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Intellectual Property Litigation

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This Issue: Infringement Outside or Entering the U.S.

Quick IP Relief—The ITC, Rocket Dockets, and Preliminary Injunctions

By James B. Altman

Intellectual property owners are often interested in quick, effective relief against infringers. Damages and a possible injunction, awarded only after a full district court proceeding, may not be satisfactory; the market may have been destroyed, prices irreversibly eroded, or the product life cycle may be too short to await lengthy district court litigation. In such situations, the IP owner has three primary alternatives: filing the case at the U.S. International Trade Commission (ITC); filing it in a rocket docket; or requesting a preliminary injunction. There are advantages and disadvantages to each of these alternatives that potential plaintiffs and their counsel considering these alternatives, as well as potential defendants and their counsel facing such proceedings, should understand.

The U.S. International Trade Commission and Section 337

Infringement actions before the ITC are described in more detail in "Using the Tariff Act's Section 337 in IP Border Enforcement," by Bryan Schwartz (see page 7 of this issue), so here we offer only a brief summary. Section 337 of the

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Trademarks at the Border: A Practitioner's Perspective

By Steven J. Wadyka, Jr. and Janet Shih Hajek

Protecting trademarks and trade names at the border can be a vital component in a company's global brand protection and enforcement program. The U.S. Customs and Border Protection (CBP) (formerly the United States Customs Service and now part of the Department of Homeland Security) provides effective tools for brand owners to combat the flow of infringing goods into the United States.[1] This article explains how the CBP enables brand owners to monitor and enforce their trademark rights at the border through administrative and law enforcement mechanisms. We will also examine how federal court injunction orders can be enforced through the CBP.

Utilizing the U.S. Customs and Border Protection

The CBP protects marks registered with the United States Patent and Trademark Office (USPTO), including registered collective marks. *See* 19 C.F.R. §§ 133.1–133.7. While recordation with the

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Message from the Chairs

By the time you read this newsletter, the 2004-2005 bar year will be over. It has been a great year. Our committee sponsored several programs and breakfast meetings at the Section of Litigation's Annual Meeting in New York and the ABA Annual Meeting in Chicago. We hope that you had a chance to attend the meetings, participate in the wonderful CLE, and network with your peers. If not, start planning now to attend the 2006 Section of Litigation Annual Meeting in Los Angeles and the ABA Annual Meeting in Honolulu.

We will soon submit program proposals for the 2006 meetings. If you have program proposals or breakfast meeting suggestions, please let us know. As always, we encourage you to check the committee website for up-to-date information on committee activities, including the dates, topics, and hosts for the roundtable programs: www.abanet.org/litigation/committee/intellectual/home.html.

In addition, if you are interested in becoming more active in the committee, please contact us.

This newsletter focuses on the special issues that arise when alleged infringement originates outside the United States. When this issue arises in your practice, do not forget to review statutory defenses or exceptions that may apply. In this regard, 35 U.S.C. section 272 is one statute worth remembering. Under this statute, "the use of any invention in any vessel, aircraft or vehicle of any country which affords similar privileges to vessels, aircraft or vehicles of the United States, entering the United States temporarily or accidentally, shall not constitute infringement of any patent, if the invention is used exclusively for the needs of the vessel, aircraft or vehicle and is not offered for sale or sold in or used for the manufacture of anything to be sold in or exported from the United States." Section 272 of the Patent Act offers a rarely seen but potentially powerful "temporary presence" defense to infringement liability for foreign vehicles using patented inventions in the United States. Section 272 and similar acts of other countries prevent domestic patent laws from interfering with international commerce.

In 2004, the Federal Circuit construed this rarely interpreted provision of patent law. After construing the statute, the court reversed a preliminary injunction that the district court granted to a manufacturer of railway cars. The dispute, between National Steel Car Ltd. and the Canadian Pacific Railway, related to a patent owned by National Steel for a depressed center-beam flat car used to haul lumber. The accused Canadian Pacific rail cars ship lumber from Canada into the United States 90 percent of the time, and the remaining 10 percent stays in Canada. The rail cars return from the United States to Canada empty almost 100 percent of the time.

According to the district court, there was no question that rail cars infringed National Steel Car's patent. The Federal Circuit held that a rail car used to haul lumber into and out of the United States meets the infringement exception under 35 U.S.C. section 272, which excuses infringement for any vehicle that enters the United States on a temporary basis. Although the district court had found that the accused railway cars were in the United States for about 57 percent of their useful life, the Federal Circuit defined "temporary" as a vehicle entering the United States for a limited period for the sole purpose of engaging in international commerce. *National Steel Car, Ltd. v. Canadian Pacific Ry., Ltd.*, 357 F.3d 1319 (Fed. Cir. 2004). Attorneys should consider section 272 in any situation involving the use of a patented invention in international transportation. ●

NTP v. Research in Motion: Charting the Perimeter of United States Patent Law

By Henry C. Su

Patent law proscribes as direct infringement only those unauthorized acts of making, using, offering to sell, or selling a patented invention that occur *within the United States*.[1] This express limitation in the statute has long been a critical feature of the United States patent system, which "makes no claim to extraterritorial effect[.]"[2] "The right conferred by a patent under our law is confined to the United States and its Territories . . . and infringement of this right cannot be predicated of acts wholly done in a foreign country."[3] The limitation emanates from the fact that Congress's power to enact a patent statute is itself "domestic in its character, and necessarily confined within the limits of the United States."[4] Because "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States[,]" a "patentee's right of property and exclusive use . . . derived from them . . . cannot extend beyond the limits to which the law itself is confined."[5]

One might assume that the statutory language is simple, quite clear, and therefore free from controversy. If an act of making, using, offering to sell, or selling a patented invention occurs anywhere in the United States or its territories (e.g., Puerto Rico), then there is an instance of infringement actionable under section 281.[6] Yet the recent decision from the United States Court of Appeals for the Federal Circuit in *NTP, Inc. v. Research in Motion, Ltd.*[7] (the *NTP* case) demonstrates that the language of section 271(a) is far from being uncontroversial or straightforward. This article reviews the salient facts of the *NTP* case and parses the question of territoriality underlying the court's opinion.

The Facts and the Issue in the *NTP* Case

The *NTP* case concerns the alleged infringement of NTP's patents, which claim the integration of electronic mail systems with radio frequency (RF) information transmission systems,[8] by Research in Motion's (RIM) highly popular BlackBerry system. The accused system uses "e-mail redirector" software to retrieve incoming e-mails from a user's mail server and to encrypt and route them to his or her handheld wireless messaging device. Being "pushed" out to the remote user by the BlackBerry redirector software, an e-mail message leaves its regular wireline network (such as an office LAN) and travels on a wireless network (such as GPRS) supported by the user's handheld device. A component of the accused system known as the BlackBerry Relay serves as the gateway between the wireline network and the wireless network, translating and routing each e-mail message for delivery to the remote user.[9]

RIM moved for summary judgment of noninfringement on the grounds that there can be no direct infringement under section 271(a) because the BlackBerry Relay component of the accused system is located in Canada.[10] The district court denied the motion, finding a genuine issue of material fact as to the location of the Relay.[11] At trial, however, the district court treated as fact that the Relay is located in Canada but determined as a matter of law that the location of the Relay does not preclude a finding of infringement by the jury.[12] So instructed, the jury subsequently returned a verdict in NTP's favor, finding RIM to have committed direct, induced, and contributory infringement.[13]

