

# Invited to an ITC party? Bring your redesigns

**William H Mandir, John F Rabena and Mark C Davis** of Sughrue Mion, PLLC review recent case law from the International Trade Commission, and examine how accused infringers can best use the procedures available

**T**he International Trade Commission (ITC) is an increasingly popular forum for owners of US intellectual property to enforce their rights against competitors that import products into the US. A recent attempt to circumvent and challenge the ITC enforcement procedures has confirmed the power of this forum, and the need for accused infringers to effectively utilize the procedural mechanisms in place.

Under 19 USC §1337 (section 337), the ITC has jurisdiction to hear allegations of unfair importation based on infringement of patents, trade marks, copyrights, or maskworks, although most section 337 cases are patent infringement assertions. The popularity of the ITC is no doubt based upon (1) its statutorily mandated fast resolution (about one year for a final decision); (2) highly experienced judges that handle more IP cases than any other forum; and (3) strong enforcement measures including the use of US Customs and Border Patrol (a district court litigant can *request* Customs to enforce a district court injunction – see *Texas Instruments Inc v Tessera, Inc and US ITC*, 231 F 3d 1325, 1330 (Fed Cir 2000) – but as a practical matter, that option is not often successful). As a result, the number of section 337 cases brought before the ITC has steadily increased over the past five years.

A lesser-known yet powerful advantage of the ITC is the post-judgment treatment of new products developed by respondents. The ITC procedures for handling new or redesigned products from the adjudicated infringers are much more favourable to a victorious IP owner than the corresponding district court procedures. These procedures have recently been challenged by one respondent, but the ITC explicitly reconfirmed that it provides an IP owner with some of the most powerful enforcement mechanisms in the US.

## **Background to section 337 proceedings**

A section 337 action is commenced in the ITC when an IP owner files a complaint with the secretary of the

ITC against a respondent/importer. A valid claim requires three elements: (1) infringement of a valid and enforceable US IP right; (2) importation into the US, sale for importation, or sale within the US after importation of articles that infringe a valid and enforceable US IP right; and (3) the existence of a US industry related to the articles protected by the intellectual property (see 19 USC § 1337 (2005)). (A complainant need not be a US corporation, but only needs to prove the existence of a US industry connected to the asserted intellectual property.) The Commission then determines whether a formal investigation should commence, and if so, an administrative law judge (ALJ) is appointed, and notice of the investigation is published in the Federal Register. After discovery and an evidentiary hearing/trial, the ALJ makes an initial determination. The Commission then adopts, modifies or reverses the ALJ's decision. The entire process usually takes about a year.

## **ITC equitable remedies**

While damages and attorneys' fees are not available through a section 337 proceeding, potent equitable remedies are possible. Upon a determination of infringement, the ITC normally issues a cease and desist order directed to the infringer, and an exclusion order directed to the US Customs and Border Patrol (Customs). The ITC exclusion order compels Customs to exclude the infringing products from importation into the US by seizing the offending goods at the point of importation. Customs' involvement is both automatic and mandatory, thus relieving the patentee from the burden of finding infringing imports, and enforcing the exclusion order. Such exclusion orders can thus be extremely valuable, in terms of both timing and cost, to an IP owner seeking to maintain domestic market advantage over respondents who are unfairly importing infringing products into the US.

## UNITED STATES

### Redesigned products in US district courts

The remedy in federal court, by contrast, would be in the form of an injunction prohibiting sale, importation, etc of the infringing product. The successful federal court litigant would then have the added burden of seeking out continued infringement and returning to the court for enforcement.

More importantly, after a district court issues an injunction against an adjudicated infringer, the infringer is free to redesign and immediately begin selling a new product until that new product is found to infringe, as long as the redesign presents more than a “colorable” modification. For example, if an adjudicated infringer begins selling a redesigned product, the victorious patent holder must return to the trial court and request contempt proceedings. While contempt proceedings are expedited, they are only warranted when the issues involved are appropriate for summary disposition (see *KSM Fastening Systems, Inc v HA Jones Co, Inc et al*, 776 F 2d 1522, 1531 (Fed Cir 1985)). In other words, if any factual disputes are raised, or any testimony or significant evidence must be introduced, contempt proceedings are not allowed. Instead, the patent owner must file a new or possibly a supplemental complaint, and then prosecute a nearly complete lawsuit all over again. During that time (one to three years), the defendant can freely sell its redesigned product. This process can be repeated with new redesigns after each adjudication such that the defendant never leaves the market, although as a practical matter, the infringer increases its risk of liability for wilful infringement if its redesigns still infringe.

