures products.

PAEs such as Innovatio use this unfair bargaining position to pressure companies into paying settlements even if those companies are certain they are not infringing.[5] This is an unfair and unneeded tax on real companies, their customers, and ultimately the U.S. economy.

We at Cisco are not the only company fighting these battles. In 2011, 5,570 defendants were sued for patent infringement by PAEs, doubling just since 2009.[6] The share of PAEs in all litigation went from 22% in 2007 to almost 40% in 2012.[7]

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[5] *See* Yeh, Cong. Research Serv. at 11, *supra*, at n.2. ("PAEs occupy highly advantageous bargaining positions, and their leverage over defendants has been attributed to an asymmetry of costs and risk that breaks down into three factors: high litigation costs and no way to dispose of weak suits early; the risk of potentially debilitating liability for defendants; and the lack of any major risk or disincentive for PAE plaintiffs to litigate.")

[6] *See* RPX Research Patent Litigation Data, *supra*, at n.4.

[7] Sara Jeruss et al., *The America Invents Act 500 - Effects of Patent Monetization Entities on US Litigation*, 11 DUKE L. & TECH. REV. 357, 361 (2012).

In some sectors, such as electronics technology, the percentage is higher. Operating companies spent $29 billion in direct costs in just 2011 to defend against PAEs.[8] Over a 20-year period, PAE activity cost the economy "half a trillion dollars of lost wealth ...." [9]

This is no longer a problem directed principally at technology companies. In addition to retailers, PAEs are now turning to small and medium-sized businesses, city and county governments, and charitable organizations -- those least knowledgeable and who can least afford to fight back -- and subjecting them to abusive patent litigation. In one study of litigation from 2005 to 2011, companies with less than $100 million of revenue represented 82% of the targets of PAEs.[10] On average these companies spent $1.75 million to defend these suits and $1.33 million to settle, [11] a very heavy burden on small companies.

III. Proposed Legislative Solutions

The AIA included important reforms that strengthened the USPTO, improved post-grant procedures for invalidating bad patents, and curtailed the abusive practice of suing multiple defendants in the same suit with no common nexus other than being accused of infringing the same patent. But the problem of abusive patent

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[8] James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* 18-19 (Boston Univ. Sch. of Law Working Paper No. 12-34, 2012), *available at* http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/BessenJ_MeurerM062512rev062812.pdf (last visited Mar. 4, 2013).

[9] James Bessen *et al.*, *The Private and Social Costs of Patent Trolls* 2 (Boston Univ. Sch. of Law Working Paper No. 11-45, 2011), *available at* http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/Bessen-Ford-Meurer-no-11-45rev.pdf (last visited Mar. 4, 2013).

[10] Bessen & Meurer at 11, *supra*, at n.8.

[11] *Id.* at 12.

litigation continues.[12] Indeed, in 2012, PAEs initiated 61% of all patent litigation in the U.S.[13] There is a pressing need for further reforms to strengthen and balance our patent system, to correct abusive litigation, and to improve overall patent quality.

We support enactment of the bipartisan SHIELD Act, H.R. 845, sponsored by Representatives Peter DeFazio and Jason Chaffetz, or similar legislation that achieves the same goals. This measure provides the right balance by shifting the cost of unsuccessful PAE patent litigations back to the PAEs who bring them, while exempting individual inventors, universities, and operating companies who are protecting their research and development and have not developed patent assertion as their primary business focus. Entities whose business is licensing and litigating patents should be held to a higher standard when they lose. Litigation is their business and they should be held accountable when they get it wrong. After all, "[u]nlike most other patentee-plaintiffs, PAEs pursuing infringement suits 'do not risk disruption to their core business' because 'patent enforcement *is* their core business.'"[14]

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[12] *See* Yeh, Cong. Research Serv. at 1, *supra*, at n.2 ("The much-publicized proliferation of PAEs was among the central factors that prompted the AIA, but at the end of the day, Congress passed a few provisions arguably addressing PAEs while leaving several other PAE-related issues unresolved, apparently in light of lively debate over what, if anything, should be done about them.") (internal footnotes omitted).

