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PATENT HOLDUP, THE ITC, AND THE PUBLIC INTEREST

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PATENT HOLDUP, THE ITC, AND THE PUBLIC INTEREST*

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Patent-assertion entities, or “patent trolls,” use the threat of injunction to hold up product-producing companies in patent suits. The Supreme Court’s 2006 decision in eBay Inc. v. MercExchange, L.L.C. largely ended that practice, at least in federal courts. But it has had the unintended consequence of driving patent assertion entities to a different forum, the International Trade Commission (ITC), in hopes of obtaining injunctive relief no longer available in district courts. In this Article, we document that dramatic trend.

Because the ITC is an administrative agency, not a federal court, eBay’s discretionary test for injunctive relief doesn’t apply. And because the ITC can’t award monetary damages, it has tended to grant injunctions as a matter of course. But as we suggest in this Article, the Commission has more power to adjust the remedies it grants than previously recognized. The ITC should use this flexibility to craft exclusion orders that limit the ability of a patentee to extract settlements that exceed the economic value of the patent, a practice called “holdup.” For instance, delaying the implementation of exclusion orders and grandfathering in existing products could avoid holdup problems. The Commission could also use bond and penalty provisions to ensure that patentees receive compensation for ongoing infringement during these transition periods. If it uses its discretion wisely, the ITC can ensure that patentees are adequately rewarded without falling victim to the patent holdup problem that has beset district courts.

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^{††} William H. Neukom Professor, Stanford Law School; partner, Durie Tangri LLP. An earlier version of this Article provided the basis for our editorial, Colleen V. Chien & Mark A. Lemley, Op-Ed., *Patents and the Public Interest*, N.Y. TIMES (Dec. 13, 2011), <http://www.nytimes.com/2011/12/13/opinion/patents-smartphones-and-the-public-interest.html>. We thank Jonas Anderson, John Golden, Rose Hagan, Sapna Kumar, Stefani Schanberg, and participants at the 2012 UC Hastings IP Law Workshop and the Stanford-Samsung Conference on Patent Enforcement for helpful discussions; RPX Corporation and Lex Machina for sharing litigation data; and Gerald Wong, Lee-Ann Smith Freeman, Wesley Helmholtz, Nichole Shanahan, and Wade Malone for research assistance.

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INTRODUCTION

In the wake of the Supreme Court's 2006 *eBay Inc. v. MercExchange, L.L.C.* decision,¹ district courts rarely grant injunctions in patent infringement cases to patent-assertion entities (PAEs, also known as "patent trolls"). PAEs assert patents as a business model, traditionally using the threat of an injunction to reach a favorable settlement with the defendant.² That threat often results in patent holdup. As Justice Anthony Kennedy articulated in his *eBay* concurrence, a holdup problem results when "an injunction . . . can be employed as a bargaining tool to charge exorbitant fees."³ By requiring federal courts to consider the equities of a particular case before granting an injunction, *eBay* solved much of the patent system's holdup problem.

But the Court's ruling didn't eliminate injunction-based holdup because another jurisdiction routinely grants injunctions in patent cases: the International Trade Commission (ITC). In the past five years, both PAEs and product-producing companies have flocked to this once-obscure trade agency in search of injunctions or the credible threat of injunctions.⁴ As the Commission itself explained: "[S]ince

¹ 547 U.S. 388 (2006).

² Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 328 (2010) [hereinafter Chien, *Arms Race to Marketplace*] ("[PAEs are] entities . . . focused on the enforcement, rather than the active development or commercialization of their patents."); see also FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 8 n.5 (2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf> ("[T]he term 'patent assertion entity' . . . refer[s] to firms whose business model primarily focuses on purchasing and asserting patents."). We use the term PAE at various points, rather than the more popular (and more all-encompassing) "nonpracticing entity" (NPE) because, as our data show, various types of NPEs do obtain injunctions after *eBay* while PAEs rarely do.