On appeal, RIM assigned as error the district court's interpretation of section 271(a) and its application to the accused BlackBerry system.[14] In December 2004, the Federal Circuit issued an opinion affirming the district court's application of section 271(a) to RIM's accused system,[15] but it subsequently withdrew that opinion in favor of a revised and more fulsome analysis of this issue.[16] The revised opinion resulted from RIM's filing a petition for rehearing, which was joined by several amici, including the government of Canada.[17]

In its revised opinion, the Federal Circuit framed the question as "whether the using, offering to sell, or selling of a patented invention is an infringement under Section 271(a) if a component or step of the patented invention is located or performed abroad."[18] The court discerned a lack of clarity in the language of section 271(a) with respect to the interplay between the territoriality requirement ("within the United States") and the "infringing acts" clause ("makes, uses, offers to sell, or sells any patented invention").[19] In its view, this lack of clarity raised an open question whether there can be direct infringement consistent with the territoriality requirement if "the location of at least a part of the 'patented invention' is not the same as the location of the infringing act."[20]

In answering its question, the Federal Circuit found the *Deepsouth* case[21] to be unhelpful because both the infringing act (making the operable assembly) and the resulting patented invention (the assembled machine) were wholly outside the United States.[22] By contrast, it regarded *Decca Ltd. v. United States*,[23] a 1976 Court of Claims decision, as "provid[ing] a legal framework for analyzing this case" because it involved an infringing act (use of a radio navigation system) within the United States and a patented system for which one component (a transmitting station) was located in Norway.[24] Not only did the court consider *Decca* to supply the analogous fact pattern, but also to instruct that the territoriality analysis must be made separately for each infringing act and each type of claimed invention.[25] To visualize this, one can imagine a matrix with each type of infringing act corresponding to a discrete row and each type of patented invention corresponding to a discrete column. Each box of that matrix must be separately analyzed. In this case, RIM's infringing acts in question are "use" and "offer to sell/sell" and NTP's patented inventions in question are a claimed system and method/process.

The Territoriality Analysis Explained

The Federal Circuit began its territoriality analysis by examining direct infringement based on "use." With respect to NTP's claimed system, the court saw *Decca* as furnishing the applicable rule: "[t]he use of [such] a . . . system under Section

271(a) is the place at which the system as a whole is put into service, *i.e.*, the place where control of the system is exercised and beneficial use of the system obtained."[26] Essentially, the rule states that the operative assembly of an infringing combination does not have to be located entirely within the United States for there to be infringement if the assembly is controlled and beneficially used by someone in the United States. The Court of Claims in *Decca* held that although the accused Omega navigation system involved the placement of transmitting stations abroad (e.g., in Norway), the system as a whole was controlled by a "master" station located in the United States and owned and operated for the benefit of the United States government.[27] Similarly, the Federal Circuit in *NTP* reasoned that although the accused BlackBerry system included the Relay component in Canada, the system as a whole was being controlled and used by customers located in the United States who have purchased BlackBerry handheld devices.[28] RIM was therefore liable for inducing or contributing to its customers' infringing use of the claimed system.

With respect to NTP's claimed method, however, the Federal Circuit reached the opposite conclusion. Using a patented process "necessarily involves doing or performing each of the steps recited" individually and separately, as contrasted with using a patented system as a whole, with all of its constituent components on a collective basis.[29] The court "therefore [held] that a process cannot be used 'within' the United States as required by Section 271(a) *unless each of the steps is performed within this country*."[30] In this case, the location of the Relay component in Canada precluded a finding of direct infringement by RIM's customers because each of the asserted method claims included a step that involved using the Relay as an "interface" or "interface switch."[31] As a result, RIM could not be held liable for induced or contributory infringement of the method claims, unlike the system claims.[32]

The Federal Circuit next considered whether RIM nevertheless could be held liable for direct infringement of NTP's method claims based on an "offer to sell/sell." "[T]he ordinary meaning of a sale includes the concept of a transfer of title or property."[33] That definition works fine when the patented invention is an article of manufacture or a machine to which title and possession can be transferred. But "[i]t is difficult to envision what property is transferred merely by one party performing the steps of a method claim in exchange for payment by another party. Moreover, performance of a method does not necessarily require anything that is capable of being transferred."[34] More importantly for this case, "RIM's performance of at least some of the recited steps of the asserted method claims as a service for its customers cannot be considered to be selling or offering to sell the invention covered by the asserted method claims."[35] Nor can its sale of the handheld devices alone be a sale of NTP's claimed process.[36] The court therefore held that RIM could not be liable under section 271(a) for infringement of NTP's method claims.[37]

If the patented invention is a system or a method, components or steps may be located abroad.

Finally, the court also ruled out any theory of infringement of NTP's method claims based on either section 271(f) or 271(g). In general terms, section 271(f) proscribes the acts of (1) supplying all or a substantial part of the components of a patented invention in or from the United States in order to induce their infringing combination overseas and (2) supplying any specially adapted, nonstaple component of a patented invention in order to contribute to the creation of an infringing combination overseas.[38] The Federal Circuit ruled that section 271(f) did not apply because "[b]y merely supplying products to its customers in the United States, RIM is not supplying or causing to be supplied in this country any steps of a patented process invention for combination outside the United States."[39]

Section 271(g) in general proscribes the act of using, offering to sell, or selling within the United States or importing into the United States a product that has been made overseas using a process patented in this country.[40] The reason this section does not apply is because there is no physical article being made by NTP's patented method, as required by the statute.[41] "[T]he 'transmission of information,' like the 'production of information,' does not entail the manufacturing of a physical product[.]"[42]

As seen in the *NTP* court's analysis, the nature of the infringing act may implicitly require that the patented invention be present in the United States. For example, *Deepsouth* makes clear that to be infringing, an act of "making" or "selling" must be of the patented invention as a whole, not just its parts.[43] Accordingly, the patented invention may have to be wholly present in the United States if it is to be deemed to have been made or sold within the United States. By contrast, an "offer to sell" infringes if it occurs within the United States even if the patented invention is not then present within its borders (although the invention must enter the United States contemporaneously with the intended sale).[44]

Of all the species of infringing acts, a "use" of a patented invention would seem to be the one that does not necessarily call for the invention to be entirely present within the United States. If the patented invention is a system or a method, it matters not that certain components or steps are located abroad. What matters is that there is a use of the system or method in the United States that encroaches upon the patentee's exclusive right to the domestic market for the patented invention. The Federal Circuit thus held in *NTP* that direct infringement of the asserted system claims under section 271(a) arose from the activities of RIM customers in the United States using their BlackBerry devices, even if the Relay happens to be in Canada.[45]

Possibility of Supreme Court Review

As of the writing of this article, the *NTP* case remains pending in the Federal Circuit.[46] RIM may well petition the court again for a rehearing en banc, or seek certiorari from the Supreme Court to review the Federal Circuit's territoriality analysis under the "use" prong of section 271(a). For all its clarity, the Court in *Deepsouth* never answered this question,[47] which appears to be complex and not readily susceptible to resolution in accordance with bright-line rules.

