

## Patent Holdup, the ITC, and the Public Interest<sup>1</sup>

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In the wake of the Supreme Court's 2006 *eBay* decision, courts rarely grant injunctions to parties that assert patents as a business model, aka "patent trolls" or patent-assertion entities – PAEs.<sup>4</sup> This is a good thing. By requiring courts to consider the equities of a particular case before granting an injunction, the Court in one fell swoop wiped out much of the holdup problem that had beset the patent system.

But there is another jurisdiction that routinely grants injunctions in patent cases, even to NPEs: the International Trade Commission (ITC). In the past five years, both trolls and product-producing companies have flocked to the ITC, whether in search of injunctions or of the credible threat of an injunction. The result has been to undo much of the desirable effect of *eBay*.

The impact of an ITC order shutting down importation of a product can be dramatic. Complying with an ITC order requires a company to essentially stop in its tracks and pull its products from the market. Many household devices including computers, flat-screens, GPS

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<sup>4</sup> Colleen Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 328 (2010) (NPEs are "entities . . . focused on the enforcement, rather than the active development or commercialization of their patents."), *Accord*, FTC *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 8 n.5 (Mar. 2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

devices, and printers have been the subject of an ITC 337 investigation.<sup>5</sup> In 2011, every major mobile handset and smartphone maker was embroiled in at least one dispute there.<sup>6</sup> As the impact of this once-obscure trade agency has grown, mainstream commentators have warned that the ITC “could do great economic harm to [] U.S. industries that [are] growing rapidly,”<sup>7</sup> and calls for legislative reform of the ITC have intensified.<sup>8</sup> Driving these calls is the perception that the ITC’s exclusion orders are “economically destructive and inflexible.”<sup>9</sup> The ITC can’t award damages; it can only exclude products in what, indeed, might seem to be an all-or-nothing affair. We believe, however, that the Commission has more flexibility in remedies than has been previously recognized. In this paper, we explore how it can use its statutory authority to decide both whether to grant an injunction and how to structure its remedies to minimize public harm.

In the sections that follow, we review the rules the ITC uses in deciding whether to grant an injunction.<sup>10</sup> While the Federal Circuit has held that *eBay*’s equitable test does not apply to the ITC, the agency is required to consider a variety of factors relating to the effect of any injunction on the public. To date the ITC hasn’t given these public interest factors many teeth. We think the ITC should revisit this practice, taking into account prevailing economic theory for assessing the impact of patent injunctions to consumers and competitive conditions.

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<sup>5</sup> Add cites.

<sup>6</sup> Add cites.

<sup>7</sup> <http://online.wsj.com/article/SB10001424052970204826704577074523539966352.html>

<sup>8</sup> Id., <http://www.nytimes.com/2011/12/13/opinion/patents-smartphones-and-the-public-interest.html>, Mike Ladras Presentation at APLI.

<sup>9</sup> <http://online.wsj.com/article/SB10001424052970204826704577074523539966352.html>

<sup>10</sup> The ITC offers three forms of injunctive relief: a limited exclusion order, a general exclusion order, and cease and desist orders. 19 U.S.C. § 1337.

In a common situation, for example, the patent covers a small part of a larger product and the defendant's infringement was inadvertent. If the infringing feature is covered by an industry standard,<sup>11</sup> removing it is virtually impossible. Consumers are harmed when a big product is eliminated from the market because of a small patent, and competition is distorted as a large number of lawful components and features are blocked from the market along with the infringing one.<sup>12</sup>

In another situation, a NPE brings a case against a large number of product companies. An injunction would exclude a large number of participants from the marketplace and dramatically reduce competition. And if the excluded product represents a significant part of the enjoined company's revenue, competition is harmed not only in the infringing product, but also in the other areas the company operates.

In each of these scenarios, the harm to consumers and competition of an exclusion order is greater than the contribution made by the individual infringing component. To reduce these harms, we describe two things the ITC could do. First, it could decline to award exclusion orders at all. Second, it could issue exclusion orders but structure them to ameliorate the harms to competition and consumers. Three methods of structuring that we explore include: staying injunctions, bonding, and tailoring injunction scope.<sup>13</sup> In a case where a design-around is possible, for example, awarding an injunction but delaying its start could deter infringement in

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<sup>11</sup> On the prevalence of industry standards in many industries, see Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 **Calif. L. Rev.** 1881 (2002).

<sup>12</sup> Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 **Tex. L. Rev.** 1991 (2007) (demonstrating the holdup cost in this situation).

<sup>13</sup> The proper scope of patent injunctions has come under greater scrutiny recently. See, e.g., *Tivo Inc. v. Echostar Corp.*, 646 F.3d 869 (Fed. Cir. 2011) (en banc); John Golden, *The Scope of Patent Injunctions*, \_\_\_ **Tex. L. Rev.** \_\_ (forthcoming 2012).

a way that minimizes disruption to consumers and the holdup to manufacturers.<sup>14</sup> And it could do so without interfering with patentee incentives; patentees can seek damages in federal court for infringing sales in addition to bringing a case in the ITC, and if the patent truly was essential, the patentee could obtain an injunction after the stay expired. In cases where the patentee seeks financial relief during the stay period, the Commission could extend the terms of the bond it normally sets during the Presidential Review period to compensate for the entire stay period.

In some cases the infringing component is small but, because of the nature of the product, the collateral impact of an exclusion order on downstream products, related products, and third parties would be large. In such a case, the Commission could tailor the scope of the injunction to reduce the harms to competition, for example by grandfathering in existing products. We believe that the Commission has the power to use levers in these situations;<sup>15</sup> in this paper we develop the economic grounding for how it could do so.

Alternatively, if the ITC won't use its existing public interest authority (or if the Federal Circuit won't let it), Congress could easily act to apply *eBay* to the ITC. But we don't think that is necessary. The ITC has proven to be adaptive to the changing conditions of competition in other respects.<sup>16</sup> The agency is in a better position to adapt its decision-making to the particular facts before it than is the Federal Circuit or Congress, which has already given the ITC the authority to take into account consumers and competition. The ITC, in short, has the power to take account of the effect of an exclusion order on competition. It's now up to the ITC to use it.

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<sup>14</sup> See, e.g., Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 **Tex. L. Rev.** 1991 (2007) (showing that a stay in injunctive relief to allow design-arounds significantly reduces holdup risk).

<sup>15</sup> And indeed, the limited times that they have done so before is described in Part III infra.

The paper proceeds as follows. In Part I we examine the current, post-*eBay* practice of issuing injunctions, at the district court and ITC, and filing trends driven by the differences in injunction rates. In Part II, we review the public interest factors that the ITC must consider before awarding an exclusion order, and describes how the economic theory of holdup maps to these factors. In Part III, we discuss options for tailoring injunctive relief available to the ITC. Part IV concludes.

## I. The Shift to the ITC

The Supreme Court's 2006 decision in *eBay v. MercExchange*<sup>17</sup> represented a sea change in patent litigation. Before 2006, a patentee that won its case was entitled to an injunction that prevented the defendant from selling its product. The result was a significant problem with patent holdup. Patentees who owned rights in very small pieces of complex, multi-component products could threaten to shut down the entire product. As a result, even a very weak patent could command a high royalty in settlement from defendants afraid of gambling their entire product on a jury's decision.<sup>18</sup>

*eBay* changed all that. Under *eBay*, district courts have to consider four equitable factors before granting an injunction, including whether money damages are adequate, and whether public and private interests, on balance, favor granting or denying the injunction.<sup>19</sup> Justice Kennedy, concurring in *eBay*, emphasized that injunctions might be inappropriate when

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<sup>17</sup> *eBay Inc., et al., Petitioners v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>18</sup> Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 *Tex. L. Rev.* 1991 (2007).

<sup>19</sup> *eBay*, 547 U.S. at 391.

the plaintiff licenses the patent non-exclusively or when the patent covered only a small component of the product.

Some version of the “four-factor test” standard has been used by courts for centuries to decide whether or not to award an injunction.<sup>20</sup> The Supreme Court has repeatedly said an injunction is an “extraordinary remedy.”<sup>21</sup> In the marketplace, an injunction disrupts<sup>22</sup> the free flow of goods and services, impacting not only the parties but the public who must adapt to life without the enjoined product or service. By its terms, *eBay* prescribes injunctive relief as a last-ditch option – justified only when the harm cannot be fixed by money and the hardships and public interest, carefully considered, weigh in favor of granting it.

Commentators predicted *eBay* would make it harder to get injunctions. They have been right – based on our review of district court decisions since *eBay*,<sup>23</sup> about 75% of requests for injunction have been granted,<sup>24</sup> down from a 95% rate pre-*eBay*.<sup>25</sup> There is more to the story, of course. The courts are distinguishing between different types of entities and their

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<sup>20</sup> See DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABLE INJURY RULE 20-21 (1991) (tracing the origins of the “irreparable injury rule” to the specialization in remedies by the courts of chancery and the courts of law in 14<sup>th</sup> century Britain and its transmission to the courts of the colonies and United States in the 17<sup>th</sup> century) *But see* Douglas Laycock, **Modern American Remedies** \_\_ ( ) (criticizing the majority’s characterization of the traditional four-factor test as the norm in remedies law).

<sup>21</sup> *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), citing *Railroad Comm’n v. Pullman Co.*, 312 U.S. 496, 500 (1941). See also, *Rizzo v. Goode* 423 U.S. 362 (1976) (“the principles of equity [] militate heavily against the grant of an injunction except in the most extraordinary circumstances.”)