### Redesigned products in ITC cases

By contrast, the ITC shifts the burden of proof onto the adjudicated infringer to prove that the new version/product does not infringe. For the past 20 years, the ITC precedent has refused to allow importation of redesigned

products until after that redesign is adjudicated and found to be non-infringing (see for example *Certain Hardware Logic Emulation Sys and Components Thereof (Hardware Logic)*, No 337-TA-383, USITC Pub 3089, Comm’n Op at 16-17 (March 31 1998)). In *Hardware Logic*, the Commission explained:

The Commission has indicated in past investigations that respondents who are asserting the existence of redesigned products have available to them the mechanisms of a modification proceeding or an advisory opinion by which to demonstrate that such products do not infringe. *As is appropriate, such procedures place the burden of demonstrating noninfringement on respondents, who have been found to be in violation of section 337*, and such procedures have been judicially approved (*Hardware Logic*, Comm’n Opinion at 16-17 (March 31 1998) (emphasis added, internal citations omitted)).

Each new version or product must be separately adjudicated before the ITC will allow importation to begin. The ITC procedure for such an adjudication, an Advisory Opinion, takes about one year for a final decision. As a practical matter, even if the new version of product is found not to infringe, that can still mean at least a one-year hiatus from the US market.

One set of respondents has recently mounted an unsuccessful challenge to the ITC’s authority to exclude redesigns pending adjudication, in *In the Matter of Certain Automated Mechanical Transmissions for Medium-Duty and Heavy-Duty Trucks*, USITC Inv No 337-TA-503 and a number of connected suits against various departments of the federal government in the Court of International Trade (CIT).

In 337-TA-503, respondents ArvinMeritor Inc and ZF Friedrichshafen were found to infringe a patent owned by Eaton Corp, via importation of automated transmissions for heavy duty trucks. After that ruling in early 2005, the respondents began importing redesigned transmissions that they contended were outside the exclusion order because they did not infringe the asserted patent. ArvinMeritor temporarily convinced Customs that the redesigned version was outside the scope of the ITC’s exclusion order because the respondents concluded that it did not infringe. ArvinMeritor also contended in the proceedings that Customs was exceeding its authority to exclude from importation redesigned products that were yet to be found

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to infringe (see *Eaton Corporation v United States, et al*, No 05-00487 (Ct Int'l Trade filed August 19 2005)).

But the ITC and the CIT quickly laid the issue to rest. In an open letter to Customs of August 26 2005, the Secretary of the ITC made it clear that redesigned products are to be excluded from entry into the US unless and until either Customs or the ITC makes a definitive ruling that the redesigns do not infringe. Shortly thereafter, the CIT issued a preliminary injunction compelling Customs to exclude the redesigned transmissions pending resolution of the Advisory Opinion case (*Eaton Corporation v United States, et al*, No 05-00487, slip opinion 05-121 (Ct Int'l Trade, September 9 2005))

### Get redesigns considered early

What does this mean for a company that has been charged with infringement in an ITC 337 case? Unlike a district court action where despite adverse rulings, market continuity is possible via good faith redesigns, an ITC respondent can be entirely locked out of its market for about one year if it waits until one design is found to infringe before considering redesigns.

Recognizing this danger, a section 337 respondent should consider early on whether to present a redesigned version of its accused product in the beginning of its 337 action. The ITC can issue an Advisory Opinion on any properly presented redesigns during the initial section 337 case, along with its ruling on the accused products. To qualify for consideration, a proposed redesign must be more than just a hypothetical design; the respondent must establish that it has definite plans to commercialize the redesign in the US.

A recent example of effective ITC-redesigning can be seen in a computer antivirus case, *In the Matter of Certain Systems for Detecting or Removing Viruses or Worms, Components Thereof, and Products Containing Same*, 337-TA-510. In that case, respondent Fortinet's original network security devices were found to infringe the asserted patent. But Fortinet had also presented a redesign in the

same hearing and successfully proved that the redesigned version did not infringe (337-TA-510, Initial Determination of May 9,2005). As a result, Fortinet did not miss a beat in the market, and was even able to market the redesign as a new and improved version.

Certainly sceptics can argue that presenting a redesigned product at trial will sound defensive and weaken the non-infringement positions with respect to the originally accused products. But a respondent should weigh this view against the risk of losing a year in the market (together with any factory or other facility closings). While the ITC's unsympathetic treatment of redesigns can cripple a respondent who treats the ITC case as any other district court case, a careful respondent who makes effective use of the ITC procedures can survive an adverse ruling and maintain its market presence.

*At the time this article went to print, the CIT decision was on appeal at the Court of Appeals for the Federal Circuit.*

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