

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington D.C.

In the Matter of

**CERTAIN HYBRID ELECTRIC VEHICLES
AND COMPONENTS THEREOF**

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) **Inv. No. 337-TA-688**
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COMMISSION OPINION

The Commission instituted this investigation on October 5, 2009, based on a complaint filed by Paice LLC (“Paice”) of Bonita Springs, Florida, under section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 (“section 337”).¹ The complaint named as respondents Toyota Motor Corporation of Japan and two of its U.S. subsidiaries (collectively “Toyota”). The complaint alleges infringement by certain Toyota hybrid vehicles of claims of U.S. Patent No. 5,343,970 (issued Sept. 6, 1994) (“the ’970 patent”).

This matter returns to the Commission on a second summary determination of preclusion by the Administrative Law Judge (“ALJ”). We present a limited summary of the facts. A full background discussion of this investigation is provided in our Commission Opinion dated April 2, 2010,² which addressed the applicability of claim preclusion to Toyota’s defenses. The present initial determination (“ID”) (Order No. 11) (May 21, 2010) – and by extension, this opinion – involves issue preclusion.

¹ See Complaint of Paice LLC Under Section 337 of the Tariff Act of 1930, As Amended (Sept. 3, 2009); 74 *Fed. Reg.* 52258-59 (Oct. 9, 2009).

² Commission Op. (Apr. 2, 2010) (“Apr. 2010 Op.”); see also Notice of Commission Determination to Review an Initial Determination and on Review to Reverse and Remand (Apr. 2, 2010).

Approximately six years ago, Paice sued Toyota for infringement of certain claims of the '970 patent. *Paice LLC v. Toyota Motor Corp. et al.*, No. 2:04-CV-211-DF (E.D. Tex.). A jury found that Toyota infringed the '970 patent and awarded damages. The district judge denied an injunction and instead ordered forward-looking royalties. The Court of Appeals for the Federal Circuit affirmed this arrangement, *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), although the exact dollar value of that compulsory license is still in dispute. In this investigation, Paice asserts the same patent claims against Toyota, but accuses Toyota vehicles newer than those that were expressly at issue in the district court. Paice has argued that the district court judgment precludes certain Toyota defenses in the instant investigation on the basis of claim preclusion and issue preclusion.

On April 2, 2010, the Commission reversed the ALJ's summary determination that the doctrine of claim preclusion prevented respondent Toyota from arguing noninfringement, invalidity or unenforceability of the asserted patent claims. Apr. 2010 Op. at 15. The Commission noted in its opinion that it took no position on the application of the doctrine of issue preclusion to this investigation. *Id.* On remand from the Commission, the ALJ issued an ID granting Paice's motion to bar, on the basis of issue preclusion, relitigation of the validity of the '970 patent.³ Order No. 11 at 9. On June 1, 2010, Toyota petitioned for

³ Paice filed its motion on November 25, 2009. *Paice LLC's Mot. for Summ. Determination Re Infringement, Validity and Enforceability* (Nov. 25, 2009). After the Commission's April 2, 2010 order, the ALJ allowed further briefing on issue preclusion. Paice has conceded that there can be no issue preclusion as to unenforceability because Toyota never raised unenforceability in the district court action. *See* Apr. 2010 Op. 15 n.15. Toyota has admitted in this investigation that the accused products operate in essentially the same way as those at issue in the district court, which forecloses relitigation of infringement. *See* Order No. 9 at 2 n.2 (Apr. 8, 2010). Thus, while infringement is precluded and enforceability is not, neither is at issue in the present ID.

review of Order No. 11, only as to obviousness, 35 U.S.C. § 103, and not as to other bases for invalidity.⁴ Paice and the Commission Investigative Attorney (IA) oppose the petition.

There is no genuine dispute that Paice made out a *prima facie* case for issue preclusion. And there is also no genuine dispute that the ALJ set forth a correct recitation of the law. What is in dispute is the application of an exception to issue preclusion. That exception governs situations where an intervening change in the law warrants the retrial of issues previously adjudged. The intervening authority in this case is the Supreme Court's decision in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), and the question is whether that case relaxed the test for obviousness such that Toyota should be allowed to re-mount a defense of obviousness here. *See* Restatement (Second) of Judgments § 28(3) (1982) ("Restatement") (exception to issue preclusion where "a new determination is warranted in order to take account of an intervening change in the legal context or otherwise to avoid inequitable administration of the law").