<sup>22</sup> See, e.g. *Paice v. Toyota*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*16 (E.D. Tex. Aug. 16, 2006) (discussing potential “disruption” of an injunction against Toyota’s hybrid cars to car dealers, parts suppliers, and related business entities). *Broadcom v. Qualcomm*, No. SACV 05-467 JVS (RNBx), 2007 U.S. Dist. LEXIS 97647, at \*15, \*20 (C.D. Cal. Dec. 31, 2007) (citing the harm to the public caused by the removal of a beneficial, cutting edge service from millions of customers and tailoring the injunction to allow for an 18-month transition period)

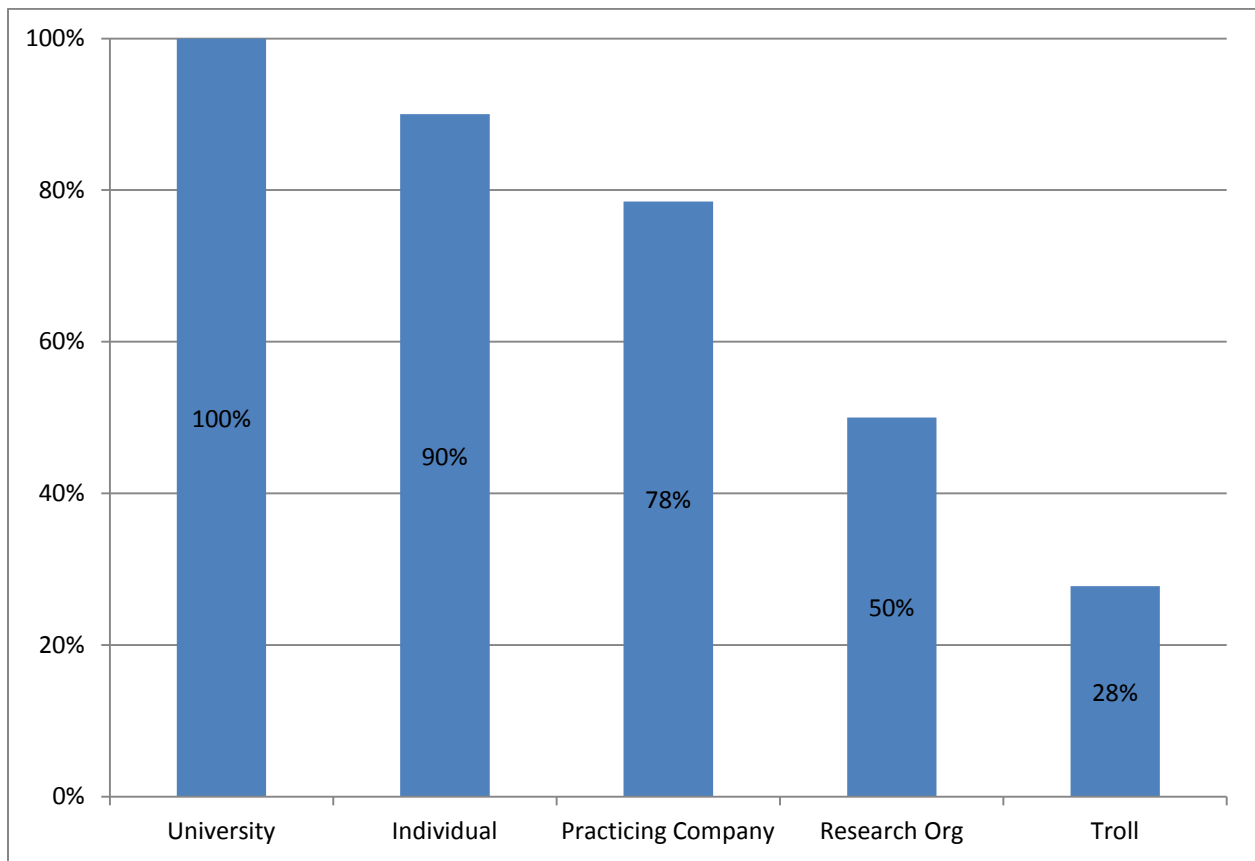
<sup>23</sup> There were 192 requests post-*eBay* through August 11, 2011. List of cases and outcomes sourced from the excellent website [www.patstats.org](http://www.patstats.org), and obtainable at <http://patstats.org/Patstats2.html> (“Post-*eBay* Permanent Injunction Rulings in Patent Cases to 8-11-11”)

<sup>24</sup> Accord, FTC Evolving Marketplace Report, \_\_ (reporting an injunction rate of 72-77%).

<sup>25</sup> [http://www.foley.com/files/tbl\\_s31Publications/FileUpload137/4541/InjunctiveReliefAftereBay.pdf](http://www.foley.com/files/tbl_s31Publications/FileUpload137/4541/InjunctiveReliefAftereBay.pdf)

different types of behavior. While individuals and universities have actually enjoyed higher than average injunction grant rates, patent assertion entities, or “trolls,” have been denied their requests for injunctions about three-quarters of the time. (Figure 1) Practicing entities have seen their requests for injunction denied as well, about a quarter of the time. What is happening?

**Figure 1: post-Ebay District Court Injunction Rates by Plaintiff Type<sup>26</sup>**



Category	Granted	Denied	Total
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<sup>26</sup> Cases taken from May 16, 2006 to 8/15/2011. We used Patstats.org for the list of cases and outcomes, and PACER, Lex Machina, Lexis and Westlaw for the decisions. We profiled the plaintiffs using methods we have previously described in Colleen Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. Rev. 1571, 1593 (2008-2009).

Individual	9	1	10
University	2	0	2
Practicing Company	125 <sup>27</sup>	33	158
Research Org	2	2	4
Troll	5 <sup>28</sup>	13	18

Based on our review of all available post-eBay district court decisions, courts have been faced with a variety of fact patterns, but have reached results that are remarkably consistent with each other. When practicing companies have been denied an injunction, it's because they aren't practicing the particular patent they've asserted,<sup>29</sup> for example, or because they can't show irreparable harm because it's a multiple-competitor market, and it therefore can't be assumed that defendant's gains have come at plaintiff's expense.<sup>30</sup>

Conversely, universities, who do not practice their own patents, nonetheless have been able to get injunctions by suing on behalf of their exclusive licensees who are in fact practicing

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<sup>27</sup> This category includes cases brought by i4i, LP and US Philips Corp., the patent subsidiaries of operating companies i4i, Inc. and Koninklijke Philips Electronics N.V. (Royal Philips Electronics), respectively. See U.S. Philips Corp. v. Iwasaki Elec., Ltd., 2006 U.S. Dist. LEXIS 71276 (S.D.N.Y. Sept. 28, 2006) ("The Local Rule 1.9 Statement filed by U.S. Philips reveals that there is a public affiliate known as 'Koninklijke Philips Electronics N.V.'") see U.S. Philips Corp. v. Iwasaki Elec. Co., 505 F.3d 1371, 1373 (Fed. Cir. 2007) ("U.S. Philips Corporation is 'an IP holding company on behalf of . . . the overall Philips organization' and has no employees.")

<sup>28</sup> The reasoning of these cases is described *infra* note \_\_\_\_.

<sup>29</sup> Ricoh v. Quanta, No. 06-cv-462-bbc, 2010 U.S. Dist. LEXIS 38220, at \*3-4 (W.D. Wis. Apr. 19 2010); case described in the press under the headline "Ricoh gets the Troll Treatment." ["http://thepriorart.typepad.com/the\\_prior\\_art/2010/04/ricoh-v-quanta.html"](http://thepriorart.typepad.com/the_prior_art/2010/04/ricoh-v-quanta.html).

<sup>30</sup> See, e.g. Advanced Cardiovascular v. Medtronic Vascular, 579 F. Supp. 2d 554, 559-560 (D. Del. 2008); Bosch v. Pylon, 748 F. Supp. 2d 383, 408 (D. Del. 2010); LG Elec. USA Inc. v. Whirlpool Corp., No. 08-234-GMS, 2011 U.S. Dist. LEXIS 70963, \*47-48 (D. Del. Jul. 1, 2011).

the patent.<sup>31</sup> Of all groups, trolls are the least likely to get an injunction, and by and large have succeeded in their requests only when the defendant has failed to object to its award.<sup>32</sup> In the single case we found since eBay where a troll succeeded in getting a contested injunction, it was because the court found the company to be harmed in its ability to execute its business plan.<sup>33</sup>

Most of the attention has focused on the first two prongs, irreparable harm and adequate remedy at law.<sup>34</sup> Competitive considerations have predominated: courts have been willing to grant injunctions when the defendant's infringement credibly threatens the market share,<sup>35</sup> reputation,<sup>36</sup> or business model<sup>37</sup> of the plaintiff, and unwilling to grant injunctions

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<sup>31</sup> Emory University v. Nova Biogenics, Inc., No. 1:06-CV-0141-TWT, 2008 U.S. Dist. LEXIS 57642, \*3-4 (N.D. Ga. Jul. 24, 2008); Johns Hopkins v. Datascope, 513 F. Supp. 2d 578, 581 (D. Md. 2007). For a discussion of universities as non-practicing entities, see Mark Lemley, *Are Universities Patent Trolls?*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 611 (2008) (arguing that they aren't).

<sup>32</sup> Trolls have gotten five injunctions since eBay, in the following cases: Acticon Techs. v. Heisei Elecs. Co., Ltd., 2008 U.S. Dist. LEXIS 8978 (S.D.N.Y. Feb. 5, 2008) (defendant failed to object to Magistrate judge's report, therefore the Court adopted the Magistrate's findings); Joyal Prods. v. Johnson Elec. North Am., Inc., 2009 U.S. Dist. LEXIS 15531 (D.N.J. Feb. 26, 2009) (Joyal was not an on-going business and looked to sell its patent; failure to grant an injunction would severely affect the sale value of the patent); Antonious v. Merchs. of Golf, Inc., 2011 U.S. Dist. LEXIS 3332 (C.D. Cal. Jan. 5, 2011) (defendant's failure to respond resulted in default judgment and the entering of an injunction); PB&J Software LLC Cucku, Inc. (Cucku consented to entry of final judgment for injunctive relief); Systemation Inc. v. Production Prod. Inc. (injunction entered because two parties settled)

<sup>33</sup> Joyal Products v. Johnson Elec. North America, No. 04-5172 (JAP), 2009 U.S. Dist. LEXIS 15531, \*30-31 (D.N.J. Feb. 26, 2009) (ailing company plaintiff Joyal's patents would be worth less in the marketplace if unable to incapable of excluding others, and company's business plan did not permit it collect royalties) but see Voda v. Cordis, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, \*18-19 (W.D. Okla. Sept. 5, 2006) (harm to right to exclude is not enough to justify an injunction), *aff'd in relevant part*, 536 F.3d 1311 (Fed. Cir. 2008).

