PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of	
CERTAIN PRODUCTS CONTAINING INTERACTIVE PROGRAM GUIDE AND PARENTAL CONTROL TECHNOLOGY	**Inv. No. 337-TA-845**

RECOMMENDED DETERMINATION
Administrative Law Judge David P. Shaw

I. Background and Recommendation

This is the recommended determination of the administrative law judge on remedy and bonding in *Certain Products Containing Interactive Program Guide and Parental Control Technology*, United States International Trade Commission Investigation No. 337-TA-845. As indicated in the final initial determination ("ID") on violation, issued on June 7, 2013, the administrative law judge has found no violation of section 337 of the Tariff Act, as amended (19 U.S.C. § 1337) with respect to any patent asserted in this investigation. Thus, the administrative law judge recommends that no remedy issue in this investigation.

Even in the absence of a finding of violation, the administrative law judge must issue a recommended determination concerning the appropriate remedy in the event that the Commission finds a violation. *See* 19 C.F.R. § 210.42(a)(1)(ii). That recommendation is contained herein below. Nevertheless, the Commission did not authorize the administrative law judge to take public interest evidence or to provide findings and recommendations concerning the public interest. Thus, in accordance with

the usual Commission practice and the applicable Commission Rule, only the Commission can determine the role that public interest factors may play in this investigation. *See* 19 C.F.R. § 210.50(b)(1).

II. Limited Exclusion Order

The Commission has broad discretion in selecting the form, scope, and extent of the remedy in a section 337 proceeding. *Viscofan, S.A. v. United States Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986). A limited exclusion order directed to respondents' infringing products is among the remedies that the Commission may impose. *See* 19 U.S.C. § 1337(d).

Rovi[1] argues that the proper remedy in this investigation would include a permanent limited exclusion order that would exclude infringing products containing interactive program guide technology if the products are imported or sold for importation by either respondent.[2] It is argued that the order should exclude respondents' infringing devices from entering the United States for all purposes, including, without limitation, testing, sampling, sale, and promotion and demonstration purposes; and that the order should extend to respondents' principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled and/or majority owned business entities and their employees, agents, successors and assigns to prevent circumvention of the order. Compls. Br. at 474.

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[1] The complainants are Rovi Corporation; Rovi Guides, Inc.; Rovi Technologies Corporation; Starsight Telecast, Inc.; United Video Properties, Inc.; and Index Systems, Inc. (collectively, "Rovi").

[2] The respondents are Netflix, Inc. ("Netflix"); and Roku, Inc. ("Roku") (collectively, "respondents").

With respect to Roku, Rovi argues that the limited exclusion order should cover all infringing streaming media players, including the Roku 2 XS streaming media player, Roku LT streaming media player, Roku HD streaming media player, Roku 2 XD streaming media player, [and the] Roku streaming stick.[3] *Id.* With respect to Netflix, it is argued that the limited exclusion order should include any products that Netflix might import during the term of the infringed patents, if those products contain infringing software. Rovi acknowledges that Netflix does not currently import any such products, but argues that the limited exclusion order should cover any future infringing importations. *Id.* at 475.

Rovi requests that, to ease administration and enforcement of the order, and to minimize any burden on non-parties, a certification process be included in the exclusion order.[4] Compls. Br. at 474-75.

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[3] Shortly before the evidentiary hearing, respondents filed a motion *in limine*, arguing that the Roku LT, HD, XD and streaming stick products were not properly accused in this investigation. *See* Order No. 41 at 4-5. While the administrative law judge denied the motion to preclude evidence *in limine*, the parties were advised that if evidence concerning those disputed products were received, the evidence would be subject to a possible post-hearing motion to strike. *Id.* at 5. During the hearing, Rovi presented evidence with respect to Roku HD products. Although the evidence was received over respondents' objection, the administrative law judge referred the parties to Order No. 41, and repeated the instruction that respondents could file a motion to strike the evidence. *See* Tr. 770-773. No such motion was filed. The question of infringement by the Roku LT, HD, XD and streaming stick products is addressed in the ID.

In any event, a limited exclusion order does not typically specify product names or model numbers, but rather extends to products that are within the scope of the order and infringe the applicable patent claim or claims. *See, e.g., Certain Integrated Repeaters, Switches, Transceivers and Products Containing Same*, Inv. No. 337-TA-435, Limited Exclusion Order and Comm'n Op. at 22-23, USITC Pub. 3547 (Oct. 2002).