[13] The number of PAE patent defendants dropped in 2012 to 4766 but was still above the figure of 2010, reflecting a spike in PAE filings in the days before the effective date of the AIA's new joinder rules. *See* RPX Research Patent Litigation Data, *supra*, at n.4.

[14] Yeh, Cong. Research Serv. at 1, *supra*, at n.2 (emphasis in original; internal citations omitted).

Without such fee-shifting measures, PAEs will continue to assert low quality patents and be incentivized to drive up defense costs at the expense of court resources. For example, when a patent in suit has been accepted for reexamination by the PTO, the PAE will almost always object to a stay of the litigation pending completion of the reexamination, since it does not have to take responsibility for the defendant's litigation expenses. If the PAE refuses to stay litigation, there should be a cost penalty if the patents are ultimately invalidated. The SHIELD Act would help accomplish this goal, and now that the AIA has increased the speed of reexaminations, there is no good argument in opposition. The SHIELD Act could provide similar incentives to procedural transparency.

Congress should also act to correct the estoppel language in the AIA's post-grant opposition ("PGO") procedure that was created to enable companies to challenge low quality patents outside the courts, and we applaud Senator Leahy's urging to do so promptly. [15] Previous versions of the AIA bill consistently provided that estoppel under the new PGO procedure would be limited to claims "actually raised." However, after this Committee passed the bill and before it was voted on by the full House, a scrivener's error changed the standard to the stricter "raised or

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[15] *See* 158 Cong. Rec. S8517 (daily ed. Dec. 28, 2012)(statement of Sen. Leahy) ("Regrettably, the legislation passed today does not include one technical correction that would improve the law by restoring Congress's intent for the post-grant estoppel provision of the America Invents Act. Chairman Smith recently described certain language contained in that provision as an ``inadvertent scrivener's error.' As written, it unintentionally creates a higher threshold of estoppel than was in the legislation that passed the Senate 95-5, or that was intended by the House, according to Chairman Smith's statement. I hope we will soon address this issue so that the law accurately reflects Congress's intent.").

reasonably could have raised."[16] If left uncorrected, this error will unfortunately greatly limit the utility and use of the new procedure to fulfill its intended purpose of pruning or narrowing newly issued patents that are in fact invalid. Because of the broad range of issues available, a potential patent challenger will have to weigh very heavy risks to later civil litigation on the same patent.[17]

The International Trade Commission is another forum in which recent PAE abuse warrants reform. Last summer Cisco's Neal Rubin testified before this committee on the subject of abusive patent tactics in the ITC.[18] As we described in more detail there, the ITC's mission is to use its exclusionary powers to protect U.S. industries and universities from unfair competition. PAEs instead use the ITC's powers as leverage for larger money settlements from the same industries the ITC was intended to protect.[19] PAE activity here is only increasing: In 2011, over 50% of all ITC investigation respondents were respondents in an investigation brought by PAEs.[20]

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[16] *"Reasonably Could Have Raised" Estoppel*, The Coalition for 21st Century Patent Reform, *available at* http://www.patentsmatter.com/issue/pdfs/RCHR%20Estoppel%20Paper%2012-30-2012.pdf (last visited Mar. 4, 2013).

[17] *A "Reasonably Could Have Raised" Estoppel in Litigation Following Post-Grant Review Will Prevent the Envisioned Benefits of the New Procedure From Being Achieved*, The Coalition for 21st Century Patent Reform, *available at* http://www.patentsmatter.com/issue/pdfs/Why%20RCHR%20Estoppel%20Should%20Not%20Apply%20to%20PGR.pdf (last visited Mar. 4, 2013).

[18] *International Trade Commission and Patent Disputes: Hearing Before the House Subcommittee on Intellectual Property, Competition and the Internet*, 112th Cong. 29 (2012)(prepared statement of Neal A. Rubin, Cisco Systems, Inc.).

[19] Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 9 (2012).

[20] *See id.* at 16.