<sup>34</sup> It is hard to come up with circumstances that would distinguish irreparable injury from the absence of an adequate remedy at law.

<sup>35</sup> In the following cases, the court cited the indicated market-share related reason when deciding to grant the injunction: i4i LP v. Microsoft, 670 F. Supp. 2d at 599-601 (citing injury to market share, brand), Wald v. Mudhopper, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, \*16 (W.D. Okla. Jul. 27, 2006) (market share, damage to reputation) Global Traffic Technologies LLC v. Tomar, No. 05-756 MJD/AJB, Findings of Fact, Conclusions of Law, and Order for Injunctive Relief (D. Minn. 2008), <https://lexmachina.com/cases/9356/documents/278997.pdf> (market share, customer relationships),

when these harms are absent.<sup>38</sup> Predicted loss of market share, reputation and goodwill are difficult to quantify and restore, making money damages inadequate.<sup>39</sup> Patent assertion entities that don't operate in the market typically don't experience these types of harms.<sup>40</sup>

The relationship between the patented invention and the enjoined product has also mattered in a number of cases. Following Justice Kennedy's suggestion, when the patented

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Broadcom v. Qualcomm, 2007 U.S. Dist. LEXIS 97647 at \*16 (market share in the market for design wins); Global Traffic Technologies, Emory, Johns Hopkins (all citing competition including in a two-competitor market); see also Advanced Cardiovascular v. Medtronic Vascular, 579 F. Supp. 2d at 558 (Injunctions usually granted in scenarios where there is two-competitor market)

<sup>36</sup> See, e.g. CSIRO v. Buffalo, 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007), *vacated*, 542 F.3d 1363 (Fed. Cir. 2008) (harm to reputation), *Emory*, 2008 U.S. Dist. LEXIS 57642 at \*12-13 (harm to reputation and goodwill), *Johns Hopkins*, 513 F. Supp. 2d at 586 (harm to reputation).

<sup>37</sup> See, e.g. Judkins v. HT Window, 704 F. Supp. 2d 470, 477 (W.D. Pa. 2010) (exclusive licensor would experience harm to business relationships), ReedHycalog, LP v. Diamond, No. 6:08-CV-325, 2010 U.S. Dist. LEXIS 83011, \*35-36 (E.D. Tex. Aug. 12, 2010) (disruption to P's business and licensing and pricing strategy), Joyal v. Johnson, 2009 U.S. Dist. LEXIS 15531 at \*30-31 (denial of injunction would decimate the value of the patent in planned asset sale).

<sup>38</sup> In each of these cases the following factors were cited in the denial of the plaintiff's request for injunction: Advanced Cardiovascular v. Medtronic Vascular, 579 F. Supp. 2d at 559, Bosch v. Pylon, 748 F. Supp. 2d at 408, LG Elec. USA v. Whirlpool, 2011 U.S. Dist. LEXIS 70963 at \*49, Sundance v. Demonte, No. 02-73543, 2007 U.S. Dist. LEXIS 158, \*8 (E.D. Mich. Jan. 4, 2007) (all citing presence of a multiple-competitor market), Nichia v. Seoul Semiconductor, No. 06-0162 MMC, 2008 U.S. Dist. LEXIS 12183, \*5 (N.D. Cal. Feb. 7, 2008) (no loss of market share, reputation or brand), Ricoh, 2010 U.S. Dist. LEXIS 38220 at \*3-4 (plaintiff not in competition with defendant because plaintiff does not practice invention), Hynix v. Rambus, 609 F. Supp. 2d 951, 984-985 (N.D. Cal. 2009) (no harm to reputation, but harm to defendant's business), Telcordia v. Cisco, 592 F. Supp. 2d 727, 747 (D. Del. 2009) (no evidence of lost sales, licensing or R&D), Calcar v. Honda, No. 06cv2433 DMS (CAB), 2008 U.S. Dist. LEXIS 106476, \*2-3 \*(S.D. Cal. Nov. 18, 2008) (insufficient evidence of lost opportunities, reputation), Paice, 2006 U.S. Dist. LEXIS 61600 at \*14 (unable to prove damage to market share or brand name), WhitServe LLC v. Computer Packages, Inc., No. 3:06CV01935 (AVC), Whitserve's Motion for Permanent Injunction (D. Conn. 2011), <https://lexmachina.com/cases/9852/documents/4000013023.pdf> (no evidence of lost market share, customers, or goodwill), Creative Advertising v. Yahoo! Inc., 674 F. Supp. 2d 847, 852 (E.D. Tex. 2009), Enpat v. Budnic, 773 F. Supp. 2d 1311, 1317 (M.D. Fla. 2011), Orion IP v. Mercedes-Benz USA, No. 6:05 CV 322, 2008 U.S. Dist. LEXIS 108683, \*12 (E.D. Tex. Mar. 28, 2008) Paice, 2006 U.S. Dist. LEXIS 61600 at \*13 (money damages adequate to compensate licensing company's loss).

<sup>39</sup> *Emory*, 2008 U.S. Dist. LEXIS 57642 at \*13.

<sup>40</sup> NPEs sometimes assert injury to their reputation resulting from the fact that the defendant used a product that turned out to be covered by the patent claims. CSIRO v. Buffalo Tech., 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007), *vacated*, 542 F.3d 1363 (Fed. Cir. 2008). This theory strikes us as wildly implausible. To the extent consumers are even aware of the patent and the fact that the defendant infringes it, it is hard to see how awareness of that fact will injure the NPE's reputation. If anything, the widespread use of the patentee's technology should enhance its reputation.

invention covers a small component of the defendant's product, courts have been less inclined to award an injunction.<sup>41</sup> Courts have also taken into account the impact on consumers, under the auspices of the public interest prong.<sup>42</sup>

Hundreds of district courts throughout the country, then, have engaged in the same exercise of considering whether an injunction is really justified in cases of patent infringement. And yet one decisionmaker has been exempt from doing so. The ITC, an administrative agency rather than Article III court, has declined to follow *eBay*, a practice that has been approved by the Federal Circuit.<sup>43</sup> This apparent anomaly has a simple explanation: although the ITC borrows from patent law<sup>44</sup> to decide whether there has been an unlawful importation,<sup>45</sup> the Commission follows its own procedures and prescribes its own remedies. As the Federal Circuit

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<sup>41</sup> *Ricoh*, 2010 U.S. Dist. LEXIS 38220 at \*6 (small component of the overall product), *Sundance v. Demonte*, 2007 U.S. Dist. LEXIS 158 at \*8 (patented tech is but one feature of the defendant's product), *z4 v. Microsoft*, 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006) (in a small component scenario, damages are sufficient), *Broadcom v. Qualcomm*, 2007 U.S. Dist. LEXIS 97647 at \*19-21 (tailoring the injunction to ameliorate the impact on consumers by providing time for design around). Accord *Malin*, \_\_\_\_ (reporting an injunction rate of only \_\_\_\_, as compared to \_\_\_\_, in district court when the infringing feature is a small component of the accused product)

<sup>42</sup> See, e.g. *Amgen v. Hoffman-La Roche*, 581 F. Supp. 2d 160, 213 (D. Mass. 2008) (considering patient health, Medicare savings, and the public's interest in a robust patent system in its decision to grant an injunction);

<sup>43</sup> *Spansion, Inc. v. ITC*, 629 F.3d 1331 (Fed. Cir. 2010).

<sup>44</sup> As well as other forms of intellectual property law; although the majority of 337 cases are patent cases. Collen Chien, *Patently Protectionist*, 50 WM & MARY L. REV. 63, 70 (2008) (patent cases make up 85% of the ITC's § 337 docket; explaining why copyright and TM cases are less likely to be brought in the ITC), but see *TianRui Group Company Limited v. U.S. International Trade Commission*, No. 2010-1395, 2011 U.S. App. LEXIS 20607 (Fed. Cir. Oct. 11, 2011) (confirming that section 337 applies to imported goods produced through the exploitation of trade secrets), remarks of Deanna Okun, ITC 337 San Francisco Conference (commenting that there is no reason the ITC could not be expanded beyond intellectual property to include other sorts of unfair competition). The ITC has heard a handful of antitrust cases, and commentators have speculated that it could also be used for child labor and other violations. (Described, e.g. in Tom Schaumberg, ed. *A Lawyer's Guide to Section 337 Investigations before the International Trade Commission* ABA-Intellectual Property Section, Chapter 17.A.2.) And one pending bill would give the ITC the authority to review efforts to shut down "rogue websites" for copyright infringement. OPEN Act, H.R. 3782 (2011).

<sup>45</sup> 19 U.S.C §1337(a).

explained in *Spanion*, “[there are] different statutory underpinnings for [] Section 337 actions and . . . district courts suits for patent infringement.”<sup>46</sup> As a result, the ITC neither hears counterclaims nor recognizes certain defenses to infringement,<sup>47</sup> and can’t award damages. These omissions were intended to speed things along, reflecting the original intent of the ITC to keep provide a special solution to the special problem of foreign infringement. Now that most technology products are manufactured overseas<sup>48</sup> and Congress has relaxed the domestic industry requirement, nearly every patentee can bring an ITC complaint and nearly every accused infringer is a potential ITC defendant, converting the ITC into a mainstream venue in which to file patent grievances.<sup>49</sup>

The statute’s history and structure limit its progress and adaptation to modern changes in the patent system. In particular, legislative and judicial improvements made to patent law procedures and remedies don’t generally apply to the ITC. When Congress recently enacted a rule limiting the naming of multiple defendants in a patent infringement lawsuit,<sup>50</sup> for example, the reform did not extend to the ITC. While the number of defendants per case plunged in the district court immediately following passage of the law (Figure X), it stayed steady and registered an increase in the ITC.