[4] An exclusion order may contain a provision that permits entities whose products are potentially excludable under the order to certify, pursuant to procedures to be specified by U.S. Customs and Border Protection, that they are familiar with the terms of the order, that they have made appropriate inquiry, and that, to the best of their knowledge and belief, the products being imported are not excluded from entry under the order. *See*,

Respondents do not specifically argue against a limited exclusion order with respect to United States Patent No. 6,898,762 ("the '762 patent"), in the section of their briefs concerning remedy. Respondents argue, however, that Rovi "does not accuse either of the remaining respondents—Netflix and Roku—of importing articles that violate section 337 by virtue of alleged infringement of the '776,[5] '906[6] or '709[7] patents (indeed, Roku is not accused on those three patents at all). Thus, the remedy of exclusion is no longer available with respect to the '776, '906 or '709 patents." Resps. Br. at 415.

As discussed in the ID, the importation or sale requirement has not been satisfied with respect to the '762 patent, as to either Roku or Netflix. Roku and Netflix are not, however, similarly situated with respect to the importation issue.

Roku is allegedly an importer of accused products. As detailed in the ID, those importations have been found not to satisfy the requirements of section 337 under Commission precedent. Yet, if the Commission reverses the ID so as to determine that Roku has violated section 337 with respect to the '762 patent, it is recommended that a limited exclusion order be issued as to Roku.

In contrast, as discussed hereinabove, Rovi admits that any exclusion order directed toward Netflix would cover only prospective importations, and could not be based on any current Netflix importations. The administrative law judge cannot deduce any facts relating to such prospective importations, and thus cannot recommend the issuance of a limited exclusion order directed toward Netflix, even in the alternative.

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e.g., *Certain Semiconductor Chips with Minimized Chip Package Size or Products Containing Same*, Inv. No. 337-TA-605, Comm'n Op. at Section II.D.2 (July 29, 2009).

[5] United States Patent No. 8,112,776.

[6] United States Patent No. 7,103,906.

[7] United States Patent No. 7,065,709.

With respect to the '776, '906 or '709 patents, Rovi argues that respondents "incorrectly presume that Rovi does not seek an exclusion order directed to Netflix's infringement of the '776, '906, and '709 patents." Rovi Reply at 160 (arguing that an exclusion order should apply to any future infringing importations by Netflix, even though there is no evidence of any current importation of products by Netflix). Although Rovi has accused only Netflix of infringing those patents, it has not requested an exclusion order as to Netflix. *See* Joint Outline (entitled "Comprehensive Joint Outline of Issues") at 2, 5. Consequently, it is recommended that even if a violation of section 337 is found with respect to the '776, '906 or '709 patents, a limited exclusion order should not issue inasmuch as Rovi did not request such a remedy in its Joint Outline, and the circumstances relating to such prospective importations cannot be anticipated.

III. Cease and Desist Orders

Section 337 provides that in addition to, or in lieu of, the issuance of an exclusion order, the Commission may issue a cease and desist order as a remedy for a violation of section 337. 19 U.S.C. § 1337(f)(1). The Commission "generally issues a cease and desist order only when a respondent maintains a commercially significant inventory of infringing products in the United States." *Certain Ground Fault Circuit Interrupters and Products Containing Same*, Inv. No. 337-TA-615, Comm'n Op. at 24 (Mar. 26, 2009); *Certain Video Game Systems, Accessories, and Components Thereof*, Inv. No. 337-TA-473, Comm'n Op. at 2 (Dec. 24, 2002).

Rovi argues that the Commission should issue a cease and desist order directed to Roku, and another directed to Netflix. Compls. Br. at 467-73.

Rovi argues that Roku admitted during discovery that it had [ ] units of the accused 2 XS product in inventory. *Id.* at 472. It is argued that, as explained by Rovi's expert Dr. Kaplan during the hearing, such an inventory amounts to [ ] percent of an average month's sales in 2011, and is thus commercially significant inventory. *Id.* at 472-73.

With respect to Netflix, it is argued that Netflix is a U.S. company, and that a cease and desist order should be directed to Netflix's sale for importation of infringing software that is incorporated as part of the Netflix application in imported products, and should prohibit Netflix from making its infringing software available for download by foreign manufacturer partners, or otherwise transferring its software to its partners, for purposes of implementing the respective Netflix applications onto imported Netflix Ready Devices (also known as "NRD devices"). Rovi argues that the cease and desist order should be similar in scope and effect to the one issued by the Commission in *Certain Hardware Logic Emulation Systems and Components Thereof*, Inv. No. 337-TA-383 ("*Hardware Logic*"), Comm'n Op. on Remedy, the Public Interest, and Bonding, USITC Pub. 3089 (March 1998), which prohibited importing (including through electronic transmission), selling, marketing, advertising, duplicating, distributing, offering for sale, advertising, soliciting U.S. agents or distributors for, or otherwise transferring (including through electronic transmissions) in the United States, hardware logic emulation systems, subassemblies thereof, and components thereof, including software (whether the software was in the form of source code, object code, or some other form), if they directly or contributorily infringed one or more of the asserted claims. *Id.* at 467-68 (quoting *Hardware Logic*, Order to Cease and Desist at 1 (Dec. 3, 1997)).