At least one lower court has considered the converse of this question, i.e., whether infringement arises simply because a patented invention is located partly in the United States if it is used only outside of the United States. In *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*,[48] defendant Rogers Wireless, Inc., which provides a prepaid wireless service exclusively to Canadian residents, argued that it did not "use" its accused prepaid wireless system within the United States.[49] In response, plaintiff and patentee Freedom Wireless focused on the fact that an essential component of Rogers's prepaid wireless system, a billing database provided by defendant Boston Communications Group, is located in Massachusetts.[50]

The district court rejected the notion that the incorporation of the Massachusetts-based billing database would transform Rogers's use of its prepaid wireless system, which it controlled and operated from Canada, into an infringing use within the United States. "[T]his is a case where the defendant was a Canadian resident operating a system exclusively for the benefit of Canadian residents, the substantial portion of which was located within Canada. In other words, this was a Canadian system that happened to extend into the United States, not a domestic system that happened to extend into Canada."[51] The holding in *Freedom Wireless* is thus consistent with the view that the territoriality analysis should focus on the location of the "use" as opposed to the location of the patented invention. The fact that Rogers used its prepaid wireless system in Canada to serve exclusively Canadian customers was dispositive of the infringement issue.

In summary, fairly read, section 271(a) focuses on whether an act of making, using, selling, or offering to sell a patented invention takes place within the United States. The location of the patented invention should be of consequence insofar as it informs or impacts the location of the allegedly infringing act. For example, a patented article such as a handheld device must be present in the United States in order for it to be used. Even if section 271(a) does not appear to apply to any of the accused activities of a defendant, other subsections of the statute may. There may be a supply in or from the United States of all or a substantial portion of the components of a patented invention in violation of section 271(f)(1), such as source code burned onto golden master disks and shipped overseas where the code is then replicated and installed onto computer hard drives.[52] Or there may be an importation of a product made abroad by a patented process in violation of section 271(g). Finally, if section 271 is not at all applicable, then a patentee should heed the advice in *Deepsouth*: Seek foreign patent protection.[53] ●

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Endnotes

[1] 35 U.S.C. § 271(a) (2005) ("Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.").

[2] Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 531 (1972).

[3] Dowagiac Mfg. Co. v. Minn. Moline Plow Co., 235 U.S. 641, 650 (1915) (citation omitted).

[4] Brown v. Duchesne, 60 U.S. (19 How.) 183, 195 (1857).

[5] *Id.*

[6] 35 U.S.C. § 281 (2005) ("A patentee shall have remedy by civil action for infringement of his patent.").

[7] No. 03-1615 (Fed. Cir. Aug. 2, 2005), *available at* http://fedcir.gov/opinions/03-1615r.pdf. This is a revised opinion that resulted from the court's granting a petition for panel rehearing and withdrawing its previously published opinion, 392 F.3d 1336 (Fed. Cir. 2004). *See NTP,* No. 03-1615 (Fed. Cir. Aug. 2, 2005) (order), *available at* http://fedcir.gov/opinions/03-1615o.pdf.

[8] NTP's patents are currently undergoing reexamination and the United States Patent and Trademark Office has already declared seven of them invalid in view of newly identified prior art. *See USPTO Again Rules for BlackBerry Maker in Patent Challenge,* IP Law Bull. (June 23, 2005), *available at* www.iplawbulletin.com.

[9] The BlackBerry® Relay also serves as a gateway for an e-mail message moving in the reverse direction, from a user's handheld device via the wireless network to the user's mail server, where the redirector software retrieves and places it in the user's e-mail software for distribution via normal channels.

[10] *NTP,* slip op. at 49-50.

[11] *Id.* at 50. There was originally an issue whether the Relay was also located in Virginia, but this issue was not preserved for the appeal. *See id.* at 50 n.11.

[12] *Id.* at 50-51.

[13] *Id.* at 51.

[14] *Id.* at 51. The Federal Circuit characterized RIM's argument under § 271(a) to be "that the entire accused system and method must be contained or conducted within the territorial bounds of the United States." *Id.* at 51-52.

[15] NTP, Inc. v. Research in Motion, Ltd., 392 F.3d 1336 (Fed. Cir. 2004).

[16] No.03-1615 (Fed. Cir. Aug. 2, 2005) (order).

[17] *See, e.g.,* Combined Petition by Research in Motion, Ltd. for Panel Rehearing and Rehearing En Banc, *NTP* (No. 03-1615, filed Jan. 11, 2005); Brief Amicus Curiae of the Government of Canada in Support of the Request for Rehearing En Banc Made in the Combined Petition by Research in Motion, Ltd. for Panel Rehearing and Rehearing En Banc, *NTP* (No. 03-1615, filed Jan. 13, 2005); The Canadian Chamber of Commerce's Brief Amicus Curiae in Support of Request for Rehearing En Banc, *NTP* (No. 03-1615, filed Jan. 14, 2005).

[18] *NTP,* slip op. at 52.

[19] *Id.* at 52-53.

[20] *Id.* at 53.

[21] *See* footnote 2 *supra*.

[22] *NTP,* slip op. at 53. In *Deepsouth*, the accused machines for deveining shrimp had been exported as separate components for assembly and use abroad. 406 U.S. at 523-24.

[23] 210 Ct. Cl. 546, 544 F.2d 1070 (Ct. Cl. 1976).

[24] *NTP,* slip op. at 53-55.

[25] *Id.* at 55.

[26] *Id.* at 56. "Although *Decca* was decided within the context of § 1498 [of Title 28], which raises questions of use *by* the United States, the question of use *within* the United States also was implicated because direct infringement under § 271(a) is a necessary predicate for government liability under § 1498." *Id.* at 54-55 (acknowledging that *Decca* dealt with a takings claim against the government for the use or manufacture of a patented invention without just compensation).

[27] *Decca,* 210 Ct. Cl. at 569, 544 F.2d at 1083 (concluding that an infringement by the accused Omega navigation system rests "on the combination of circumstances here present, with particular emphasis on the ownership of the equipment by the United States, the control of the equipment from the United States and on the actual beneficial use of the system with-

in the United States.").

[28] *NTP,* slip op. at 56-57 ("When RIM's United States customers send and receive messages by manipulating the handheld devices in their possession in the United States, the location of the use of the communication system as a whole occurs in the United States."). Note that the customers, not RIM, are the direct infringers under this "use" analysis, and RIM's liability must arise from inducing or contributing to such direct infringement. *Id.* at 56 n.13.

[29] *Id.* at 58.

[30] *Id.* (emphasis added).

[31] *Id.*

[32] *Id.* at 59.

[33] *Id.* at 60.

[34] *Id.* at 61.

[35] *Id.* at 63.

[36] *Id.*

[37] The court added that RIM could not be found to infringe the method claims under the importation clause of § 271(a), based on the same reasoning why the method claims could not be said to have been offered for sale or sold. *Id.* at 64.

[38] 35 U.S.C. § 271(f)(1) & (2) (2005).

[39] *NTP,* slip op. at 67.

[40] 35 U.S.C. § 271(g) (2005).

[41] *NTP,* slip op. at 69.

[42] *Id.* at 69 (citing Bayer AG v. Housey Pharms., Inc., 340 F.3d 1367, 1377 (Fed. Cir. 2003)).