The most pointed rift has been created by *eBay*. While the overall injunction rate in the district court has declined to 75% since *eBay*, it has remained steady at 100% in the ITC over the

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<sup>46</sup> *Spanion*, 629 F.3d at 1359..

<sup>47</sup> *Kinik Co. v. Int’l Trade Comm’n*, 362 F.3d 1359, 1362 (Fed. Cir. 2004) (holding that 102(g)(2) does not apply in the ITC).

<sup>48</sup> See, e.g. Commission Decision in [Personal Data and Mobile Communications Devices and Related Software TA-710-337](#) (“[T]o HTC’s knowledge, no smartphones ... are produced in the United States. Rather they are all manufactured overseas and imported in the United States.”) (Citing HTC Br. at 161).

<sup>49</sup> Figure 3 reports the growth in NPE cases at the ITC.

<sup>50</sup> See the America Invents Act, §299 (limiting joinder of defendants to cases relating to the same transactions, occurrences, or accused products.”)

last five years. (Figure 2) The difference in grant rates is even more dramatic for NPEs and patent assertion entities – who, if they prevail, have only a one in four chance of getting an injunction in the district court, but, based on the ITC’s track record, are virtually guaranteed one there. This is in part because not only are the injunctions the preferred remedy at the ITC, they are the only remedy.<sup>51</sup> An agency whose administrative law judges carry out investigations without juries, the ITC is not statutorily authorized to grant money damages.

The word has apparently gotten out, earning the ITC a reputation for being “a more advantageous forum for patent holders with [] a less stringent standard for obtaining injunctive relief,” in the words of one popular publication.<sup>52</sup> In particular, NPEs are flocking to the ITC (Figure 3).<sup>53</sup> According to an analysis by RPX, Corp. in the years following eBay, the percentage of ITC investigations brought by NPEs has grown from 2 in 2006 to 2X in 2011 (verify once 2011 analysis is complete), and the number of respondents has grown from 6 to over 15X.<sup>54</sup> Growth in ITC NPE cases has outpaced the growth in ITC cases in general during this period, the NPE share of all ITC cases growing from XX to YY .<sup>55</sup>

#### **Figure X: post-Ebay Injunction Rates in the ITC and District Court**<sup>56</sup>

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<sup>51</sup> Spansion 629 F.3d at 1358. (citing the legislative history for the proposition that “an injunction is the only available remedy for violations of Section 337.”)

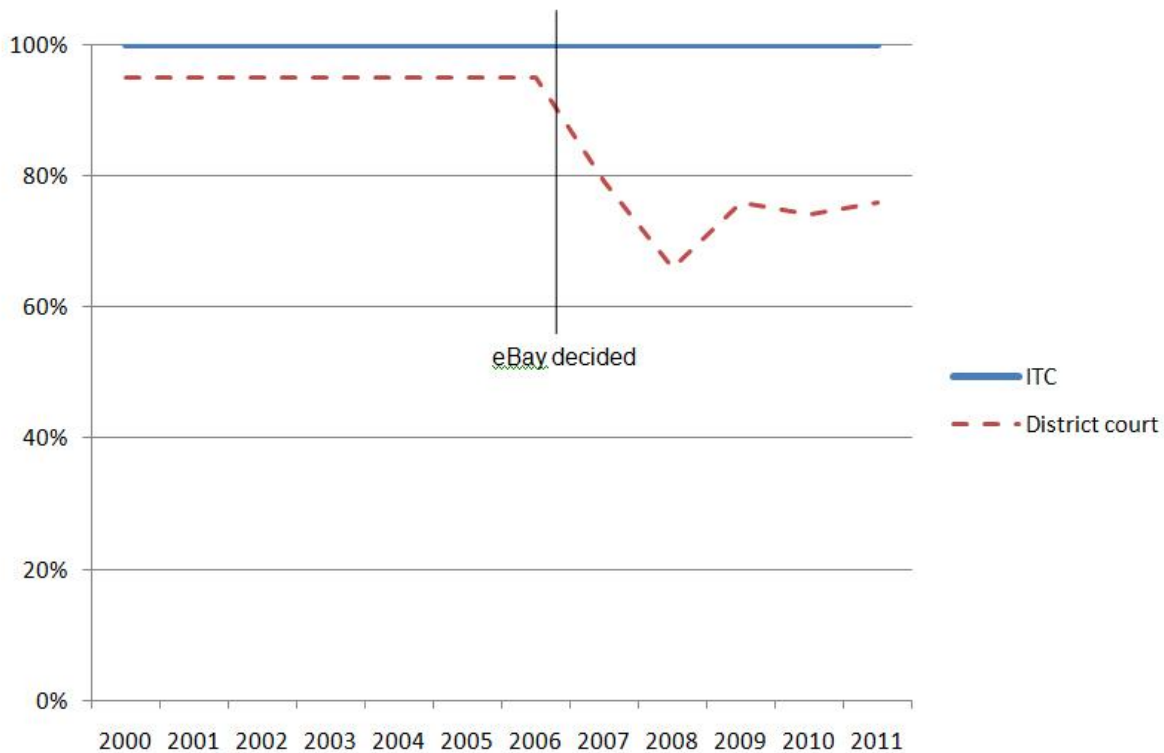
<sup>52</sup> <http://www.law360.com/articles/295637/protecting-green-patents-district-court-vs-itc>.

<sup>53</sup> Accord Robert Fram (October 2010) draft (finding an increase in the number of ITC complaints brought by companies relying on their licensing activities (337(a)3(c)) to show standing in the period from \_\_\_ to \_\_\_, Draft on file with the author.

<sup>54</sup> See appendix A (listing ITC NPE investigations since 2005).

<sup>55</sup> X/XX NPE ITC cases were initiated in the ITC in 2006 and Y/YY were initiated in 2011. The growth in ITC cases is somewhat surprising in light of the concern of some that the ITC’s *Kyocera* decision would result in a noticeable decline in ITC filings. This hasn’t happened. Chris Cotropia, *Strength of the International Trade Commission as a Patent Venue*, 20 **Tex. Intell. Prop. L. J.** 1 (2011).

<sup>56</sup> For raw data, see appendix A (listing ITC NPE investigations since 2005).



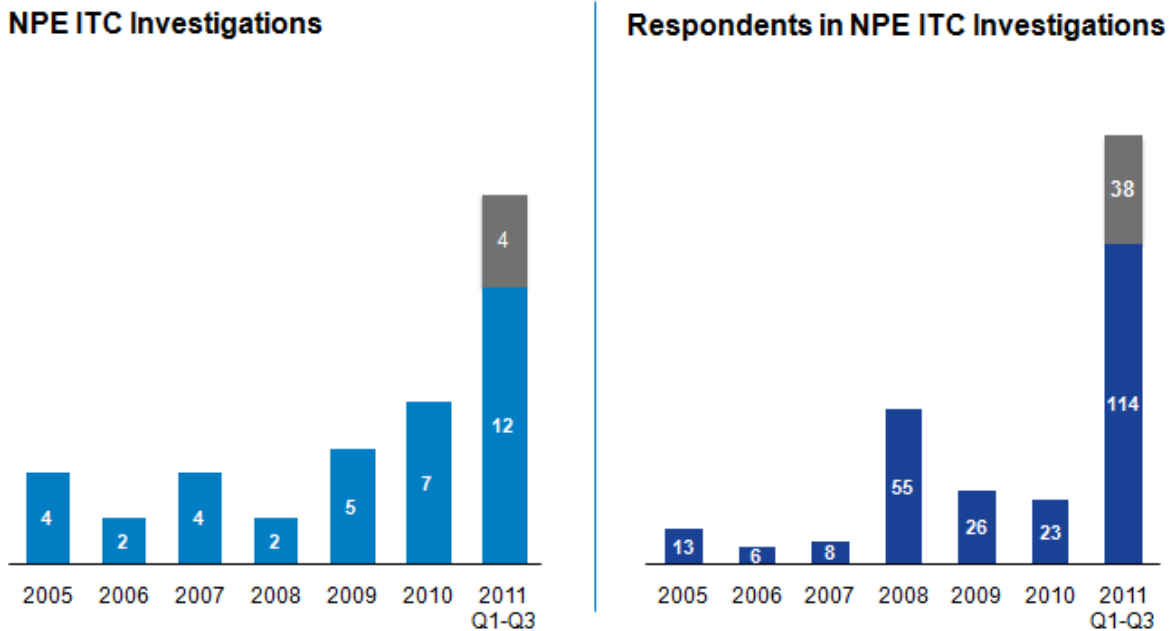
This divergence in remedies undoes the progress *eBay* represents.<sup>57</sup> Parties who win in the district court but were denied an injunction can avoid the beneficial effects of *eBay* by refiling their cases.<sup>58</sup> The denial of an injunction request by a district court is no barrier to the grant of

<sup>57</sup> It is also potentially illegal under international law. Statutory changes to the law in 1995 were meant to cure the statute of the advantages it gave to domestically-made goods – specifically a mandatory timetable, parallel proceedings against foreign manufacturers, and the inability of defendants to raise counterclaims – which a GATT panel found to be in violation of TRIPS. (See Report of the Panel, United States—Section 337 of the Tariff Act of 1930, ¶ 4.2, L/6439 (Nov. 7, 1989), GATT B.I.S.D. at 365/345 (1990), ¶ 5.20. ) Under the logic of that case, that certain domestically made goods may be immune from injunctions while international ones are not could similarly be found to violate national treatment. Accord, Brian Kahin, CCA submitted comment to the ITC's Notice of Proposed Rulemaking 75 FR 60671 (Oct. 1, 2010) on the taking of public interest evidence [add link/cite to same] (arguing that the GATT decision compels the ITC to follow *eBay*).