³ *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

⁴ See Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 529, 532 (2009); Editorial, *The Android Patent War*, WALL ST. J., Dec. 5, 2011, at A16, available at <http://online.wsj.com/article/SB10001424052970204826704577074523539966352.html> (subscription required); see also *The Evolving IP Marketplace: Hearing Before*

the U.S. Supreme Court's 2006 *eBay* decision, which has made it more difficult for patent-holders that do not themselves practice a patent to obtain injunctions in district courts, exclusion orders have increasingly been sought by non-practicing entities that hold U.S. patents."⁵ The result is that the ITC is busier with patent cases than it has ever been before.⁶

The double standard in patent law about when an injunction is available has drawn the scrutiny and, in some cases, the fury of the mainstream media,⁷ commentators,⁸ practitioners,⁹ Congress,¹⁰ and

the Fed. Trade Comm'n, 127 (2009), available at <http://ftc.gov/bc/workshops/ipmarketplace/apr17/transcript.pdf> (statement of Laura G. Quatela, Chief Intellectual Property Officer and Vice President, Eastman Kodak Co.) ("[*eBay* has] driven a lot of litigation towards the ITC, and that trend is clear.").

⁵ U.S. INT'L TRADE COMM'N, BUDGET JUSTIFICATION: FISCAL YEAR 2012, at 21 (2011), available at http://www.usitc.gov/press_room/documents/budget_2012.pdf.

⁶ See, e.g., Jenna Greene, *Record Number of ITC Cases Filed in First Half of 2011*, THE BLT: THE BLOG OF LEGAL TIMES (June 30, 2011, 3:52 PM), <http://legaltimes.typepad.com/blt/2011/06/record-number-of-itc-cases-filed-in-first-half-of-2011.html>. The ITC instituted fifty-six intellectual property investigations in the first nine months of 2011, as many as it did in all of 2010, and a record sixty-nine investigations throughout fiscal year 2011. *Section 337 Statistical Information*, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/press_room/337_stats.htm (last visited Sept. 28, 2012).

⁷ See, e.g., Colleen V. Chien & Mark A. Lemley, Op-Ed., *Patents and the Public Interest*, N.Y. TIMES (Dec. 13, 2011), http://www.nytimes.com/2011/12/13/opinion/patents-smart-phones-and-the-public-interest.html?_r=2; Editorial, *Smoot-Hawley's Revenge*, WALL ST. J., Aug. 23, 2006, at A10 (describing section 337 as "potentially crippling the U.S. wireless-phone industry"); Editorial, *The Android Patent War*, *supra* note 4 (calling an ITC patent case "a weapon of protectionist mass destruction against competitors" and section 337 an "absurdity . . . that could do great economic harm to one of the few U.S. industries that is growing rapidly").

⁸ See, e.g., K. WILLIAM WATSON, CATO INST., STILL A PROTECTIONIST TRADE REMEDY: THE CASE FOR REPEALING SECTION 337, at 3 (2012), available at <http://www.cato.org/pubs/pas/PA708.pdf> (recommending that the ITC's section 337 patent authority be abolished); Thomas A. Broughan, III, *Modernizing § 337's Domestic Industry Requirement for the Global Economy*, 19 FED. CIR. B.J. 41, 78–79 (2009) (noting and describing the divergence in federal court and ITC rules and law); Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 67–68 (2008) [hereinafter Chien, *Patently Protectionist*] (same); Taras M. Czebiniak, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in § 337 Investigations*, 26 BERKELEY TECH. L.J. 93, 93–94 (2011) (same); Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH. 457, 464 (2008) (same); Kumar, *supra* note 4, at 532–33 (same); see also Eric L. Lane, *Keeping the LEDs on and the Electric Motors Running: Clean Tech in Court After eBay*, 2010 DUKE L. & TECH. REV. i, i–ii, xxx–xxxii (noting that nonpracticing patentees have moved to the ITC to avoid *eBay* and warning that this may "adversely affect implemented clean technologies").

⁹ See, e.g., Edward H. Rice & Marina N. Saito, *After eBay: Can the ITC Offer Better Remedies than District Courts?*, INTELL. PROP. LITIG., Winter 2008, at 13 *passim*, available at <http://www.loeb.com/afterebaycantheitcofferbetterremediethandistrictcourts/>; James R. Klaiber & Ethan Lee, *Seeking Disapproval: Presidential Review of ITC Orders*, LAW360 (Nov. 10, 2011, 12:51 PM), <http://www.law360.com/articles/283970/seeking-disapproval-presidential-review-of-itc-orders> (subscription required).

¹⁰ See *The International Trade Commission and Patent Disputes: Hearing Before the Subcomm. on Intellectual Prop., Competition and the Internet of the H. Comm. on the Judiciary*, 112th Cong.

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the Federal Trade Commission.¹¹ In effect, the ITC's practices have undone many of the desirable consequences of *eBay*.