[43] 406 U.S. at 528 ("We cannot endorse the view that the 'substantial manufacture of the constituent parts of [a] machine' constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts.").

[44] Rotec Indus., Inc. v. Mitsubishi Corp., 215 F.3d 1246, 1257 (Fed. Cir. 2000) (affirming the judgment that there was insufficient evidence for a jury to have found an offer for sale to have been extended within the United States). Judge Newman points out in her concurrence, however, that as defined by § 271(i), an "offer for sale" made in the United States cannot be infringing unless it ultimately results in a sale, during the term of the patent, of an item that infringes the patent in the United States. *Id.* at 1260 (Newman, J., concurring) ("Thus an offer made in the United States, to sell a system all of whose components would be made in foreign countries, for sale, installation, and use in a foreign country, does not infringe the United States patent.").

[45] *NTP,* slip op. at 57 ("This satisfactorily establishes that the situs of the 'use' of RIM's system by RIM's United States customers for purposes of § 271(a) is the United States.").

[46] NTP and RIM previously announced a settlement of their dispute on March 16, 2005, but that settlement now appears to have unraveled.

[47] 406 U.S. at 527 ("Laitram does not suggest that Deepsouth 'uses' the machines. Its argument that Deepsouth sells the machines—based primarily on Deepsouth's sales rhetoric and related indicia such as price—cannot carry the day unless it can be shown that Deepsouth is selling the 'patented invention.' The sales question thus resolves itself into the question of manufacture: did Deepsouth 'make' (and then sell) something cognizable under the patent law as the patented invention, or did it 'make' (and then sell) something that fell short of infringement?") (footnote omitted).

[48] 198 F. Supp. 2d 11 (D. Mass. 2002).

[49] *Id.* at 15 ("In brief, Rogers argues that this is a Canadian system operated by a Canadian corporation exclusively for Canadian residents and is therefore beyond the scope of the patent infringement statute.").

[50] *Id.* at 15-16 ("Thus, the critical issue in this motion for summary judgment is whether Rogers's reliance on the BCGI database in Massachusetts can constitute use within the United States so as to satisfy the territoriality requirement of 35 U.S.C. § 271(a).").

[51] *Id.* at 18.

[52] Eolas Techs. Inc v. Microsoft Corp., 399 F.3d 1325 (Fed. Cir. 2005); AT&T Corp. v. Microsoft Corp., No. 04-1285, 2005 U.S. App. LEXIS 14082 (Fed. Cir. July 13, 2005)

[53] 406 U.S. at 531. See Pellegrini v. Analog Devices, Inc., 75 F.3d 1113 (Fed. Cir. 2004).

Using the Tariff Act's Section 337 in IP Border Enforcement

By Bryan Schwartz

When contemplating filing an intellectual property lawsuit involving imported products, many lawyers think only of the federal courts. Doing so, however, denies their clients one of the most powerful options available: filing a complaint at the U.S. International Trade Commission (ITC) under section 337 of the Tariff Act, 19 U.S.C. § 1337. With more than 100 cases during the last five years, the ITC docket has exploded, and with good reason.

Section 337

Section 337 is a trade law prohibiting unfair competition in import trade. While broadly written to cover any type of "unfair practice," the statute expressly lists infringement of U.S. patents, trademarks, copyrights, and mask works as violations of the law. The statute authorizes the ITC to investigate claims by private parties against imports alleged to infringe U.S. intellectual property and to exclude those imports from entry into the United States. In practice, the law is used almost exclusively as an intellectual property rights enforcement tool rather than as a broader unfair competition law. As such, the ITC has become an intellectual property law forum of the first order.

Advantages of the ITC

There are a number of advantages to filing with the ITC:

Broad jurisdiction. Jurisdiction under Section 337 is in rem, meaning that it is the imported articles from which jurisdiction derives, not the presence of the parties or unfair acts in the vicinity of the ITC (located in Washington, D.C.). In rem jurisdiction allows the IP owner to address infringement in a single forum regardless of whether the manufacturer is overseas or the distributors and importers are scattered across the United States

Broad remedies. The ITC can issue "general" or "limited" exclusion orders. If the IP owner can prove a widespread pattern of violation and ease of market entry, the ITC can issue a general order excluding all imported products regardless of whether the IP owner named any given manufacturer or importer as a party. A general exclusion order enables an IP owner to stop infringing imports when not all the sources are known or when there are too many sources as a practical matter to name in the lawsuit. Limited orders exclude infringing articles manufactured by or on behalf of the named defendants. Even limited orders, however, may be broadly written to cover "upstream" products (e.g., components) of the infringing good or "downstream" products (e.g., finished goods) containing the infringing article. The ITC also may issue cease and desist orders against ongoing U.S. activity (such as sale from inventory) that is "reasonably related" to the importation of the goods.

Unique enforcement tools. Unlike federal court orders, which are policed by the court via contempt actions brought by the right holder, ITC exclusion orders are automatically enforced by U.S. Customs and Border Protection at all U.S. ports of entry. Customs, on the ITC's behalf, is authorized to seize and exact forfeiture of the goods. For cease and desist order violations, the ITC can impose penalties representing the greater of $100,000 for each day of violation or two times the value of the imported articles.

No counterclaim authority. The ITC cannot hear counterclaims. Any counterclaim must be removed to a U.S. district court that would have jurisdiction. Therefore, counterclaims cannot take up valuable hearing time or distract from the core infringement issues.

Predictable time to final judgment. Target dates for case completion are set at the beginning of each case and are almost always set for 15 months or less. They are rarely altered to any significant degree.

Disadvantages of the ITC

Advantages of filing with the ITC must be balanced against disadvantages:

Importation requirement. Section 337 operates only against imported goods. However, this barrier is minimal. A single importation is sufficient. Noncommercial importations (such as for trade shows or research) also suffice. Importation that is merely "incipient," such as goods under a contract for sale, also may be preemptively barred.

Domestic industry requirement. Section 337 requires that a domestic industry in articles protected by the IP right exist or be in the process of being established. An industry may be based on investment in plant or equipment, employment of labor or capital, or investment in engineering, research and development, or licensing. The U.S. investment or activity must be directed in some way to using or exploiting the particular IP right. However, there is no requirement of investment of a certain size, and companies with as few as five employees have satisfied the test. There is also no U.S. citizenship requirement. The owner of the U.S. IP right may be a citizen of any country, as long as there is U.S. investment or activity of the enumerated types related to the IP right.

No damages. If you want damages, you must sue in federal court. But bringing a case at the ITC does not prevent the filing of parallel litigation in federal court. The cases can proceed simultaneously (though the federal case may be subject to stay). And the ITC case will not have res judicata or collateral estoppel effect in the federal case, though it may have persuasive power.

A detailed complaint. Unlike federal court, the ITC requires detailed factual allegations for each element of the claim. While somewhat burdensome, the prefiling investigation required to meet this pleading standard often provides a big preparation advantage for the complainant.

Considering the ITC

You may want to consider using the ITC if any of the following apply:

Imports are directly hurting your business. If your problem is with imports, the ITC's broad remedies and unique enforcement tools make the forum very attractive.

Your competitor's business depends on importing product into the United States.