<sup>58</sup> Cf, e.g. *Paice LLC v. Toyota Motor Corp. (Paice II)*, 504 F.3d 1293, 1314 n.14 (Fed. Cir. 2007) and *Certain Hybrid Electric Vehicles and Components Thereof*, USITC Inv. No. 337-TA-688, Complaint (Oct. 5, 2009), EDIS Doc. No. 411596; described in Chien, *Protecting Domestic Industries*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. at nn. 95-99 (forthcoming 2011).

an exclusion order by the ITC. The result is an end-run around *eBay* that allows patent holders to block the defendant's product even without a district court injunction.

**Figure 3: NPE Investigations and Respondents in the ITC (2005-present)**



Source: RPX Corporation © 2011 (the gray bars represent projected growth, based on the 2011 run rate) [CVC NOTE TO SELF: REPLACE WITH 2011 COMPLETE DATA AND SHARES]

## II. Limiting Exclusion Orders at the ITC

The ITC statute does not compel the Commission to grant exclusion orders. It states:

If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, 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.<sup>59</sup>

The Federal Circuit parses the statute to identify four separate factors. “The enumerated public interest factors include: (1) the public health and welfare; (2) competitive conditions in the United States economy; (3) the production of like or directly competitive articles in the United States; and (4) United States consumers.”<sup>60</sup>

Taken together, these factors might seem to give a fairly wide-ranging power to the ITC to consider things like patent holdup, the relationship between the patent and the ultimate product, and whether or not the patentee practices the invention. And indeed the ITC regularly refers to public interest considerations, calling them central to its analysis.<sup>61</sup>

Nonetheless, in the vast majority of § 337 cases, the International Trade Commission (“ITC”) finds that excluding goods does not threaten the public interest. Historically, the ITC has found that the public interest trumped exclusion in only three cases: car parts necessary for improved fuel efficiency, scientific equipment for nuclear physics research, and hospital burn beds. The unifying theme in those cases is that the products were necessary for something important (human health or some other nationally-recognized policy goal) and that no other supplier could meet demand in a commercially reasonable period of time. And none of those cases was decided in the last twenty-five years. More recently, the ITC has indicated that unless something is a drug or medical device it is unlikely to meet the public interest exception.

The reason seems to be that the ITC views enforcing patents as in the public interest, with the result that the public interest analysis starts out with a thumb on the scale in favor of

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<sup>59</sup> 19 U.S.C. § 1337(d)(1),

<sup>60</sup> *Spanson, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1358 (Fed. Cir. 2010).

<sup>61</sup> *id.* cites

the patentee. The Federal Circuit has accepted this approach. In *San Huan New Materials High Tech, Inc. v. International Trade Com'n*, the Federal Circuit affirmed the ITC's imposition of a significant penalty, saying:

Finally, addressing the "public interest" factor, the Commission determined that the public interest favors the protection of intellectual property rights and weighs in favor of a "significant penalty."<sup>62</sup>

And the court has interpreted the legislative history as supporting exclusion of infringing products:

The legislative history of the amendments to Section 337 indicates that Congress intended injunctive relief to be the normal remedy for a Section 337 violation and that a showing of irreparable harm is not required to receive such injunctive relief.<sup>63</sup>

The Federal Circuit's review of ITC remedies is deferential,<sup>64</sup> meaning that most of the substantive discussions of the public interest factor come from ITC decisions, not Federal Circuit decisions.

In the three cases the ITC has in fact denied injunctive relief, its focus has been on two factors: the public interest in health and welfare and the unavailability of alternatives. When the ITC has denied an exclusion order, both factors have been present.

The ITC first denied a remedy on the basis of the public interest exception in *In re Certain Automatic Crankpin Grinders*.<sup>65</sup> The ITC based its decision on the public interest in fuel

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<sup>62</sup> 161 F.3d 1347 (Fed. Cir. 1998). *But cf. Rosemount, Inc. v. U.S. Intern. Trade Com'n*, 910 F.2d 819 (Fed. Cir. 1990) (examining section 1337(e); "We also agree with the Commission's rejection of the view that the public interest inevitably lies on the side of the patent owner because of the public interest in protecting patent rights, although that is one factor to consider and may be a dominant factor.").

<sup>63</sup> *Spansion*, 629 F.3d at 1360.

<sup>64</sup> The Federal Circuit reviews "the Commission's action in awarding injunctive relief as to whether it is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1358 (Fed. Cir. 2010).

efficiency, which automobile manufacturers claimed was put in jeopardy without access to the crankpin grinders. The ITC noted that the domestic industry could not meet the demand in a reasonable length of time and that the President and Congress had a clearly established policy of increasing fuel economy. The existence of a major oil crisis in 1979 probably contributed to the decision.<sup>66</sup>

Something similar occurred the following year in *In re Certain Inclined-Field Acceleration Tubes*.<sup>67</sup> There, the Commission was confronted with claims of public interest in “pure scientific research and the advancement of knowledge” in the context of federally-funded nuclear research. The ITC concluded that the infringing Dowlish tubes were “greatly superior” and “substantially less expensive” than their counterparts, and that they were “indispensable” to research, and that research was in turn in the public interest.<sup>68</sup> Thus, as in *Crankpin*

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<sup>65</sup> USITC Inv. No. 337-TA-60, 205 U.S.P.Q. 71, 0079 WL 419349 (Dec. 17, 1979).

<sup>66</sup> The Commission wrote:

The primary reason for our determination is that the domestic industry cannot supply the demand for new orders of the patented product within a commercially reasonable length of time.

...

In view of the fact that Congress and the President have also clearly established a policy requiring automotive companies to increase the fuel economy of the automobiles they produce and that some of these companies are encountering difficulties in obtaining automatic crankpin grinders on a timely basis, to produce the statutorily mandated energy efficient automobiles, we believe that it is not in the public interest to provide a remedy in this case. In this period of rapid changes in the energy field, there are overriding public interest considerations in not ordering a remedy which will hamper the supply of energy efficient automobiles. This is not merely a matter of meeting the demands of individual consumers for fuel efficient automobiles. The public as a whole has an interest in conserving fuel through the provision of energy efficient alternatives represented in this case by automobiles with more efficient engines which are produced with the assistance of crankpin grinders which are the subject of this investigation.

<sup>67</sup> USITC Inv. No. 337-TA-67, 0080 WL 594319 (Dec. 1980).

<sup>68</sup> The Commission wrote:

We believe that basic scientific research, such as the nuclear structure research conducted with inclined-field acceleration tubes, is precisely the kind of activity intended by Congress to be included when it required the Commission to consider the

*Grinders*, the Commission believed both that the public needed the infringing products for health and welfare reasons and that the products wouldn't be available if it granted the exclusion order.

The final case in which the Commission denied an exclusion order is *In re Certain Fluidized Supporting Apparatus and Components Thereof*.<sup>69</sup> Unlike the other two, this one involved denial of temporary relief under § 1337(e). The ITC noted that this allowed it more discretion in framing a remedy, just as district courts have more freedom to deny preliminary injunctions. The technology in *Fluidized Supporting Apparatus* was hospital burn beds. The ITC concluded that the infringing beds “provide[d] benefits unavailable from any other device or method of treatment” and that other suppliers could not meet the demand within a reasonable

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effect of a remedy on the public health and welfare. . . . Although there are few indications in the record of practical applications for unclear [sic] structure physics, it shows that the tubes at Los Alamos are used for unclear [sic] weapons development and the University of Arizona uses them as mass spectrometers for carbon 14 dating, essential to paleontological and archaeological applications. Many scientists would argue, of course, that basic research is intrinsically beneficial regardless of immediate practical application. The support of universities and public agencies is ample support for that proposition.

...

Finally, the President and the Congress have issued declarations of support for basic science research. The National Science Foundation Act, which supports with grants much of the research done with both the domestic and imported tubes, is codified in title 42, United States Code, which is entitled Public Health and Welfare.

...

The users consider the Dowlish tube to be greatly superior in performance to the High Voltage tube—not to mention substantially less expensive—and therefore indispensable to their research efforts. The tubes provide the greater stability of operation and more consistent results essential for accurate research.

...

Once the importance of basic research in nuclear structure physics is established, we are faced with a difficult balance—the impact of a remedy on users of the imported device versus the impact of the violation on the owner of the patent. After weighing these considerations, we determine that public interest factors preclude a remedy in this investigation.

<sup>69</sup> USITC Inv. No. 337-TA-182, 337-TA-188, 225 U.S.P.Q. 1211, 1984 WL 63741 (Oct. 5, 1984).

time. The Commission affirmed the ALJ's finding that "if a temporary exclusion order were issued some patients might not have access to burn beds at all in the interim period," both because of the patentee's higher prices and because of concerns about the ability of the patentee to meet manufacturing demand. Unlike the others, this case focused more on the public interest in health than on unavailability, but the Commission did find at least partial unavailability.

In contrast to these cases, the Commission has regularly rejected public interest arguments when it found either that alternative suppliers could provide comparable products or that the products were not critical to public health and welfare. For example, the Commission has recognized the public interest in supplying consumers with needed drugs. However, it has held that if the patentee can supply all domestic demand, there is not a public interest problem even if the patentee would satisfy the demand only at a higher price.<sup>70</sup> So significant public health interests aren't enough unless coupled with unavailability.