To prevent this gaming, we support enacting legislation to allow a defendant to stay ITC proceedings in favor of a parallel district court action. Furthermore, Cisco and its peers in the ITC Working Group[21] support amending Section 337 of the Tariff Act of 1930 to clarify that complainants in the ITC cannot rely on "revenue-driven licensing" to satisfy the ITC's requirement for establishing that there is a domestic industry entitled to protection. Instead, if licensing activity is to be relied upon to establish a domestic industry, it must be of the type that promotes market adoption and use of the patented technology and that preceded such adoption and use, including those efforts by universities and technology incubators. Furthermore, exclusion orders should only be granted in accordance with the traditional equitable factors described in the Supreme Court's *eBay* decision.[22] These remedies will prevent PAEs from manipulating ITC procedures to extract excessive awards, while preserving access to the ITC for domestic manufacturers and universities.

We also continue to support a more robust system of prior user rights for American industry. As described in more detail in testimony by Cisco's Vice President of Intellectual Property Dan Lang on February 1, 2012 before this Subcommittee, given our recent shift to a first-to-file patent system, prior user

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[21] The members of the ITC Working Group are Apple, Avaya, Broadcom, Cisco, Google, Hewlett Packard, Intel and Oracle.

[22] *See generally eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) ("A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction."); *see also* ITC Working Group white paper (attached as Appendix B).

rights provide an important safeguard against opportunistic PAEs and patent mills who are not the first to invent but were first to file, and who seek to assert their resulting patents against the true innovators. [23]

As noted by the USPTO in its prior user rights report submitted to Congress, the prior user rights of the AIA are more limited in significant ways than those enjoyed by our competitors in foreign countries. [24] We agree with former Chairman Smith that follow-on changes should be made to "ensure that our most innovative companies who hold many of the keys to U.S. economic competitiveness are provided sufficient prior user right protections to put them on an even competitive field internationally." [25]

To put U.S. companies on such a level playing field, prior user rights should be expanded to: (1) clarify that they apply to all kinds of inventions and not just manufacturing processes, (2) expressly include substantial preparation of technology for commercial use as protected subject matter, and (3) eliminate the requirement that prior use take place at least a full year to the patent application's filing.

III. Proposed Judicial and Administrative Reforms

Building on the AIA and the further legislative changes I have just described, we also advocate continuing improvements to the patent system that come from

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[23] *Prior User Rights: Hearing Before the House Subcommittee on Intellectual Property, Competition, and the Internet*, 112th Cong. 2-6 (2012) (prepared statement of Dan Lang, Cisco Systems Inc.).
[24] U.S. Patent & Trademark Office, *Report on the Prior User Rights Defense* (Jan. 2012), *available at* http://www.uspto.gov/aia_implementation/20120113-pur_report.pdf (last visited Mar. 4, 2013).
[25] 157 Cong. Rec. E1219 (daily ed. June 28, 2011) (statement of Rep. Smith).

judicial decisions and modification of the USPTO's examination procedures, as well as vigorous action by consumer protection agencies where smaller businesses are abused, as in the example cited at the outset of this statement.

We applaud the efforts of Chief Judge Rader, the Court of Appeals for the Federal Circuit ("CAFC"), and others, who have taken significant steps toward rationalizing damages jurisprudence.[26] We continue to support the courts as they focus damages calculations on what an invention adds to the prior art instead of approaches that value minor inventions in components based on the value of a whole system or the value of services that use that system. In a recent amicus filing, Cisco and 15 other companies urged the CAFC to build on its recent work and decisively clarify damages jurisprudence by replacing the so-called *Georgia Pacific* factors[27] and the "entire market value rule" with simple rules for calculating damages based on: (1) the patent's incremental value compared to the next best alternative, (2) true apportionment, and/or (3) truly comparable previous licensing arrangements.[28] Testimony and evidence not rigorously supportive of such a calculation should be excluded from the jury's consideration.

To reduce the leverage of PAEs, it is also important to streamline patent litigation procedures to reduce costs. We applaud efforts by the CAFC to streamline

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[26] *See e.g., Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011); *Lucent Tech., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10 (Fed. Cir. 2012); *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012); *Cornell Univ. v. Hewlett-Packard Co.*, 654 F. Supp. 2d 119 (N.D.N.Y. 2009).

[27] *See generally Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971).