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Trade Secret Law and Protecting Your Client's Process

By Kristy Joi Downing

Deciding how to globally protect a commercially valuable process does not have to be cumbersome. There are several alternative routes available, some are more beneficial than others, depending on: the ability to materially alter the end product without undermining its commercial value in the United States; the form of the product (tangible or intangible); and the trade secret laws of the country in which the process may become subject to misappropriation.

A product is not considered "made by" the patented process if it is materially changed by subsequent processes.

Consider the following course of events. You are a manufacturer of a product—be it pharmaceutical drugs, electronic equipment, or automobiles—with a substantial market in the United States. For a number of reasons it is considerably less expensive to manufacture your product abroad, rather than locally, and then import your product. So you set up shop in China, hire employees and form several business relationships with local organizations to assist you in the development of your product. Though you are uncertain as to whether your process is unique to your organization, you wish to keep your know-how inside the company for as long as possible. You may, however, be interested in eventually licensing the technology. Rightfully so, you consider what would be the best avenue for protecting your intellectual property.

On the one hand, if your process is novel (and, of course, useful) you can file a patent application in the United States.[1] However, you are aware that the application for patent will be available to the public 18 months after filing.[2] On the other hand, you may elect to fortify the secrecy value of your process by taking the measures necessary to establish your process as a trade secret within the region of interest. Those benefiting from the unauthorized acquisition of your information would then be liable for trade secret misappropriation.[3]

The route you choose should be determined by the aforementioned considerations in light of relevant global intellectual property laws as summarized below.

Imported Goods "Made By" a Patented Process

One of the privileges provided to a U.S. patent holder is the ability to pursue adequate remedy against infringers of a patented invention.[4] The definition of infringement has been broadened to include the importation of products made by a patented process so that "whoever without authority imports into the United States or offers to sell, sells, or uses within the Unites States a product which is *made by a process* patented in the United States shall be liable as an infringer—"[5]

The statute outlines an exception to the rule: A product is not considered "made by" the patented process if it is *materially changed* by subsequent processes.[6] While most patent holders are concerned primarily with whether an imported product impairs the economic value of their patented process, the Federal Circuit refuses to use impairment of economic value as the standard for assessing the substantiality of the change in question. *Eli Lilly & Co. v. American Cyanamid Co*., 82 F.3d 1568 (Fed. Cir. 1996). In *Eli Lilly*, the patent holder had a process patent on making a compound that was an intermediate compound of an antibiotic imported into the U.S. by the accused infringer. The court concentrated on the structural differences of the two products, each structural difference's impact on the product's properties, and the additional manufacturing processes necessary to create the change in the product.[7] The court reasoned that a "value-based construction" would require the statutory language to "do too much work," allowing the issue of infringement hinge upon the variable commercial uses of a product instead of its structure and/or function.

"Under [the value-based] approach, however, the question whether compound 6 was 'materially changed' in the course of its conversion to cefaclor would depend on whether and to what extent other derivative products of compound 6 are marketed in this country. Thus under, [the value-based] theory compound 6 would become materially different from cefaclor if and when compound 6 came to have other commercial uses in the United States, even though the respective structures and properties of the two compounds remained unchanged."[8]

Companies seeking to preserve the economic integrity of their process patents should understand this distinction.

Another doctrinal exception magnifies the subtle difference between "made by" and discovered or developed by as detailed in recent case law. If the product of the process is intangible and merely developed by a patented process then the importer will not be liable for infringement for importing products benefiting from the patented process. *Bayer AG v. Housey Pharmaceuticals, Inc.*, 340 F.3d 1367 (Fed. Cir. 2003). In *Bayer*, the court denied a request for a preliminary injunction made by Housey Pharmaceuticals where the alleged infringer took advantage of a patented screening process to identify substances with pharmaceutical potential. Bayer manufactured the product—discovered by Housey's patented screening process—and imported it into the United States. The court relied on the legislative intent of Congress as expressed through the ordinary meaning of the word "made." Relying on *Webster's* and *Random House Dictionary* definitions of "made" the court found "[t]hese definitions—consistent in referring to tangible objects and not intangibles such as information. Thus, the production of information is not within the scope of a process of 'manufacture.'"[9] Global corporations should also be aware that § 271(g) does not protect against the importation of intangible products derived from a patented process.

Comparative Study of Trade Secret Laws

A completely different ball game, trade secret law does not recognize the "made by" limitation that is addressed above. Rather, trade secret law seeks to provide a remedy to the owner of commercially valuable know-how or information that has been inappropriately acquired. The elements necessary to establish trade secret misappropriation vary between countries. However, there are several universal considerations worth recognizing.

First, secrecy: The information must not be available in the public domain or readily ascertainable. Second, value: The know-how must have some economic value or provide a commercial advantage. Last, security: The holder of the information must make reasonable efforts to secure the information. Most countries provide monetary relief as well as some form of injunctive relief to successful trade secret misappropriation claimants. However, some countries impose criminal sanctions as a primary means of granting relief that is sometimes a less attractive option than civil remedies.

United States. Predominantly, the United States has codified its trade secret law. The Uniform Trade Secrets Act (UTSA) has been adopted by the majority of states including the District of Columbia.[10] The elements of a trade secrets misappropriation claim under UTSA are in line with the universal considerations enumerated above (secrecy, value and security). Under UTSA a trade secret is defined as

> [I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[11]

Under the UTSA injunctive relief as well as monetary relief are available.[12] UTSA, however, has not adopted criminal sanctions.[13]

Canada. Canadian trade secret law is established in Canada's common law and corresponds with U.S. law in that the same proverbial considerations need be established for a successful trade secret misappropriations claim. *Fraser v. Thames Television Ltd.*,[1984] Q.B. 44. In *Fraser v. Thames Television*, the tribunal confirmed that information might be defined as confidential without a contractual obligation given: "(1) that the information was of confidential nature; (2) that the information was communicated in circumstances importing an obligation of confidence; and (3) that there has been an unauthorized use of the information to the detriment of the person communicating it (i.e. the plaintiff)."[14] Moreover, Canada requires that the trade secret holder have a reasonable belief that the information is of commercial value.[15] Canada provides civil remedies (monetary and equitable, such as injunctions).

Mexico. Mexico has also codified its trade secret provisions. Mexico's source of trade secret law, the Industrial Property Law of the United Mexican States (IPL), details a narrower definition of a trade secret than its NAFTA brothers. The IPL defines a trade secret as:

> Any information susceptible of industrial application that a natural person or corporate entity keeps, [that] is of confidential character and is associated with securing or retaining a competitive economic advantage over third parties in the conduct of economic activities, and regarding which the said person or entity has adopted sufficient means or systems of preserving confidentiality and restricting access, shall be considered a trade secret.[16]

In addition to the secrecy, value, and security elements the accuser must also establish that the trade secret was actually used and that the information was in tangible form at the time of misappropriation. Though Mexican law provides monetary remedies, the preferred route of enforcement is through criminal sanctions. Mexico does have provisions for injunctive relief.

Japan. Japan amended its laws in 1991 to provide direct statutory protection of trade secrets. The elements of a trade secrets misappropriation claim under Japan's Unfair Competition Prevention Law are in line with the universal considerations (secrecy, value and security) defining a trade secret as "technical or business information—useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known."[17] Additionally, the objective of secrecy must be administered by the holder. Moreover, Japan provides civil remedies including injunctive relief and monetary damages. However, no criminal sanctions are available under this statute.