Respondents argue that even if a violation of section 337 is found, no cease and desist order should issue against Roku or Netflix. Resps. Br. at 420. In their main brief, respondents argue that Rovi's expert ignored the fact that [ ]% of an average month of Roku sales amounts to roughly [ ] of sales (or barely [ ]% of annual sales), and that Rovi cannot show that Roku maintains commercially significant inventory. *Id.* It is further argued that inasmuch as "Roku is the only respondent that allegedly imports an article that allegedly infringes the '762 patent, this also means that no CDO [*i.e.* cease and desist order] should issue against Netflix with respect to the '762 patent." *Id.*
In their reply, respondents argue that the administrative law judge should not recommend a cease and desist order against Netflix with respect to the '906, '709 or '776 patent because even though section 337 has been amended to allow the issuance of a cease and desist order in lieu of an exclusion order, the Commission "has ***never*** issued a cease and desist order in a case like this, where there is no possibility of exclusion and the respondent has no infringing domestic inventory." Resps. Reply at 175-76 (emphasis in original). Respondents present interpretations of *Hardware Logic* and other case law that differ from those offered by Rovi. *See id.* at 176-79. Indeed, it is argued, "Where, as here, there is no basis for an exclusion order, there also is no basis for a cease and desist order." *Id.* at 175 (citing *Fuji Photo Film Co., Ltd. v. Int'l Trade Comm'n*, 386 F.3d 1095, 1108 (Fed. Cir. 2004) (no cease and desist order against respondent whose activities did not fall within the scope of an exclusion order).

With respect to Roku, Rovi argues in reply that it is uncontested that [ ] of sales or [ ]% of annual sales (*i.e.*, [ ] units of the accused 2 XS product) is commercially significant in absolute terms. Rovi Reply at 158-59 (quoting *Certain Flash*

Memory Circuits and Products Containing Same, Inv. No. 337-TA-382, USITC Pub. No. 3046, Comm'n Op. at 25 (July 1997) ("Although Samsung may be correct in asserting that its inventory is relatively small compared to SanDisk's annual revenues from flash memory sales or to the worldwide flash memory market as a whole, Samsung's inventory nonetheless remains commercially significant in absolute terms.")).

With respect to Netflix, Rovi argues in its reply that the Commission has not interpreted its statutory authority to issue a cease and desist order as being limited to some type of "preliminary" or "initial" step prior to its issuance of an exclusion order;[8] nor has it interpreted its cease and desist authority as being restricted to sales of commercially significant inventories of infringing products. *Id.* at 158. For example, it is argued, there is nothing to suggest that the cease and desist order directed to electronic transmissions issued in *Hardware Logic* was premised upon any domestic inventory. *Id.* Rovi argues that "as a U.S. entity that has fully participated in this proceeding—one that transmits its infringing software from servers located in [ ]—Netflix is unquestionably subject to the Commission's personal jurisdiction, which is sufficient for the issuance of a cease and desist order." *Id.* at 157 (quoting *Gamut Trading Co. v. U.S. Int'l Trade Comm'n*, 200 F.3d 775, 784 (Fed. Cir. 1999) ("[T]he

[8] Rovi argues that even in *Certain Welded Stainless Steel, Pipe and Tube*, Inv. No. 337-TA-29, Comm'n Op., 1978 WL 50692 (Feb. 22, 1978) ("*Welded Stainless Steel*"), a case relied upon by respondents, *see* Resps. Br. at 415, the Commission recognized its authority to seek enforcement of a cease and desist order in court, albeit noting practical difficulties. Compls. Reply at 156. Rovi argues that in that context, the Commission said "[s]ince few cases contemplate resort to judicial enforcement, it is better to view section 337(f) as ancillary and subordinate to the exclusion power." *Id.* (quoting *Welded Stainless Steel*, Comm'n Op. at *5). It is argued that nothing in *Welded Stainless Steel* categorically limits the availability of cease and desist orders as only a preliminary step towards exclusion. *Id.*

Commission may issue cease and desist orders when it has personal jurisdiction over the party against whom the order is directed.")).