[28] Brief of *Amici Curiae* in Support of Standards on Damages, *Apple Inc. v. Motorola, Inc.*, Nos. 12-1548 &15-1549 (Fed. Cir.)(filed Dec. 4, 2012), at 11-12.

discovery through the Model Rules and advocate broad adoption of streamlined measures by district courts. We also look forward to more changes to patent litigation procedures such as requiring plaintiffs to elucidate as early as possible in the litigation the detailed basis for their contentions of patent infringement as well as the basis for their damages claims.

The information technology ("IT") industry also continues to suffer from the assertion of a very large number of patents that are written in an unclear way. The uncertainty about what is actually covered by a patent allows PAEs to opportunistically target technologies that in reality have little do with what was invented. In previous amicus filings we have urged the court to hold patent claim clarity to a higher standard and require patent drafters to lucidly articulate the intended scope of patents. [29] We further support the USPTO's efforts to increase the clarity of patent claims as a critical part of the examination process. [30]

Closely related to the issue of patent claim clarity is the broad use of functional claiming in patents asserted against the IT industry. The patent statutes have long provided that when the patent drafter defines the scope of the invention based on the result achieved rather than the means to achieve that result, the patent should in fact be limited to the specific means disclosed in the specification. [31] But over time the courts came to impose this requirement largely only when the drafter

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[29] *See* Brief of *Amici Curiae* in Support of Pet'rs, *Applera Corp. v. Enzo Biochem, Inc.*, No. 10-426 (U.S.) (filed Oct. 28, 2010); Brief of *Amici Curiae* in Support of Standards on Damages, *Apple Inc. v. Motorola, Inc.*, Nos. 12-1548 &15-1549 (Fed. Cir.)(filed Dec. 4, 2012); Brief of *Amici Curiae, Ariad Pharms., Inc. v. Eli Lilly & Co.*, No. 2008-1248 (Fed. Cir.) (filed Nov. 19, 2009).

[30] Request for Comments on Preparation of Patent Applications, U.S. Patent & Trademark Office, 78 Fed. Reg. 2960 (2013).

[31] 35 U.S.C. § 112(f).

explicitly asked for this mode of interpretation by including "means" language in the patent claim,[32] giving rise to claims in litigation years later that purport to cover much more than what the drafter originally intended. It is time to restore the original intent of the statute and limit functional claim language to the actually disclosed implementations.

The claims clarity and functional claiming issues are not just "software patent problems" but apply to the IT industry and the patent system as a whole. We thus need to appropriately broaden the scope of the covered business method patent opposition program to allow more patents to be challenged in a forum that permits invalidation based on section 112 concerns and is not limited to a narrow window following issuance like the current post-grant opposition procedure.

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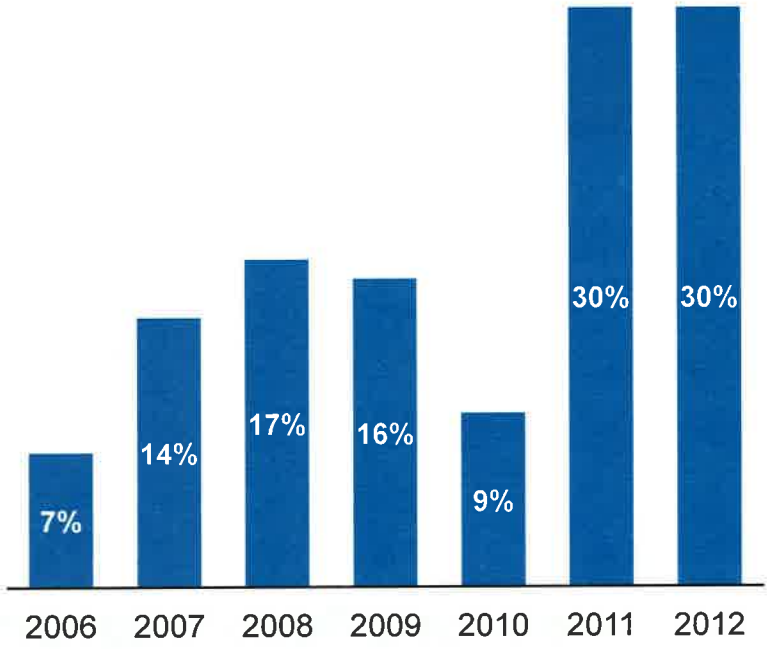
[32] Mark A. Lemley, *Software Patents and the Return of Functional Claiming (Draft)*, available at http://www.stanford.edu/dept/law/ipsc/Paper%20PDF/Lemley,%20Mark%20-%20Paper.pdf (last visited Mar. 4, 2013).

