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Patent holders prefer ITC

The commission's fast process and effective remedies make it an attractive forum for battle with importers of infringing goods

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Intellectual Property

The International Trade Commission has become a magnet for high-stakes patent litigation. The average number of ITC complaints filed each year during the past decade is nearly triple the average for the previous decade. The ITC's recent popularity as a venue for patent litigation is remarkable, particularly when one considers that the ITC cannot award monetary damages. It is due, in large part, to three factors. First, the ITC offers a powerful remedy: an "exclusion order" that bars the importation of infringing products into the United States, effectively locking infringers out of the U.S. market. Second, the ITC is a true "rocket docket," typically deciding its cases (called "investigations") within 16 months from their institution, which is far faster than most district courts. Third, the ITC's unique jurisdictional requirements give the ITC power over companies that manufacture, package or test their products overseas. These factors have made the ITC extremely attractive to patent holders.

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THE EXCLUSION ORDER: EXCEPTION TO 'EBAY'

The ITC offers patent holders a unique and powerful remedy: an exclusion order, which is enforced by U.S. Customs, to stop infringing products at the border. The exclusion order differs from the injunction available from a district court in several important ways. First and foremost, the ITC grants exclusion orders as a matter of course. In the past, this was equally true of district court injunctions: If the patent was valid and infringed, the district court would routinely grant a permanent injunction. The threat of an injunction obviously gave patent owners very significant leverage in settlement negotiations.

That all changed in May 2006, with the Supreme Court's landmark decision, *eBay v. MercExchange*, 547 U.S. 388 (2006). In *eBay*, the Supreme Court held that the traditional "four-factor" test for an injunction applies equally in a patent case. The *eBay* decision made it far more difficult for patent holders to obtain injunctions. This is especially true of the so-called nonpracticing entities, that is, parties that own and assert patents, but do not themselves make any products that practice those patents. However, even direct competitors cannot be certain of obtaining an injunction. The bottom line is that a patent holder who prevails in the ITC, absent truly exceptional public interest concerns, is virtually guaranteed to obtain an exclusion order, while his odds of getting an injunction from a district court are closer to one in three. The relative ease of obtaining an exclusion order has drawn patent holders to the ITC in ever-increasing numbers.

The ITC's exclusion order offers another important advantage over a district court injunction: It is enforced by customs. After customs receives the exclusion order from the ITC, it provides instructions to the ports of entry to implement the order. The patentee can work with customs to ensure that the instructions adequately identify the infringing products. Based on those instructions, shipments of infringing products will be barred from entry.

A particularly powerful form of exclusion, which is available only in very limited circumstances, offers the possibility to exclude, not only infringing products made by the accused infringers (called the "respondents"), but all infringing products, from any source. The usual remedy in an ITC case is a limited exclusion order, which excludes all infringing

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products made by any respondent. However, the ITC also offers a general exclusion order, which excludes all infringing products, whether made by the respondents or by others. A GEO is available if the patentee can establish that a general exclusion order is necessary to prevent circumvention of a limited exclusion order, or that there is a pattern of violation and it is difficult to identify the source of infringing products.

LIMITS ON THE EXCLUSION ORDER: DOWNSTREAM PRODUCTS

There is an important limitation to the reach of an exclusion order. An exclusion order will not necessarily reach what are called "downstream products." A product that contains a component that infringes a patent — for example, a cellphone that contains an infringing chip — itself infringes that patent. However, these "downstream products" will not be covered by an exclusion order unless the manufacturers of the downstream products are named as respondents in the ITC. Prior to 2008, this was not the case: A patent holder who had established that a component infringed could seek exclusion, not only of the component, but of downstream products that contained that component.

This changed with the Federal Circuit U.S. Court of Appeals's decision in *Kyocera v. International Trade Commission*, 545 F.3d 1340 (2008). The Federal Circuit held that the ITC did not have the authority, in the context of a limited exclusion order, to exclude products made by parties that were not named as respondents in the investigation. This can pose an excruciating dilemma for a complainant, because the accused infringers' customers are often also potential, or sometimes even existing, customers of the complainant. *Kyocera* forces complainants to walk a fine line between earning an effective remedy on the one side and potentially alienating elements of the industry it hopes to sell to on the other.

DOMESTIC INDUSTRY REQUIREMENT

One very important and unique requirement for a complainant in the ITC is to establish the existence of a domestic industry in the asserted patent. This element is generally satisfied if there is significant domestic investment in plant, equipment, labor or capital in the development and exploitation of the patented technology by the complainant or its licensee. It can also be shown by substantial investment in licensing the asserted patent, and this latter avenue to establishing a domestic industry has become the preferred way for NPEs. However, it has also become the subject of some controversy, and the Federal Circuit has recently issued one decision (*Mezzalingua v. ITC*), and is deliberating on two others (*Rambus v. ITC*, and *Asustek Computer v. ITC*) which will have an impact on this issue. As indicated in the recent arguments in the *Rambus* and *Asustek* appeals, there is a least some concern at the court that the differential requirements, post-*eBay*, for an injunction in district courts and the ITC (which, as noted, makes the forum attractive to NPEs) may make advisable a stricter application of the domestic industry requirement by requiring actual use of the asserted patent in addition to investment in a licensing program. This issue bears watching.

DAMAGES: PARALLEL DISTRICT COURT ACTION

The patent holder who opts to seek an exclusionary order in the ITC need not forgo damages. He is entitled to file a parallel district court action, asserting the same patent and seeking damages, as well as an injunction. This is the typical course of action. The accused infringer has the right to stay the district court case, and most defendants do assert that right. The stay will be lifted when the ITC case is resolved.

As a practical matter, if the patent holder prevails in the ITC, the case is likely to settle. The exclusion order is typically not stayed pending appeal. Therefore, the impact of the exclusion order on the respondents' business is likely to be both immediate and severe. If the patent holder is willing to grant a license, the resolution of the ITC case will likely end the litigation. If, on the other hand, the patent holder seeks to exclude the respondent from the U.S. market, the exclusion order is an extremely fast and effective mechanism. Furthermore, if the patent holder does not prevail in the ITC, the district court case gives him a "second bite at the apple," because the ITC's decision is not binding on the district court.

A ROCKET DOCKET SCHEDULE

Not only does the ITC provide a unique and extremely effective remedy, it does so on an extremely fast schedule. In an ITC investigation, the evidentiary hearing typically takes place approximately nine to 10 months after the investigation begins. The investigation typically takes about 16 months from the start until a final decision is reached. This is much faster than most district court cases. It is common for a district court patent litigation to take two to three years to reach trial. The ITC's fast schedule gives patent holders a powerful advantage.

IN REM JURISDICTION

One final reason for the ITC's importance as a venue for high-stakes patent litigation is the ITC's jurisdictional reach. The ITC's jurisdiction is *in rem*. That is, the ITC has jurisdiction over respondents based on the act of importation of accused products. As a result, it is far easier to pursue claims against respondents located overseas in the ITC as compared to district court. Usual disputes in district court over personal jurisdiction, venue, and even service are not an issue in the ITC. Of course, the respondent need not be a foreign manufacturer. As a practical matter, manufacture of most high-technology products, whether by U.S. or by foreign companies, now takes place overseas. The result is that even U.S. companies can be targeted in the ITC.