Having considered the arguments of the parties, as well as the record evidence and applicable law and Commission policy, the administrative law judge has determined to recommend that no cease and desist order issue as to any party, even if a violation of section 337 is found.

Even if the Commission determines that the importation or sale requirement of section 337 has been satisfied with respect to Roku, it has not been shown that Roku maintains commercially significant inventory in the United States. It is undisputed that Rovi's expert accurately testified that Roku has maintained an inventory of accused products amounting to [ ]% of an average month of Roku sales (*i.e.*, roughly [ ] of sales, or barely [ ]% of annual sales). It remains unclear, however, as to why such a quantitatively small amount of inventory should be considered commercially significant. For example, no expert explained how such a small amount of inventory could be used to undercut a limited exclusion order directed to Roku.[9]

With respect to Netflix, it has been found that the importation requirement is not satisfied. Further, it is undisputed that Netflix currently imports no accused devices. In such circumstances, a cease and desist order could not aid in the administration of section 337, which only addresses importation. While the cease and desist order issued in

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[9] The Commission generally issues cease and desist orders when there is a commercially significant amount of infringing imported product in the United States that could be sold so as to undercut the remedy provided by an exclusion order. *Certain Protective Cases and Components Thereof*, Inv. No. 337-TA-780, Comm'n Op. at 28 (Nov. 19, 2012) (citing *Certain Laser Bar Code Scanners and Scan Engines, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-551, Comm'n Op. (Pub. Version) at 22 (June 14, 2007)).

Hardware Logic contained a provision that prohibited certain electronic transmissions, as well as the importation of systems that contained certain software (including source code and object code), that order issued only after a finding of importation had been made. *See, e.g., Hardware Logic,* Notice of Issuance of a Permanent Limited Exclusion Order and a Permanent Cease and Desist Order at 2 (Dec. 3, 1997). No such finding has been made with respect to Netflix.

If the Commission reverses the ID such that the Commission finds that Netflix's actions satisfy the importation requirement of section 337, and otherwise finds that Netflix has violated section 337, then the Commission may determine to issue a cease and desist order directed to Netflix, if it is determined that such an order is appropriate under the applicable legal requirements of section 337 and Commission policy. It is, however, not possible to anticipate the facts upon which the Commission would make such a finding of importation by Netflix. Thus, it is not possible for the administrative law judge to recommend a cease and desist order at this time.

IV. Bond

Pursuant to section 337(j)(3), the administrative law judge and the Commission must determine the amount of bond to be required of a respondent, during the 60-day Presidential review period following the issuance of permanent relief, in the event that the Commission determines to issue a remedy. The purpose of the bond is to protect the complainant from any injury. 19 U.S.C. § 1337(j)(3); 19 C.F.R. §§ 210.42(a)(1)(ii), 210.50(a)(3).

When reliable price information is available, the Commission has often set bond by eliminating the differential between the domestic product and the imported, infringing

product. *Certain Microsphere Adhesives, Processes for Making Same, and Products Containing Same, Including Self-Stick Repositionable Notes*, Inv. No. 337-TA-366, Comm'n Op. at 24 (1995). In other cases, the Commission has turned to alternative approaches, especially when the level of a reasonable royalty rate could be ascertained. *Certain Integrated Circuit Telecommunication Chips and Products Containing Same, Including Dialing Apparatus*, Inv. No. 337-TA-337, Comm'n Op. at 41 (1995). A 100 percent bond has been required when no effective alternative existed. *Certain Flash Memory Circuits and Products Containing Same*, Inv. No. 337-TA-382, USITC Pub. No. 3046, Comm'n Op. at 26-27 (July 1997) (a 100% bond imposed when price comparison was not practical because the parties sold products at different levels of commerce, and the proposed royalty rate appeared to be *de minimis* and without adequate support in the record).

Rovi argues that it is not a manufacturer of televisions, and that its license agreements are typically [ ] licenses with [ ]. Thus, it is argued, [ ] would not be an appropriate basis upon which to calculate bond if respondents seek to import accused products during the Presidential review period. Rovi argues that "rather than calculating a bond amount based on price differential or a reasonable royalty rate, a bond of 100% of the entered value of the imported infringing products is appropriate." Compls. Br. at 476-77; Rovi Reply at 160.