Appendix A:

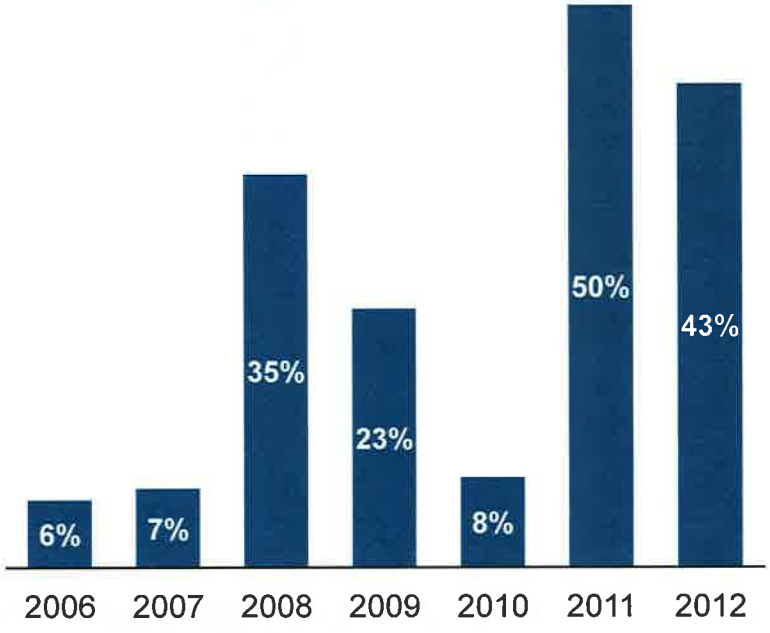
RPX Research Patent Litigation Data (2006 - 2012)