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<sup>70</sup> "There is, of course, an additional public interest in maintaining an adequate supply of pharmaceuticals for U.S. consumers. This interest also does not bar relief. Bristol has sufficient capacity and resources to satisfy all domestic demand for cefadroxil, as it had until respondents entered the market in March 1989. Moreover, the availability of other cephalosporins will not be affected by the issuance of relief. The record indicates that Bristol perceives a number of these cephalosporins to be competitive with cefadroxil; that at least one of the competitive cephalosporins, cephalexin, is available in generic form; and that, even if generic cefadroxil were unavailable, [ \*\*\* ] [omission in original]. The record consequently refutes respondents' contention that granting relief will somehow deprive the ill and indigent of necessary medication. "The only remaining argument respondents make is that granting relief will raise prices to consumers. The Commission has previously held that this alone is not sufficient grounds for denying relief."

On the other end of the spectrum, the Commission has also held that the unavailability of equivalent products is insufficient grounds to refuse an exclusion order when there is no reason to think there is an important health or welfare interest in the products. In *Certain Hardware Logic Emulation Systems*, the respondent argued that while the patentee provided hardware logic emulators, they were not of the same quality as the respondent's emulators. The Commission rejected that argument, not by disagreeing with the factual claim, but by concluding that emulators weren't critical to the public interest:

hardware logic emulators are not the type of product that has in the past raised public interest concerns (such as, for example, drugs or medical devices) and we are not aware of any other public interest concern that would militate against entry of the remedial orders we have determined to issue.<sup>71</sup>

So it seems to be the confluence of both the unavailability of alternatives and the important nature of the products that leads the Commission to deny an exclusion order.<sup>72</sup>

The result might not seem particularly encouraging for the use of the public interest exceptions to combat patent holdup. Patent holdup tends to occur in complex, multi-component products, particularly in the information technology industries. Holdup is a greater risk in those industries not only because there are more patents asserted in those industries,

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<sup>71</sup> IN THE MATTER OF CERTAIN HARDWARE LOGIC EMULATION SYSTEMS AND COMPONENTS THEREOF, COMMISSION OPINION ON REMEDY, THE PUBLIC INTEREST, AND BONDING, USITC Inv. No. 337-TA-383, 1996 WL 1056217 (October 15, 1996).

<sup>72</sup> See also IN THE MATTER OF CERTAIN TOOTHBRUSHES AND THE PACKAGING THEREOF, COMMISSION OPINION ON REMEDY, THE PUBLIC INTEREST, AND BONDING, USITC Inv. No. 337-TA-391, 1997 WL 803475 (October 15, 1997) ("the public interest favors the protection of U.S. intellectual property rights, the U.S. market for toothbrushes of the type at issue could be supplied by complainant or by noninfringing alternatives, and toothbrushes are not the type of product that have in the past raised public interest concerns (such as, for example, drugs or medical devices)."); CERTAIN PROCESSES FOR THE MANUFACTURE OF SKINLESS SAUSAGE CASINGS AND RESULTING PRODUCT, INVESTIGATION NO. 337-TA-148/169; REVIEW OF INITIAL DETERMINATION, REMEDY, BONDING, AND THE PUBLIC INTEREST, USITC GC-84-187, 1984 WL 273326 (November 9, 1984) ("Sausage casings are not an essential item for the preservation of the public health and welfare.")

but also because those patents tend to cover small parts of a much larger product.<sup>73</sup> A patent that covers the active ingredient in the drug gives the patentee the right to prevent the sale of that drug; that isn't holdup, but the normal right of the patentee to exclude infringing products. By contrast, a patent on a particular circuit layout may constitute only a tiny fraction of the value of the microprocessor that uses the layout, but an exclusion order will exclude the microprocessor as a whole, preventing the defendant from importing both the (small) infringing element and the (much larger) non-infringing elements. The social harm in the latter case is disproportionate to the social benefit; patentees shut down the sale of many productive, non-infringing components in order to obtain control over only a single small component. The ITC cases applying the public interest exception, however, have generally not found much of a public health and welfare interest in IT products, where the holdup problem is most acute.

Nonetheless, we think there are reasons to think the application of the public interest factors going forward may be broader than they have been in the past. To begin, it is worth noting that the ITC has traditionally focused most of its attention on only a subset of the statutory factors. Commission cases pay close attention to the effect of such exclusion upon the public health and welfare and the production of like or directly competitive articles in the United States. But they have paid very little attention to competitive conditions in the United States economy and to the effect on United States consumers.<sup>74</sup>

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<sup>73</sup> See, e.g., Mark A. Lemley, *Ten Things to Do About Patent Holdup of Standards (and One Not To)*, 48 **B.C. L. Rev.** 149 (2007).

<sup>74</sup> Congress indicated that competitive conditions were intended to be an important part of the public interest analysis. From the legislative history:

“ The Committee believes that the public health and welfare and the assurance of **competitive conditions** in the United States economy must be the **overriding** considerations in the administration of this statute. Therefore, under the

In the wake of *eBay* and various changes to the ITC statute and case law, the mix of cases before the Commission has changed. As we saw in Part I, non-practicing entities are flocking to the ITC, both because of the relaxed domestic industry requirement and because courts are no longer a sure bet for injunctions. The cases they are bringing disproportionately involve complex, multi-component technologies: Eighty-six percent of ITC cases filed between 2005 and 2011 were in high-tech sectors.<sup>75</sup>

As a result, the balance of public interest factors is different today than it traditionally has been. First, one of the factors that the Commission has always considered important – will another company fill the gap created by exclusion – is less likely to be satisfied when the complainant is a non-practicing entity. That is especially true when the patentee complains against a host of companies at once, as is often the case in NPE actions (see Appendix, Part I,

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Committee bill, the Commission must examine (in consultation with the other Federal agencies) the effect of issuing an exclusion order or a cease and desist order on the public health and welfare before such order is issued. Should the Commission find that issuing an exclusion order would have a greater adverse impact on the public health and welfare; on competitive conditions in the United States economy; on production of like or directly competitive articles in the United States; or on the United States consumer, **than would be gained by protecting the patent holder (within the context of the U.S. patent laws)** then the Committee feels that such exclusion order should not be issued. This would be particularly true in cases where there is any evidence of price gouging or monopolistic practices in the domestic industry.

S. Rep. No. 93-1298, 93rd Cong., 2d Sess. 197 (1974).

<sup>75</sup> Michael Kallus and James Conlon, “International Trade Commission: The Second Theater,” RPX 10/24/11 Presentation, slide (on file with author) (showing that 86% of ITC NPE cases involved mobile communications, semiconductors, consumer electronics, networking, e-commerce, technologies), in contrast to ITC cases in general, 63% of which involved these sectors.

Figure X). If the patentee claims that the entire industry infringes, there is no one exempt from the exclusion order available to fill market demand.<sup>76</sup>

Second, both competitive conditions and consumers are affected to a greater degree by the grant of exclusion orders in complex multi-component cases. The effect is not just on the supply of the infringing feature, but also on the price and supply of non-infringing features and functionalities, customers and third parties that rely on these non-infringing features, and – through the mechanism of holdup – on the research and development activities of respondents and companies who make the noninfringing components.<sup>77</sup> Patent holdup was not a feature of most ITC actions until recently, both because they weren't filed by NPEs against an entire industry and because they weren't usually filed against complex, multi-component products. The changed circumstances permit the ITC to take a different approach.

There is some reason to think the ITC may be open to rethinking its public interest case law. In 2011, the ITC incorporated public interest considerations into its decision not to deny, but to delay the start of an exclusion order in a case involving smartphones.<sup>78</sup> And the ITC has recently changed its rules to allow an administrative law judge, under Commission order, to

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<sup>76</sup> The issue is more complex when the patentee sues an entire industry but settles with some parties before trial. In that case, the settlement means that there are in fact some parties who can sell licensed products if an exclusion order issues. But it would seem odd to say that whether a patentee can exclude defendants should depend on whether other defendants choose to go to trial. District courts after *eBay* have been unwilling to view nonexclusive licenses granted in settlement of patent disputes as evidence of irreparable injury justifying injunctive relief, *see* *z4*, 434 F. Supp. 2d at 437; the same logic might apply here.

<sup>77</sup> See, e.g. Cease and Desist order in *Broadband Base Processors*, 337-TA-543 (restricting Qualcomm's research, development, and testing of broadband base processors) discussed in Commission Decision at 154

<sup>78</sup> Order in 337-TA-710, *Personal Data and Mobile Communications Devices and Related Software* (December 12, 2011); *see also* Colleen V. Chien and Mark A. Lemley, *Patents, Smartphones, and the Public Interest*, *New York Times (Op-Ed)* December 5, 2011 (recommending this very tailoring remedy).

take evidence on the public interest at the outset of a case, rather than waiting until the end.<sup>79</sup> This information could be used to identify likely remedies earlier in the proceedings, leading to the more efficient resolution of cases.

We applaud this new-found flexibility. In the next Part, we offer specific suggestions for how the Commission could update the public interest considerations for the new, post-*eBay* world.

### III. Tailoring, Bonding, and Pausing in the Public Interest

Remedies in the ITC might seem to be an all-or-nothing affair. The ITC can't award damages; it can only exclude products. As a result, even judges and Commissioners who believe an exclusion order is not in the public interest might hesitate to apply the public interest standard to deny relief, for fear that the result will be that the patentee wins its case but gets no remedy at all. That fear has always been somewhat overstated; patentees can file suit in district court in parallel with the ITC (and do, two-thirds of the time),<sup>80</sup> and they may be entitled to an award of damages in court even if neither the ITC nor the court enjoins the sale of the defendant's product.<sup>81</sup> But that may be cold comfort to patentees who will have wasted

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<sup>79</sup> 19 CFR Part 210, Rules of Adjudication and Enforcement, [http://www.usitc.gov/secretary/fed\\_reg\\_notices/rules/finalrules210.pdf](http://www.usitc.gov/secretary/fed_reg_notices/rules/finalrules210.pdf)

<sup>80</sup> Chien, Patently Protectionist, *supra* note \_\_\_, at \_\_\_.