In the alternative, Rovi argues, the Commission could look to the Rovi license with [ ]. It is argued that from a marketplace perspective, the accused Roku products (as well as any imported NRD devices containing pre-loaded Netflix applications) and the products licensed under the

[ ] are similarly situated. *Id.* at 477. Based on the [ ] license, Rovi argues that as an alternative to a 100% bond, the Commission could impose a bond of [ ]. *Id.*

Respondents argue that no bond should be required because Rovi has not identified any competitive advantage for respondents if they are allowed to continue selling accused products during any Presidential review period. They argue that Rovi has not shown that it would lose any revenue during the review period if purchases were made of accused products rather than licensed products. Resps. Br. at 420-21, 425-29.

Respondents further argue with respect to Netflix that it does not sell for importation or import the software development kit (also known as "SDK") into the United States, and Netflix does not have any inventory of imported accused products to sell. *Id.* at 421-24. With respect to Roku, they argue that Rovi has not examined relevant royalty information, and has failed to present any evidence of losses that might occur if importations of accused products were to continue during the Presidential review period. Further, it is argued that if a bond were required, based on Rovi licenses with [ ], the bond should be set at [ ], and in no case more than [ ], [ ]. *Id.* at 424-30.

Rovi is correct when it argues in its reply that no cited authority supports respondents' approach of looking to lost revenue to determine the amount of bond that should be required for importations during a Presidential review period. *See* Rovi Reply at 161. Further, Rovi is correct that respondents' argument for a [ ] bond (based on the [ ] licenses) appears in its posthearing briefing, but was not disclosed in respondents' prehearing brief or in any cited testimony of a hearing witness.

See id. at 161 (citing RX-2477C (Reed RWS) at Q122-Q151); Resps. Prehearing Br. at 770-81. Thus, respondents' lost-revenue approach, and respondents' alternative proposed [ ] bond, are both rejected. The larger question is whether it is correct to look to any extant Rovi license to determine the proper bond.

No party has argued that Rovi and the respondents sell comparable products at similar levels of commerce. Furthermore, Rovi and respondents criticize each other for basing their arguments on certain licenses, yet no party has presented a persuasive argument as to why it is correct to base a bond on the particular license or licenses selected by one side or the other.

Respondents argue effectively that Roku is not a manufacturer of televisions (a point as to which Rovi and respondents are in agreement), and a simple, "[ ]" fee based on the [ ] license is not appropriate. *See* Resps. Reply at 181. Indeed, Rovi set forth the proposed bond based on the [ ] license only as an alternative argument. Rovi, as already discussed, has shown that some of respondents' arguments have undergone recent and unsupported shifts. In addition, Rovi argues effectively that respondents present only a partial picture when they calculate a proposed bond based on some of Rovi's licenses under the asserted patents, and ignore other Rovi licenses, including provisions that allow Rovi [

]. *See* Rovi Reply at 161-62.

Inasmuch as no appropriate price differential can be calculated, and no reasonable royalty rate or other alternative has been presented, it is the recommendation of the

administrative law judge that any bond for importation during the 60-day Presidential review period should be set at 100% of entered value.

V. Conclusion and Order

The administrative law judge has found no violation of section 337, and thus recommends that no remedy issue in this investigation. If the Commission reverses the determination of the administrative law judge so as to find a violation of section 337 by respondents, a limited exclusion order directed to Roku should issue with respect to the '762 patent, no cease and desist order should issue, and an importation bond should be required during the 60-day Presidential review period, unless the public interest requires that remedies be set aside or modified.

* * *

It is ordered that by no later than June 20, 2013, each party shall file with the Commission Secretary a statement as to whether or not it seeks to have any portion of this document redacted from the public version. Any party seeking to have a portion of this document redacted from the public version must submit to this office a copy of this

document with red brackets indicating the portion, or portions, asserted to contain confidential business information.[10]

David P. Shaw
Administrative Law Judge

Issued: June 13, 2013

[10] Confidential business information ("CBI") is defined in accordance with 19 C.F.R. § 201.6(a) and § 210.5(a). When redacting CBI or bracketing portions of documents to indicate CBI, a high level of care must be exercised in order to ensure that non-CBI portions are not redacted or indicated. Other than in extremely rare circumstances, block-redaction and block-bracketing are prohibited. In most cases, redaction or bracketing of only discrete CBI words and phrases will be permitted.

CERTAIN PRODUCTS CONTAINING INTERACTIVE PROGRAM GUIDE AND PARENTAL CONTROL TECHNOLOGY

Inv. No. 337-TA-845

PUBLIC CERTIFICATE OF SERVICE

I, Lisa R. Barton, hereby certify that the attached **Recommended Determination** was served upon the following parties as indicated, on JUL - 3 2013.

Lisa R. Barton, Acting Secretary
U.S. International Trade Commission
500 E Street, SW, Room 112A
Washington, DC 20436

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