Growing Frequency of ITC Investigations

Percentage of PAE ITC Investigations Filed



Percentage of PAE ITC Respondents

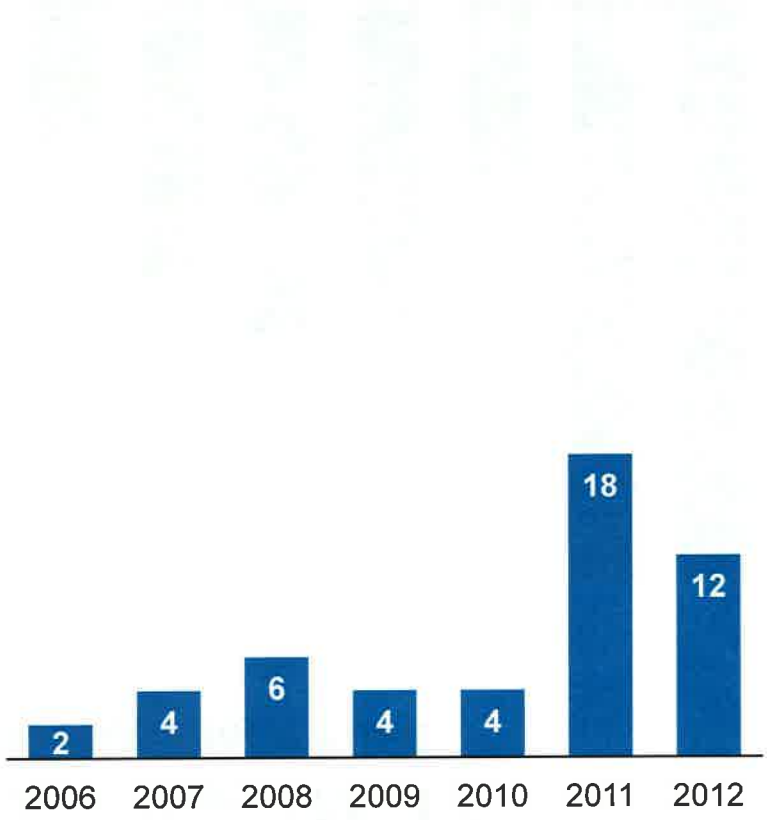


Source: RPX Research; Data Compiled 3/5/2013

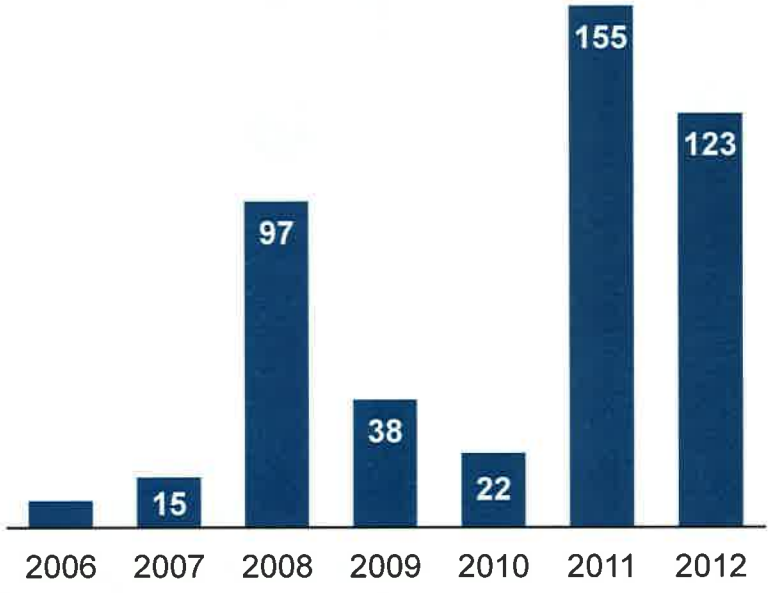
RPX
NATIONAL PATENT

Growing Frequency of ITC Investigations

PAE ITC Investigations Filed



Total PAE ITC Respondents



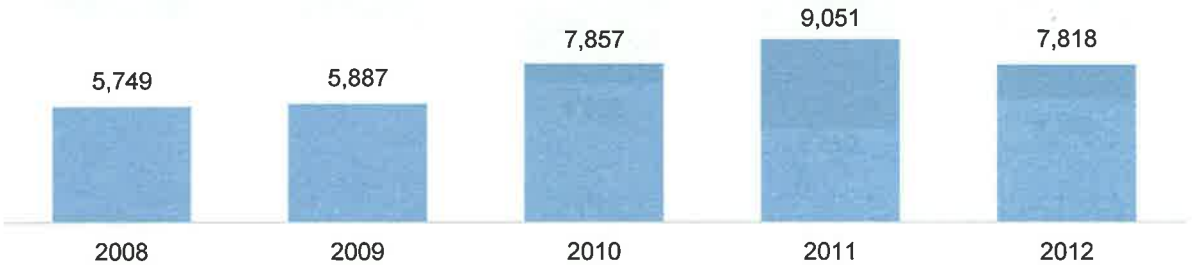
Source: RPX Research; Data Compiled 3/5/2013