<sup>81</sup> In the case of co-pending ITC and district court cases, the district court case shall be stayed upon a timely request. See 28 U.S.C. § 1659(a) (“district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission.”) While the ITC’s findings are not accorded res judicata by the courts, *Texas Instruments, Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558 (Fed. Cir. 1996), in practice, [district courts are expected to reach a similar result on the same claims and explain and distinguish the ITC decision if they don’t.](#)

the time and effort of going to the ITC only to have the Commission give it no remedy. And the Commission may understandably be reluctant to condemn itself to seeming irrelevance.

In fact, however, we think the Commission has more flexibility in remedies than previously recognized. The Commission has exercised this flexibility on a number of occasions throughout history to restrict the relief given to patentees. In the 1981, for instance, the Commission created the limited exclusion order to supplement the remedy of a general order, as “a limitation on the relief afforded a prevailing complainant.” It did while determining the proper scope of an injunction even though, “Congress has never specifically authorized the Commission to issue the final remedy in a section 337 investigation.”<sup>82</sup> In the *EPROMS* case, the Commission devised a special, 9-factor test to apply when so-called “downstream products”, products that incorporated the infringing component, were implicated by an exclusion order.

In both of these cases, the ITC introduced limitations on the remedy it should provide out of a concern regarding interference with “legitimate trade.”<sup>83</sup> More recently, the Federal Circuit ruled in *Kyocera* that unnamed parties manufacturing downstream devices could not be bound by an exclusion order unless the prerequisites for a general exclusion order were met.<sup>84</sup> Today’s component cases raise the same concerns about the undue interference that an exclusion order can cause.

When “the value of infringing [element] is low compared to the value of the downstream products in which they are incorporated,” the first of the *EPROMS* factors, the

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<sup>82</sup> 337-TA-276, *EPROMS*, pp. 125-128. An administrative agency’s latitude to craft appropriate remedies, while not unlimited, is broad. *Jacob Siegel Co. v. Federal Trade Comm’n*, 327 U.S. 608,613 (1946) (“the courts will not interfere except where the remedy selected has no reasonable relation to the unlawful practices found to exist”).

<sup>83</sup> 337-TA-276 (1989).

<sup>84</sup> *Kyocera Wireless Corp. v. International Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008).

exclusion order necessarily impacts non-infringing features and functionality of the product.

Although the *EPROMs* standard has been used in a handful of cases, namely when infringing chips are incorporated into downstream products,<sup>85</sup> we believe that all component cases where the value of infringing element is low compared to the value of the excluded article raise the same concerns.

In this section, we suggest some ways in which the remedial flexibility *EPROMs* offers can be used. Some of that flexibility results from the structure of the ITC process. Once the Commission finds a violation, it is entitled to enter an exclusion order keeping infringing products out of the market. In some circumstances, the Commission holds a separate hearing after a liability finding to determine whether exclusion is appropriate. Assuming it is (and as noted above, the Commission essentially always finds that it is), the order is then subject to a 60-day Presidential review period.<sup>86</sup> But the exclusion order goes into effect immediately – *before* the Presidential review period – unless the respondent posts a bond adequate to compensate for sales made during the review period.<sup>87</sup> And once the Commission’s order is final, the respondent can appeal to the Federal Circuit.

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<sup>85</sup> Cite.

<sup>86</sup> 19 U.S.C. § 1337(j)(2) (“If, before the close of the 60-day period beginning on the day after the day on which he receives a copy of such determination, the President, for policy reasons, disapproves such determination and notifies the Commission of his disapproval, then, effective on the date of such notice, such determination and the action taken under subsection (d), (e), (f), (g), or (i) of this section with respect thereto shall have no force or effect.”).

<sup>87</sup> 19 U.S.C. § 1337(e)(1) (“The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond prescribed by the Secretary in an amount determined by the Commission to be sufficient to protect the complainant from any injury. If the Commission later determines that the respondent has violated the provisions of this section, the bond may be forfeited to the complainant.”); *id.* § 1337(j)(3) (“articles directed to be excluded from entry under subsection (d) of this section or subject to a cease and desist order under subsection (f) of this section shall, until such determination becomes final, be

This process creates two remedies less harsh than simply excluding the products but more powerful than simply denying an injunction.

First, the ITC has significant discretion in deciding *when* it will implement its exclusion order. The Commission normally imposes an exclusion order immediately, though as noted above, the respondent can effectively stay that injunction for 60 days by posting a bond. The respondent may also be able to obtain a stay of the exclusion order pending appeal to the Federal Circuit. But even if neither occurs, the Commission has the power to delay the implementation of the exclusion order for a period of time. It could do so to give the respondent time to design around the patent or substitute non-infringing products for goods in the pipeline, or to ensure that consumers don't go without products until the patentee can ramp up production. The ITC did this in December 2011, when it gave HTC a four-month delay in the implementation of an exclusion order against its infringing smartphones.<sup>88</sup>

Delaying injunctive relief has the potential to significantly ameliorate the holdup problem. As Mark Lemley and Carl Shapiro have shown, holdup is a result of two factors: the fact that an injunction will prevent the sale of noninfringing as well as infringing components in a complex multi-component product and the fact that roughly ¼ of litigated patents are either invalid or not infringed.<sup>89</sup> The fact that the injunction will shut down non-infringing matter

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entitled to entry under bond prescribed by the Secretary in an amount determined by the Commission to be sufficient to protect the complainant from any injury. If the determination becomes final, the bond may be forfeited to the complainant. The Commission shall prescribe the terms and conditions under which bonds may be forfeited under this paragraph.”).

<sup>88</sup> cite

<sup>89</sup> Lemley & Shapiro, *supra* note \_\_. A number of scholars have tried to attack this holdup analysis. See Einer Elhauge, *Do Patent Holdup and Royalty Stacking Lead To Systematically Excessive Royalties?*, 4 **J. Competition L. & Econ.** 535 (2008); John M. Golden, *“Patent Trolls” and Patent Remedies*, 85 **Tex. L. Rev.** 2111 (2007); J. Gregory Sidak, *Holdup, Royalty Stacking, and the Presumption of Injunctive Relief for Patent Infringement*, 92 **Minn. L. Rev.** 714 (2008). But those attacks miss the mark; rather than

means that it costs the respondent more than the patent itself is worth.<sup>90</sup> Rather than pay that extra cost in settlement, the respondent will sometimes design around the patent to avoid the effect of an injunction. But because most patent suits lose, most advance design-arounds are wasted effort. The patentee can capture in settlement the cost of design-around, even if the patent is likely to be invalid or not infringed.<sup>91</sup>

Delaying onset of the injunction or exclusion order changes that dynamic. As Lemley and Shapiro show, respondents who can count on a delay to allow them to design around the patent don't need to invest in unnecessary design-arounds to avoid the risk of injunction holdup. As a result, they don't need to pay the owners of weak patents a premium to avoid spending the money on design-arounds. They can design around the patent only if it becomes necessary to do so.

A limited delay to allow design-around has another benefit as well – it can help distinguish between patents that really are critical and those that aren't. Giving a respondent, say, six months to design around the patent provides a sort of acid test of the claim that the patent is in fact necessary to practice the invention. If the respondent can design around the patent in six months, the invention it embodies arguably wasn't that valuable, and it probably isn't worth holding up the entire product for a patent that was essentially optional. By contrast, if the respondent can't design around the patent and still sell a product economically, the

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demonstrate that holdup doesn't exist, these scholars have uniformly argued that patentees *deserve* the holdup value of their patents. See Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking: Reply*, 85 **Tex. L. Rev.** 2163 (2007); Thomas M. Cotter, *Patent Holdup, Patent Remedies, and Antitrust Responses*, 34 **J. Corp. L.** 1151 (2009).

<sup>90</sup> Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 **Tex. L. Rev.** 783 (2007)

<sup>91</sup> Lemley & Shapiro, *supra* note \_\_\_\_.

patent really is valuable, and arguably we should worry less about the risk of holdup caused by the exclusion order.

Patentees might object that delaying the injunction is unfair to them, because if the respondent can design around the patent, the patentee ends up getting nothing. That's not entirely true; if the design-around costs more than the original product, the parties should be able to settle for the difference in value – which is really the value of the patent in the first place. And if the design-around is easy and just as cheap, the actual value of the patented technology is zero; any payment to the patentee in that case is a windfall.

Nonetheless, there may be a way for patentees to be compensated for the value of their technology during the period of stay. That relates to the second area of remedial flexibility at the ITC – the bond. Requiring respondents to post a bond to delay implementation of the exclusion order pending the Presidential review period is effectively a payment of an ongoing royalty. The President essentially never reverses an ITC decision,<sup>92</sup> which means that respondents always forfeit the bond. They are paying an ongoing royalty for the privilege of continuing to sell their products for another 60 days. And if the bond is set correctly, it will mimic the amount of an ongoing royalty in district court: the value of the patent based on the number of goods sold.<sup>93</sup> There is no reason the ITC couldn't impose a delay longer than 60 days in exchange for payment of a comparably higher bond.<sup>94</sup> It could stay the order pending appeal, for instance, subject to a bond.

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<sup>92</sup> cite

<sup>93</sup> On the calculation of ongoing royalties in district court, see Mark A. Lemley, *The Ongoing Confusion Over Ongoing Royalties*, 76 *Mo. L. Rev.* 695 (2011).

<sup>94</sup> In the *HTC* case, the ITC did not order a bond during the four-month period of delay. cite

Combining a delay in the implementation of an exclusion order with a bond compensating the patentee for the value of the invention during the period of delay allows the ITC to approximate the power a district court has to deny or stay injunctive relief while ordering payment of an ongoing royalty.<sup>95</sup> It will often be the best possible remedy, and certainly it is preferable to the other apparent options – patent holdup by an immediate exclusion order or no remedy at all.

District courts have been willing to delay injunctions for reasons related to the public interest.<sup>96</sup> There is some reason to think the ITC might similarly be willing to use its power to

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<sup>95</sup> The analogy isn't perfect; a bond is presumably set against the possibility of some contingent future event, however unlikely. The power to order payment of a bond might not extend to the power to order the payment of money directly to the complainant with no hope of recovery. But conditioning a bond on something like an appeal will generally achieve the same result.