China. Chinese trade secret law is statutorily defined in China's Unfair Competition Law (UCL).[18] Chinese trade secret law also focuses on the surrounding circumstances as they relate to secrecy, value and security. Article 10 defines a trade (or "business") secret as "technical information and business information which is non-public, can bring economic benefits to the party that has rights therein and is practical, and for which the party that has rights therein has adopted measures to maintain its confidentiality."[19] China provides civil remedies including monetary and equitable remedies (e.g., cease orders). China also recognizes third party liability.

Choosing According to Your Goals

The choice to pursue patent protection versus trade secret protection should be contingent upon the process that one seeks to prevent others from copying and the country in which the process occurs. If the process does not directly add value to a product, i.e., regarding the manufacture of the product, then seeking a process patent may not be the best means of preventing competitors from importing products that benefit from that process. Likewise, if the product produced by the process can easily be materially altered and retain its market value then § 271(g) may fail to adequately protect the information.

Overseas operations in countries like Canada, Japan, and China will have strong overlap with typical U.S. trade secret laws. However, if your operations are in countries like Mexico, additional measures should be taken to fortify your information as a trade secret. Lastly, if criminal sanctions play a poor second fiddle to civil remedies for your operations, then filing a patent application may be more desirable than seeking trade secret protection in countries like Mexico.

The trade secret laws of the country in which a process may become subject to misappropriation are relevant to the decision on how to protect a commercially valuable process. The form of the product (tangible or intangible) and the ease of one's ability to materially alter the product without undermining its commercial value in the United States are noteworthy considerations.

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Endnotes

[1] 35 U.S.C. § 101 (2003) ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor —").

[2] 35 U.S.C. § 122(b) (2003) ("[Notwithstanding the listed exceptions], each application for a patent shall be published, in accordance with procedures determined by the Director, promptly after the expiration of a period of 18 months from the earliest filing date for which a benefit is sought under this title.").

[3] Filing an application under the Patent Cooperation Treaty with designation in the desired country may also be another option depending on the country's recognition of your particular type of process patent. *See* M.P.E.P. § 1800. Moreover, other theories of recovery may be available such as breach of contract or unjust enrichment.

[4] 35 U.S.C. § 271 (2003).

[5] 35 U.S.C. § 271(g) (2003) (emphasis added); Process Patent Amendments Act of 1988, Pub. L. No. 100-418, §§ 9001- 9007.

[6] *Id.*

[7] *Id.* at 1570-71; *see also id.* at 1573-74.

[8] *Id.* at 1573-74.

[9] *Id.* at 1371-72.

[10] National Conference of Commissioners on Uniform State Laws (1979) (amended 1985).

[11] *Id.* at § 1(4).

[12] *Id.* at § 2.

[13] Other states may have varying consideration in making the determination as to what is trade secret that are reflected in the *Restatements for Torts and Unfair Competition*. Restatement (First) of Torts §757 (1939); Restatement (Third) of Unfair Competition Law § 39 (1995).

[14] *Id.* at 61 quoting Coco v. A.N. Clark (Engineers) Ltd. [1969] R.P.C. 41, 47-48.

[15] *Id.* at 65 ("First, I think that the information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals or others. Second, I think the owner must believe that the information is confidential or secret, i.e., that it is not already in the public domain. It may be that some or all of his rivals already have the information; but as long as the owner believes it to be confidential I think he is entitled to try and protect it. Third, I think that the owner's belief under the two previous heads must be reasonable. Fourth, I think that the information must be judged in light of the usage and practices of the particular industry or trade concerned").

[16] "Ley de Fomento y Proteccion de la Propeidad Industrial" [Law for the Development and Protection of Industrial Property], D.O., 28 de junio de 1991 (Mex.), *translated in* Worldwide Trade Secrets Law, 3-6 (2003).

[17] Fusei Kyōsō Bōshi Hō [Unfair Competition Law], Law No. 14 (1943), Amendments, Law No. 66 (1990) Art 1 (Japan), *translated in* Holly Svetz, *Japan's New Trade Secret Law*, 26 Geo. Wash. J. Int'l L. & Econ. 426 (1992).

[18] Unfair Competition Prevention Law, *translated in* Worldwide Trade Secrets Law, 26-7 (2003).

[19] *Id.* at paragraph 3 of Article 10; *see also* Article 2 of the Trade Secrets Regulations, *translated in* Worldwide Trade Secrets Law, 26-8 (2003) (defining a trade secret as "technical information and business information which is non-public, can bring economic benefits to the party that has rights therein and is practical, and for which the party that has rights therein has adopted measures to maintain its confidentiality.").

Using the Tariff Act's Section 337 in IP Border Enforcement

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In this situation, an IP owner can dramatically increase his or her leverage by filing at the ITC. The statute prohibits sale after importation, not just the act of importation, so distributors may be impacted. And domestic competitors are not exempt. Section 337 cases are increasingly being fought between solely domestic companies. Even if a product is made in the United States, if it is later imported either alone or in a secondary product, it may be excluded.

There are multiple infringers. If effective relief would require suits in multiple courts, the ITC may be the best forum. Strong evidentiary sanctions and default provisions are available against parties that fail to produce documents or fail to appear.

Time is of the essence. ITC proceedings are quick. In most district courts, IP cases typically take much longer than 15 months. ITC discovery begins 30 days after the case is filed. Response time is often as little as 10 days, not the 30 days allowed under the federal rules.

Defending Against Section 337 Actions

Because there is no exemption for U.S. citizens, U.S. companies that import products into the country are just as likely to be sued under section 337 as are foreign companies. What should you do if you are on the other end of a section 337 case?

As to substantive law, section 337 specifically provides for all legal and equitable defenses available under federal law. Therefore, the best strategy usually will be to pursue immediately the typical defenses to the alleged IP infringement. From a procedural standpoint, the key is speed. Retain counsel and experts as rapidly as possible and promptly begin coordinating document and witness searches. Getting up to speed quickly can make the difference in an outcome that is only months down the road.

Although the ITC cannot award damages, its arsenal of powerful remedies, coupled with its jurisdiction directly over the goods, make it a forum that should be considered in all potential IP litigation involving imported goods.

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Quick IP Relief

Continued from cover

U.S. Tariff Act of 1930 (19 U.S.C. § 1337) authorizes remedies for unfair import practices other than those related to pricing or import volume. Most section 337 complaints are based on alleged violations of intellectual property rights, particularly patent infringement, and to a lesser extent trade dress violations.

Section 337 cases are decided by the full ITC (there are six commissioners). The cases are initially tried before administrative law judges (ALJs), who hear the case very much as would a district court judge and issue an Initial Determination. The ITC commissioners then review the Initial Determination and issue a final ITC decision.

Jurisdiction before the ITC is in rem, based on the import of the accused good. Accordingly, there are generally no personal jurisdiction or venue issues at the ITC. The ITC does not have authority to issue damages. Rather, the ITC may issue an exclusion order, directing customs to bar all further imports of the infringing good. It may issue a limited exclusion order, affecting only certain named companies, or a general exclusion order that is effective against imports from anywhere in the world regardless of whether the manufacturers or importers were parties before the ITC. The ITC may also issue cease and desist orders, directing importers to stop selling and return or destroy all inventories of the good in the United States.