RPX
RATIONAL PATENT

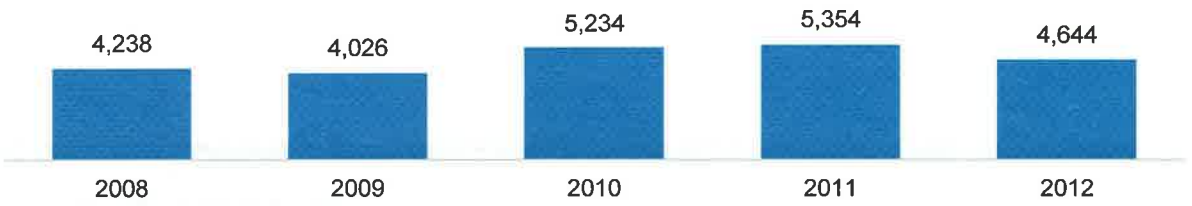
All Patent Litigations

Total Cases

Total Defendants



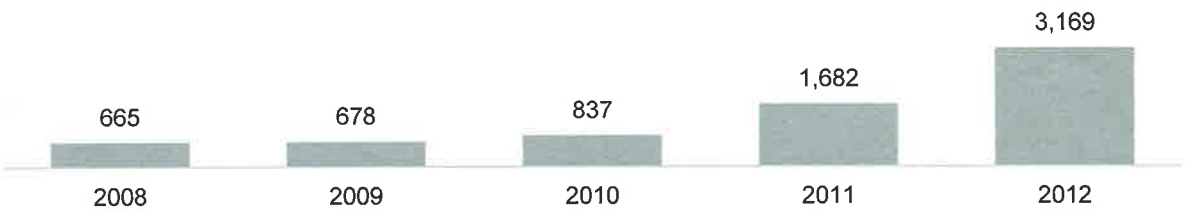
Unique Defendants



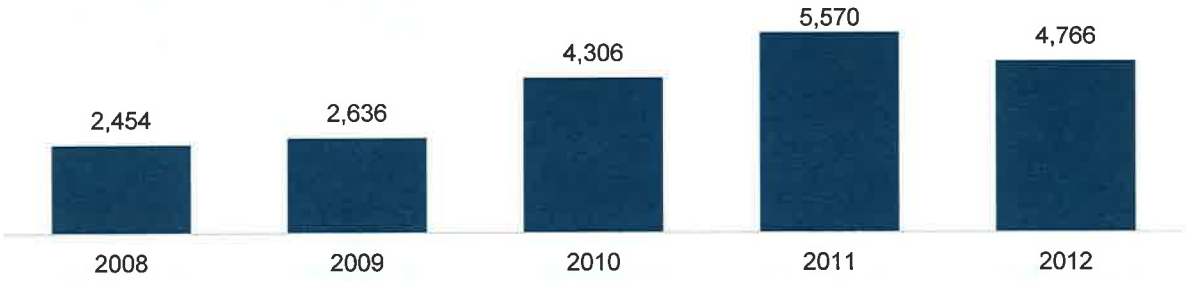
Source: RPX Research; Data Compiled 3/5/2013

PAE Patent litigations

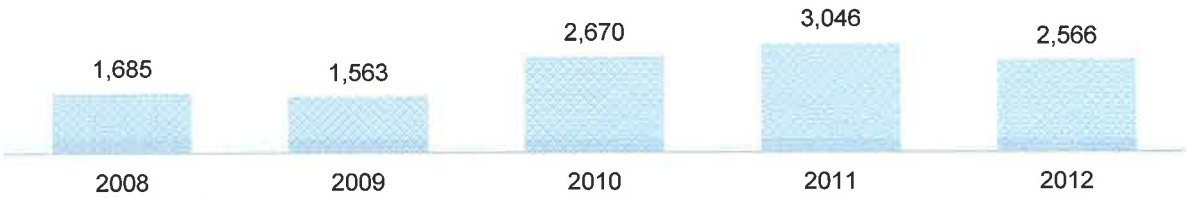
Total Cases



Total Defendants



Unique Defendants



Source: RPX Research; Data Compiled 3/5/2013

RPX
RATIONAL PATENT

Appendix B:

ITC Working Group white paper

ITC Working Group

The Impact of Revenue-Based Licensing Entities at the ITC: The Numbers Speak for Themselves

The Increase in Cases at the ITC

The International Trade Commission (ITC) has recently experienced an increase in cases filed under Section 337 of the Tariff Act.