<sup>96</sup> See, e.g., *Broadcom v. Qualcomm*, district court cite:

The Court finds that an immediate permanent injunction would adversely affect the public because it would remove a beneficial, cutting-edge service from the reach of millions of consumers. This factor weighs against the grant of such relief.

...

[T]he public interest would not be served by the grant of an immediate permanent injunction under the '010 Patent. Nevertheless, Broadcom is entitled to relief.

In fashioning relief, the Court takes note that there is existing PTT technology in the market place, and that if required to do so Qualcomm could simply disable the infringing features of its chips which support QChat. The Court also notes that the design cycle is about 18 months. The evidence at the hearing on injunctive relief indicated that while Qualcomm had not previously explored "design arounds" to avoid infringement, it began that task promptly after the jury returned its verdict on May 29, 2007. From this, the Court concludes that consumers would never be entirely deprived of PTT technology, and that there is a reasonably definable window within which Qualcomm can cure the infringing aspects of its QChat products. The logic of an 18-month window is also confirmed by Qualcomm proposed sunset period for its infringing '686 chip offered for WCDMA applications. (Qualcomm [Proposed] Order, ¶¶ 1(c)(iv).)

Accordingly, the Court orders that Qualcomm may continue to trade in the infringing devices through January 31, 2009. This amounts to a 20-month sunset provision from the date of the May 2007 jury verdict. Given the delays in resolving the injunctive relief issues and the fact that Qualcomm has already embarked on "design around" efforts, the Court finds that a January 2009 sunset date is reasonable.

delay injunctions. In *Certain Baseband Processor Chips*, the Commission issued a Limited Exclusion Order but delayed implementation of that order to allow interveners to sell their stock of existing cell phones incorporating the infringing technology.<sup>97</sup> While the Federal Circuit ultimately reversed the remedy, it did so on the ground that the scope of the remedy required a General Exclusion Order rather than a limited one. The Federal Circuit did not disapprove of the delayed implementation of the order.

We think the ITC should exercise its remedial flexibility when the risk of holdup is substantial. That is likely when the defendant sells a multi-component product and the novel feature of the patent covers only a small part of that product.<sup>98</sup> A number of the *EPROMs* factors suggest a greater impact on consumers and competition in complex, multi-component industries:

- Switching costs are high once interoperable products are designed to work together (e.g. standards).<sup>99</sup> In this case, grandfathering in of existing models can ameliorate the harms.

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<sup>97</sup> *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.) (creating, in an exclusion order, a carve-out for existing imports to ease the transition), *rev'd in part, Kyocera Corp. v. ITC*, cite.

<sup>98</sup> Patent claims will often be written to cover an entire product even though the patentee's contribution is limited to a single small feature. The inventor of the intermittent windshield wiper, for instance, might claim a car with an intermittent windshield wiper. The Commission should focus on what the patentee actually contributed to the art, not the form in which the patentee chooses to write the claim. See Mark A. Lemley, *Point of Novelty*, 105 **Nw. U. L. Rev.** \_\_\_ (forthcoming 2012).

<sup>99</sup> *Certain Baseband Processors* (p. 149: "As to competitive conditions in the U.S. economy, exclusion would likely result in some adverse impact on the development of advanced telecommunications technology and on expansion of broadband internet access. These technologies are important in their own right, but they also have significant effects on other economic activity in the United States. Downstream relief would make it more difficult for telecommunications companies to expand 3G

- The short-term impact on consumers is high (either because there are lots of them, or because switching, costly or not, imposes significant harm on customers who cannot get support or service for products already sold. In this case, either a stay or an exception allowing service might help solve these problems.<sup>100</sup>
- Collateral damage to third parties who make noninfringing products is high because they have already made irreversible investments. Grandfathering can help in some of these cases, but not all.<sup>101</sup>

Finally, it may be appropriate to consider two other factors: whether the patentee is an NPE and whether the defendant is a willful infringer. The patentee's status as an NPE is relevant both to the need the patentee has for an injunction and to the likelihood that consumers will have access to alternative products. The defendant's intent is less directly relevant to the competitive consequences in the instant case, but may affect the behavior of technology companies in subsequent cases. We don't want the absence of injunctive relief to encourage companies to take their chances infringing.<sup>102</sup> That isn't much of a problem in the IT industries today; the evidence suggests that virtually all patent cases are filed against innocent infringers,

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cellular telephone services and broadband internet access, and make it more difficult for consumers, including businesses, to access these services").

<sup>100</sup> (337-TA-710 at page 72).

<sup>101</sup> *Certain Baseband Processors*, p. 153 ("The potential harm to economic actors, in this case including handset manufacturers and telecommunications service providers, is properly part of our *EPROMs* analysis, and we have indeed fully weighed potential harm to third parties and to legitimate trade in that prior analysis.... In fact, under our *EPROMs* analysis, we found that full downstream relief was *not* permitted in this investigation due to, among other things, the magnitude of the impact on third parties... ." (ultimately concluding "a downstream remedy with a grandfathering exception does not raise public interest concerns [because] "the relief we propose has a much more limited impact on availability of 3G capable handsets, and thus a lesser impact on the public interest.")).

<sup>102</sup> Lemley & Shapiro, *supra* note \_\_, at \_\_.

not copiers.<sup>103</sup> But proof of deliberate infringement should incline the Commission to look askance at claims that the defendant needs an opportunity to design around a patent; the intentional infringer presumably has had that opportunity already.

#### **IV. Conclusion**

The *eBay* case has had the unintended consequence of driving patentees to the ITC in hopes of obtaining an injunction no longer available in district court. *eBay*'s four-factor test doesn't apply at the ITC. But the Commission has more power to adjust the remedy it grants than commentators have previously recognized. We think it should use that flexibility to limit exclusion orders in circumstances where the patentee can hold up defendants. Delays in implementing the exclusion order and grandfathering in existing products can avoid holdup problems. Bond provisions can ensure that patentees are compensated for ongoing infringement during these transition periods. The resulting system won't look exactly like *eBay*, but it will accomplish many of the same ends.

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<sup>103</sup> Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 **N.C. L. Rev.** 1421 (2009).

Appendix A: ITC Investigations Brought by NPE Complainants, 2005-present (update with 2011 completed data) Source: RPX Corporation © 2011, 2012; ITC website

<b>Date Instituted</b>	<b>Title</b>	<b>Complainants</b>	<b>NPE</b>	<b># of Respondants</b>	<b># of Patents</b>
1/6/2005	Digital Processors	BIAX Corporation	Y	3	1
3/29/2005	Color TV Receivers	Thomson Licensing S.A.	Y	2	1
4/15/2005	Weather Stations	Richmond IP Holdings	Y	5	1
8/5/2005	Male Prophylactic Devices	Portfolio Technologies	Y	3	1
1/17/2006	Digital Processors	BIAX Corporation	Y	2	1
11/3/2006	Stringed Instruments	Geoffrey McCabe	Y	3	1
2/21/2007	Digital Cameras	St. Clair Intellectual Property Consultants	Y	1	5
4/27/2007	3G WCDMA	InterDigital Communications Corporation	Y	1	1
9/11/2007	3G Mobile Handsets	InterDigital Communications LLC	Y	1	1
10/15/2007	Hard Disk Drives	Steven F. Reiber	Y	5	1
3/25/2008	LEDs, Laser Diodes	Gertrude Neumark Rothschild	Y	40	1
12/10/2008	Semiconductor Chips	Rambus Inc.		14	6
1/23/2009	Wireless Comm Devices	Saxon Innovations	Y	7	1
3/31/2009	Handheld Wireless Devices	Saxon Innovations	Y	7	1
4/4/2009	Wireless Comm. Devices	SPH America	Y	6	1

4/6/2009	LED Chips	Gertrude Neumark Rothschild	Y	6	1
10/9/2009	Hybrid Electric Vehicles	Paice LLC	Y	3	1
1/5/2010	Authentication Systems Including Software and Handheld	Prism Technologies LLC	Y	1	1
4/2/2010	Stringed Instruments	Geoffrey Lee McCabe	Y	4	4
7/27/2010	Semiconductor Products	STC.UNM	Y	1	1
11/5/2010	Video Game Systems/Controllers	Motiva	Y	1	1
11/24/2010	Data Storage Products	Data Network Storage	Y	7	1
11/30/2010	LCD Displays	Thomson Licensing SAS; Thomson Licensing LLC	Y	3	3
1/4/2011	Semiconductor Chips	Rambus Inc.	Y	28	6
5/19/2011	Motion-Sensitive Sound Effects Devices and Image Display Devices Devices and Components and Products Containing Same	Ogma, LLC	Y	15	1
6/8/2011	Wireless Communication Devices and Systems	Linex Technologies, Inc.	Y	5	2
6/21/2011	Equipment for Communications Networks	MOSAID Technologies Inc.	Y	2	6
7/7/2011	Microprocessors	X2Y Attenuators, LLC	Y	3	5
7/18/2011	Motion-Sensitive Sound Effects Devices	Ogma, LLC	Y	12	2
8/1/2011	Certain Video Analytics Software ...	ObjectVideo, Inc.	Y	3	6
8/29/2011	Computer Forensic Devices	MyKey Technology	Y	9	3
8/31/2011	Wireless Devices with 3G Capabilities	InterDigital	Y	4	7

9/2/2011	Digital Photo Frames and Image Display Devices	Technology Properties Limited LLC	Y	18	4
9/7/2011	DRAM and NAND Flash Memory Devices	Intellectual Ventures	Y	14	5
9/14/2011	Devices for Improving Uniformity used in a Backlight Module	Industrial Technology Research Institute	Y	1	1
10/18/2010	LCD Display Devices	Thomson Licensing SAS	Y	6	4