The ITC issues exclusion orders¹² that prevent the importation of a product. Exclusion orders can have a dramatic impact because, to comply with them, a company must pull its products from the market and redesign them.¹³ Many household devices, including computers, flat-screen televisions, GPS devices, and printers, have been the subjects of ITC section 337 investigations.¹⁴ In 2011, every major smartphone maker was embroiled in an ITC dispute.¹⁵ As the impact

(2012) [hereinafter *Hearing on the ITC and Patent Disputes*] (statements of Colleen V. Chien, Santa Clara University Law School, Neal A. Rubin, Vice President of Litigation, Cisco Systems, Inc., and David B. Kelley, Intellectual Property Counsel, Ford Global Technologies LLC), available at http://judiciary.house.gov/hearings/Hearings%202012/hear_07182012.html; *Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents: Hearing Before the S. Comm. on the Judiciary*, 112th Cong. (2012) (statement of Hon. Edith Ramirez, Comm'r, Federal Trade Commission), available at <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=45dca2a38e7309da19dce3a4cc06b817>.

¹¹ See FED. TRADE COMM'N, *supra* note 2, at 239 ("[The] discrepancy [between the ITC and district court injunction standards] has generated some concern that the ITC may attract suits by patentees that are less likely to obtain injunctions in district court, potentially leading to hold-up and . . . resulting [in] consumer harm . . .").

¹² 19 U.S.C. § 1337(d) (2006). An ITC cease-and-desist order has a similar effect. *Id.* § 1337(f).

¹³ See Kumar, *supra* note 4, at 538; see also Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1996 (2007) (discussing withdrawal from the market in the context of downstream firms).

¹⁴ See generally Certain Inkjet Ink Supplies and Components Thereof, Inv. No. 337-TA-691, USITC Pub. 4290 (Nov. 2011) (Final) (printers); Certain Computer Products, Computer Components and Products Containing Same, Inv. No. 337-TA-628, USITC Pub. 4197 (Oct. 2010) (Final) (computers); Certain Flat Panel Digital Televisions and Components Thereof, USITC Inv. No. 337-TA-733, 75 Fed. Reg. 51,286 (Aug. 13, 2010) (Preliminary) (flat screens); Certain GPS Chips, Associated Software and Systems, and Products Containing Same, Inv. No. 337-TA-596, USITC Pub. 4133 (Mar. 2010) (Final) (GPS devices).

¹⁵ Certain Mobile Devices, Associated Software, and Components Thereof, Inv. No. 337-TA-744 (May 15, 2012) (Final) (Notice of a Commission Final Determination of Violation of Section 337; Issuance of a Limited Exclusion Order; Termination of Investigation; Respondent Motorola Mobility, Inc.); Certain Electronic Devices with Communication Capabilities, Components Thereof, and Related Software, Inv. No. 337-TA-808, 76 Fed. Reg. 60,870 (Sept. 30, 2011) (Preliminary) (Notice of Institution of Investigation; Institution of Investigation Pursuant to 19 U.S.C. 1337; Complainant HTC Corp. and Respondent Apple Inc.); Certain Wireless Devices with 3G Capabilities and Components Thereof, Inv. No. 337-TA-800, 76 Fed. Reg. 54,252, 54253 (Aug. 31, 2011) (Preliminary) (Notice of Institution of Investigation; Respondent Nokia Corp.); Certain Mobile Telephones and Modems, Inv. No. 337-TA-758, 2011 ITC LEXIS 1557 (Aug. 11, 2011) (Preliminary) (Order 17; Complainant Sony Corp. and Respondent LG Electronics, Inc.); Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794, 76 Fed. Reg. 45,860 (Aug. 1, 2011) (Preliminary) (Notice of Institution of Investigation; Institution of Investigation Pursuant to 19 U.S.C. 1337; Complainant Samsung Electronics Co. and Respondent Apple Inc.); Certain Mobile Telephones and Wireless Communication Devices Featuring Digital Cameras, and Components Thereof, at 2, Inv. No. 337-TA-703, 2011 ITC LEXIS 1112 (June 30, 2011) (Final) (Notice of Commission Determination to Affirm in Part and Reverse in Part a Determination of No Violation of Section 337; Remand of the Investigation for Further Proceedings; Respondents Apple Inc. and Research in Motion Ltd.). Major mobile handset

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