- The number of cases filed between 2006 and 2011 skyrocketed 109%.
- The increase in the most recent decade's caseload grew primarily since the *eBay* decision in 2006. In the 5 years between 2001 and 2006, the number of case increased only 37%. Looked at another way, the average number of cases filed per year in the 5 years preceding the *eBay* decision was 22.8. In the 5 years following the *eBay* decision, the average number of cases per year climbed 94% to 44.1
- In 2011, the number of ITC cases reached an all-time high of 69.
- In the 1980s, there was a rash of cases due to an increase in the importation of infringing articles from Japan and Taiwan that took advantage of a weakness in the Tariff Act, namely the inability to protect licensed IP. Congress addressed the problem in 1988, and the average number of cases filed dropped from 23 in the 1980s to 11 in the 1990s.
- Over the past decade, the ITC has seen a similar increase in caseload due to another weakness in current law, namely the exploitation of the licensing provision carefully crafted 23 years ago. The Supreme Court decision in the 2006 case, e*Bay v. MercExchange*, exacerbated the problem by incentivizing certain companies to further exploit the venue.

Year	ITC Cases	Year	ITC Cases	Year	ITC Cases	Year	ITC Cases
1972	3	1980	18	1990	13	2000	17
1973	4	1981	18	1991	11	2001	24
1974	9	1982	23	1992	13	2002	17
1975	5	1983	43	1993	17	2003	18
1976	7	1984	33	1994	6	2004	26
1977	11	1985	25	1995	11	2005	29
1978	22	1986	24	1996	13	2006	33
1979	15	1987	18	1997	13	2007	35
		1988	11	1998	11	2008	41
		1989	19	1999	9	2009	31
						2010	56
						2011	69

*Data provided by the US International Trade Commission

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Who is Appearing Before the ITC

Since the 2006 Supreme Court decision in *eBay v. MercExchange*, a disproportionate number of suits are being brought against U.S. technology-related companies by revenue driven licensing entities that do not otherwise seek to propagate a product.

- Prior to the 2006 Supreme Court decision in eBay v. MercExchange, no cases were filed by revenue-based licensing entities at the ITC.

- Since 2006, the number of cases filed by revenue-based licensing entities at the ITC has increased as both a percentage share of the total number of cases filed and in actual numbers. As a percentage share of total cases, revenue-based licensing cases have risen from 0% in 2005 to 26% in 2011. The number of cases filed grew from 2 in 2006 -- the first year an NPE case was filed -- to 16 in 2011, growing by 700%.

- The number of respondents named in ITC cases is disproportionately increasing for cases filed by revenue-based licensing entities. While these cases accounted for only 26% of total ITC cases filed in 2011, the number of respondents named in the cases amounted to 46% of all respondents named across all cases. The actual increase in the number of respondents named in these cases has risen from 8 in 2006 to 232 in 2011 or 2800%.

- The technology industry is also being disproportionately impacted by the increasing number of cases filed by revenue-based licensing entities. Technology companies were named in approximately 63% of all suits filed in the ITC between 2005 and 2011, yet approximately 86% of the suits filed by revenue-based licensing entities during the same time were against technology-related companies.

Year	# of revenue-based licensing investigations filed	# of respondents in revenue-based licensing investigations	% of revenue-based licensing investigations compared to total cases filed	% of revenue-based licensing case respondents compared to # of respondents in total cases filed
2005	0	0	0%	0%
2006	2	8	7%	6%
2007	4	15	14%	7%
2008	6	97	17%	35%
2009	4	38	16%	23%
2010	4	22	9%	8%
2011	16	232	26%	46% (Q1-Q3)

*Data Provided by RPX

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Products in the Crosshairs

The technology industry has been increasingly impacted by the rise of cases filed by NPEs at the ITC, accounting for 86% of all NPE cases. Products for investigations filed by NPEs in 2010 and 2011 include:

- Hand held devices (smart phones, Blackberry, iPhone, iPad, iPod)
- Computers (laptops and desktops)
- Internet backbone equipment (switches, routers, WAPs, WLANs)
- Mobile Broadband Equipment (USB modems, 4G hotspots)
- Game consoles (Wii)
- Semiconductor chips (DRAM memory chips needed for most electronic devices having a processor)
- Cars having GPS navigation system
- Professional photography supplies
- Displays (televisions, monitors)
- Digital Projectors
- Digital Photo Frames
- Computer Forensic Analysis devices (used by justice and law enforcement agencies, in addition to private sector)
- Motion Sensitive sound effects device (used in cell phones, tablets, toys, video game devices, other electronic devices)

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