Section 337 investigations involve a full range of products. Cases in the last year have involved, for example, optical communications equipment, color televisions, network controllers, DVD players, personal computers, flash memory cards, point-of-sale terminals, electric robots, rubber antidegradants, foam masking tape, pool cues, automotive fuel caps, ink markers, and plastic food containers. Many section 337 cases have been filed against Asian countries, but cases involving Canada and European countries are also common.[1]

Section 337 cases more commonly go to trial than do district court IP infringement cases. Of the 161 investigations instituted during the years 1995 through 2004, 46 percent were resolved by consent order (generally in which the respondent agreed to withdraw from the U.S. market) or settlement, 11 percent were withdrawn, and 43 percent went to hearing and resulted in a finding of violation (24 percent) or a finding of no violation (19 percent).

Finally and perhaps most importantly for present purposes, section 337 investigations are expedited proceedings. Trial is almost always conducted within seven to nine months of the case's initiation, and the ITC issues a final determination within 12 to 15 months.[2]

Rocket Dockets

As is well known, certain district courts in the United States have adopted rules and procedures to ensure that their cases are tried as quickly as possible. They have, for that reason, come to be known as "rocket dockets." The best known among patent lawyers are the Eastern District of Virginia; the Eastern District of Texas, in Marshall; and the Western District of Wisconsin. For example, the average time from filing to trial (in all civil cases) in the Eastern District of Virginia and the Western District of Wisconsin has averaged between eight and nine months during the last two years. That compares to the national average time to trial in civil cases of about 22 months. (Source: Administrative Office of the United States Courts)

The average time to trial for the most common other venues for patent infringement cases ranges from 20 months to three years or even more. The average times from filing to trial in all civil cases for selected courts are as follows:

Times to trial in patent cases are generally even longer, as indicated by the difference between the time to trial for patent cases nationally (27.7 months) and the time to trial for all civil cases nationally (22.5 months) in 2003.

In addition, some judges take a considerable amount of time post trial to issue a decision, especially in patent cases, although the rocket docket judges are usually good about turning around a decision promptly.

Preliminary Injunctions

District courts may, of course, issue preliminary injunctions or, in principle in extreme situations, temporary restraining orders, although the latter are rarely granted in IP cases.

However, the data suggest that it may take as long to resolve a motion for preliminary injunction as to try the case in a rocket docket or at the ITC. Of the 51 cases we have identified in which preliminary injunctions were entered in patent cases from January 1994 through December 2003, the mean time between filing and preliminary relief was 275 days, or a bit over nine months. (The shortest time between filing and injunction was 24 days; the longest was 1,671 days. With those two extremes out of the sample, the mean becomes a little over eight months.) For those cases in which preliminary injunctive relief was denied, the mean time between filing and denial of preliminary relief was 335 days, or about 11 months.

Benefits and Disadvantages of Seeking a Preliminary Injunction

Although enforcement of a preliminary injunction can occasionally be problematic, a preliminary injunction is normally a strong, satisfactory remedy. The question

District Court	Average Time from File-to-Trial*	Average Time from File-to-Trial*	2003 U.S. Rank
E.D. Virginia	8.0	9.0	1
W.D. Wisconsin	8.4	7.5	2
E.D. Texas	17.0	14.0	13
D. Delaware	24.0	22.5	54
N.D. Illinois	26.0	26.0	62
C.D. California	21.2	20.0	36
S.D. California	23.5	21.0	51
Nat'l Average	22.5	21.8	

*For 4-yr. period ending September 30, 2003 (in months)
(Source: Administrative Office of the United States Courts, 2003 Federal Court Management Statistics)

is: Can you obtain one? The potential problems in seeking a preliminary injunction are:

- Can the plaintiff demonstrate irreparable harm? The simple loss of money will not justify a preliminary injunction. The plaintiff must demonstrate irreparable harm to the company or perhaps to the market for its product—something that cannot be remedied by damages. This is not always an easy task.
- Does the plaintiff have possible jurisdictional problems? Jurisdiction can be problematic in IP infringement cases, especially if there are multiple defendants or if the producer(s) of the goods are not subject to U.S. jurisdiction. Thus, jurisdictional considerations may preclude use of a rocket docket and may even preclude bringing the action in the United States at all. Even if jurisdiction is eventually established, it may not be in plaintiff's preferred forum, and the jurisdictional dispute can substantially delay resolution on the merits.

Consider, for example, the not unusual case of a foreign producer with little or no U.S. contacts and a large number of U.S. importers and users. The importers and users may not be subject to suit in a single jurisdiction and may not be worth suits in multiple jurisdictions. Or the IP owner may not want to sue consumers and potential customers. None of those concerns apply in a section 337 case where the action will lie against the product. The accused manufacturer will generally participate in a section 337 investigation, although defaults are not uncommon, but jurisdiction does not depend on their participation or amenability to U.S. jurisdiction, or that of any of the importers or users.

- Will limited discovery be sufficient? Discovery is typically limited in the preliminary injunction phase in a district court. That may be an advantage in helping to reduce costs, but may prevent fully exploring some issues.
- How important is the negative impact of a possible denial? There is a psychological downside, and possibly a more tangible downside, to losing a motion for a preliminary injunction. The judge may become entrenched or at least view plaintiff's case more skeptically after the loss. Perhaps even more important, business personnel (the client—remember them?) are often highly averse to the risk of a loss, even if temporary. It may result in unfavorable publicity, loss of sales, concern from customers, questions and second-guessing from top management, and so forth.

The number of preliminary injunctions granted has fallen significantly since the 1980s, even though the number of patent cases has increased.

- Can plaintiffs get a preliminary injunction at all? The courts appear to be increasingly reluctant to grant preliminary injunctions. Our review of preliminary injunction decisions in patent cases indicates that the number of preliminary injunctions granted has fallen significantly since the 1980s, even though the number of patent cases has somewhat increased.[3] In 1994 to 1999, district courts granted only one-third (25 of 75) of all preliminary injunction applications.[4] And a more recent review suggests that the rate has dropped to no better than about one-quarter of the cases since then. In addition, our survey indicates that during the past decade, the Federal Circuit has overturned or reversed far more preliminary injunctions than it has upheld.

These results are consistent with what can only be described as a less than friendly attitude toward preliminary injunctions on the part of the Federal Circuit. It has held that "a preliminary injunction is a drastic and extraordinary remedy that is not to be routinely granted."[5] Moreover, although a patent is presumed to be valid for purposes of preliminary relief, the showing of possible invalidity needed to avoid a preliminary injunction is "notably" less than the clear and convincing showing necessary to establish invalidity at full trial.[6] To succeed on a preliminary injunction, the plaintiff "must present a 'clear case' supporting the validity of the patent." The motion for preliminary injunction can be defeated "by showing that the patent is 'vulnerable' to attack based on validity."[7]

That trend may have changed somewhat during the past few years, primarily because the Federal Circuit appears to be giving greater deference to district court claim constructions in the context of preliminary injunctions, treating the trial court's initial claim construction as preliminary and therefore subjecting it to less intense scrutiny.[8] However, some of the benefits of a quick resolution are lost to the extent that claim construction at the preliminary injunction stage is only tentative and may later be changed.