In Order No. 11, the ALJ found that *KSR* does not create an intervening change in the law for purposes of issue preclusion. We agree with the ALJ, affirm Order No. 11, and incorporate it here by reference. In addition to the reasons set forth by the ALJ in Order No. 11, the Commission finds further grounds for granting Paice's motion for summary determination. The Commission finds that even if – contrary to the view of the ALJ and the Commission – *KSR* constitutes a change in the law for purposes of providing an exception to

⁴ Toyota Resp'ts' Pet. for Review of the May 21, 2010 Initial Determination Granting Compl'ts' Mot. for Summ. Determination Re Validity Based on Issue Preclusion (June 1, 2010) ("Toyota Pet.").

issue preclusion, Toyota has not satisfied its burden to support an exception to issue preclusion in this case.⁵

The Commission finds that Toyota has not raised any genuine issues of material fact in opposition to Paice's motion, either in its submissions to the ALJ or to the Commission. *See* 19 C.F.R. § 210.18(b), (c). Instead, Toyota relies only on what it believes to be an erroneous jury instruction in the Texas action and some of Paice's statements at trial. Toyota Pet. 9-11. However, mere error in a jury instruction, while enough in some cases to warrant a new trial on direct review, cannot suffice to enable collateral review of a final judgment. *See* Order No. 11 at 8. In any event, the Texas jury instruction did not require an express motivation to combine, and the Supreme Court in *KSR* recognized that many pre-*KSR* decisions – likely with the same jury instruction as the district judge read to the *Paice v. Toyota* jury – applied the obviousness test correctly. *KSR*, 550 U.S. at 419. Toyota points to no proof from the verdict form or elsewhere that its obviousness argument failed for want of an express motivation to combine. Under these circumstances, the Commission finds it inappropriate to rely on speculation to frustrate the repose provided by issue preclusion.

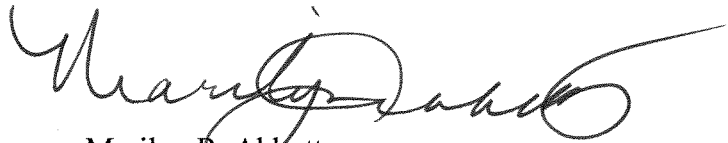
The Commission further finds that Toyota knew or should have known to challenge the obviousness determination directly in its district court litigation instead of collaterally here. Among other developments, numerous prominent briefs to the Supreme Court urging the reversal of the appellate decision in *KSR* – including the brief of the United States, the brief of twenty-four intellectual-property law professors, and the briefs of industry –

⁵ *See* Restatement § 27 cmt. c at 253 (“the burden of showing changed or different circumstances should be placed on the party against whom the prior judgment is asserted”); § 28 cmt. c at 276 (“an intervening change in the relevant legal climate *may* warrant reexamination of the rule of law applicable as between the parties” in some instances of significant competitive disadvantage or manifestly inequitable administration of the laws) (emphasis added).

preceded Toyota's Rule 59 deadline (some preceded the trial altogether). Under such circumstances, where a party chooses not to preserve or pursue an appealable matter – and the decisions in *Alza Corp. v. Mylan Laboratories, Inc.*, 464 F.3d 1286 (Fed. Cir. 2006) and *DyStar Textilfarben GmbH & Co. v. C.H. Patrick Co.*, 464 F.3d 1356 (Fed. Cir. 2006) evidence the appealability – it is unreasonable to argue that there is manifest inequity. The courts have rejected similar arguments under far more compelling circumstances. *See, e.g., Federated Dep't Stores, Inc. v. Moitie*, 452 U.S. 394, 400-01 (1981).

Validity of claims 11 and 39 of the '970 patent was determined as between these parties in the district court action and cannot be relitigated here. While the Commission agrees with Order No. 11, for the reasons set forth herein, the Commission has determined to review that ID, and on review to affirm.

By order of the Commission.

A handwritten signature in black ink, appearing to read 'Marilyn R. Abbott', with a large, stylized flourish at the end.

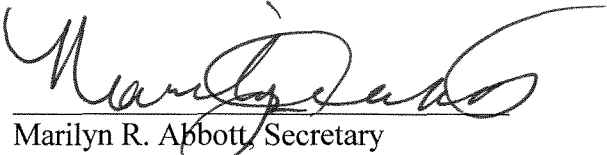
Marilyn R. Abbott
Secretary to the Commission

Issued: June 22, 2010

CERTIFICATE OF SERVICE

I, Marilyn R. Abbott, hereby certify that the attached **COMMISSION OPINION** has been served by hand upon the Commission Investigative Attorney, Erin D. E. Joffre, Esq., and the following parties as indicated, on

June 23, 2010.



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