Benefits and Disadvantages of a Rocket Docket

Rocket dockets can offer important advantages over preliminary injunctions and the ITC. Among others, a rocket docket can award damages, which the ITC cannot do. Many of the rocket docket judges have considerable experience with patent cases and their management. Also very importantly, juries are available in a rocket docket but not at the ITC or on preliminary injunction. Many practitioners prefer to take cases to a jury if they are concerned about weaknesses in their case. As discussed below, ITC cases are tried before experienced, capable ALJs who are more likely to understand and be willing to rule against weaknesses.

Against those advantages there are several potential disadvantages. Most importantly, it may simply not be possible to obtain or retain jurisdiction in a rocket docket. In the 1990s, the Eastern District of Virginia was generally open to taking patent cases given even relatively minimal contacts with the venue. However, it now often transfers out or dismisses the case if it believes that there is another court with a significantly closer nexus to the matter. In addition, patent cases in the Eastern District of Virginia's rocket docket used to be heard almost exclusively in the court's Alexandria Division. But patent cases are now assigned in rotation to judges in the Norfolk, Richmond, and Newport News Divisions, as well as the Alexandria Division.

The Western District of Wisconsin, Eastern District of Texas, and other rocket dockets do not appear to be transferring cases away quite as aggressively, but there is still a significant risk of transfer absent a strong basis for staying in the district. Moreover, they offer a limited jurisdictional reach in most cases and may be of limited convenience in many cases. Thus, a rocket docket may not always be available or desirable.

Benefits and Disadvantages of the ITC

The number of section 337 cases has doubled from about 12 a year in 1999-2000 to an average of 20 or more from 2001 to the present.[9] Why the apparent increased attractiveness of the ITC? There are a number of benefits to adjudication at the ITC. They include:

- Speed and certainty of schedule (completion within 12 to 15 months is almost certain)
- No jurisdictional difficulties (in rem proceedings, which allow petitioners to effectively reach foreign respondents and join multiple respondents in one proceeding)
- Experienced, capable adjudicators (four administrative law judges who hear nothing but intellectual property cases)
- Certain, strong remedy (U.S. Customs excludes all imports of the infringing product; cease and desist orders can reach existing U.S. inventory and activity; as noted earlier, the ITC may even issue general exclusion orders that are effective against imports from anywhere in the world regardless of whether the manufacturers or importers were parties before the ITC)
- Efficient, broad discovery, including effective foreign discovery
- There are effectively no counterclaims at the ITC (they can be filed but are immediately removed to district court)
- The ITC tends to be upheld on appeal. Our survey indicates that the ITC was upheld in 22 of 35 appeals from 1990 to date, was reversed in part in six cases, was reversed in whole in only four cases (none on a patent-based issue), and three cases were dismissed (for a defective appeal or settlement). Only one of the ITC's claim constructions during that period appears to have been reversed. The ITC's favorable appellate record may result in part from the substantial evidence standard of review applicable to its factual determinations and in part from the experience and specialization of the ITC ALJs.
- Section 271(g) (providing a defense in district court against infringement cases involving goods made overseas using a process patented in the United States if the items are materially changed before importation or are imported as trivial and nonessential components of another product) is not a defense at the ITC.
- There are no juries at the ITC, which may be an advantage in cases with complex technology or issues.

Other factors may also have contributed to the increased use of section 337. Perhaps most important are the rise in import-related IP cases and the increased use of section 337 by foreign companies as petitioners. For example, cases in recent years have been filed by such companies as BenQ Corporation, Mosel Vitelic Inc., Nikon Corporation, Toshiba Corporation, UMC, and Yamaha Motor Company. Other factors may include the apparent success of the 1994 amendments to bring section 337 into compliance with the GATT (the predecessor to the World Trade Organization Agreement) and the relaxation during the last decade or so of the domestic industry standard, discussed below.

There are some important potential disadvantages of adjudication at the ITC. Most importantly, there are two threshold requirements to bringing a case at the ITC. First, the infringing products must be imported. Second, consistent with its nature as a "trade remedy," the petitioner in a section 337 case must demonstrate a certain amount of economic activity within the United States related to the patent or other IP at issue. This so-called "domestic industry" requirement can be satisfied by a relatively small amount of domestic economic activity, including almost any activity other than marketing and sales. For example, one or more of R&D, engineering, licensing, manufacturing, repair and service, and quality control, conducted in the United States, may support a finding of a domestic industry.

In addition, as discussed, the ITC cannot award damages and does not have juries.

Getting the Best of Both Worlds

It may be possible to get much of the best of both worlds by filing parallel litigation at the ITC and in district court. The respondent will have the statutory right to stay the district court proceeding to the extent that it involves the same patents (and the judge will likely exercise his or her discretion to stay the district court proceeding with respect to other patents) pending completion of the ITC investigation. And the ITC decision is not formally binding on the district court in patent cases (although it is in cases involving other forms of IP). However, the full record from the ITC may be entered into evidence in the district court. The courts tend to defer to the detailed determinations of the ITC (and its experienced ALJs). And if there is an appeal, it is likely to have been decided by the Federal Circuit almost as quickly, if not even more quickly, than the district court would take to conduct its trial and issue a decision. Thus, the ITC can function as a "shortcut" to get to the Federal Circuit.

Such parallel litigation typically allows a complainant that has been successful at the ITC to obtain damages quickly and without extensive further litigation. In fact, most respondents, when faced with a district court case following an ITC loss upheld at the Federal Circuit, settle on terms favorable to the complainant rather than litigate a likely second loss at the district court.

Concluding Thoughts

A motion for a preliminary injunction is worth serious consideration for parties that can make a strong showing of clear irreparable harm. Otherwise, the disadvantages of a motion for preliminary injunction may be significant. If available, a rocket docket can be a very powerful tool, but jurisdictional and venue questions often preclude that option. For IP owners with some U.S. economic activity faced with an infringing import, the ITC is worth serious consideration.

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Endnotes

[1] For the period 1995–2004, section 337 investigations involved products from Taiwan (17 percent), China (14 percent), Japan (11 percent), Hong Kong (7 percent), Canada (6 percent), Germany (6 percent), Korea (5 percent), and other countries (34 percent).

[2] Section 337 also authorizes the ITC to issue what is known as a Temporary Exclusion Order (TEO). Somewhat like a preliminary injunction proceeding, and likewise requiring a showing of irreparable harm, a TEO investigation includes largely full discovery and a substantial hearing within about 90 days. Because of the punishing schedule of such a proceeding, they have been rare, and complainants often settle for converting the TEO into a normal investigation with a somewhat expedited schedule.

[3] There were 83 preliminary injunctions issued in patent cases between October 1, 1982, and December 31, 1993, or one every 1.6 months. Steven E. Shapiro, "Preliminary Injunction Motions in Patent Litigation," 33 IDEA: J.L. & TECH. 323, 325 (1993). In our sample based on a LEXIS survey covering patent decisions from January 1994 through December 2003, there were 51 injunctions in 120 months, or one every 2.4 months.

[4] Donna M. Tanguay, Jack Q. Lever, Jr., and Paul E. Poirot, "Fast Remedies in Patent Cases: Preliminary Injunctions," ABA Section of IP Law, 1999 IPL Summer Conf. (June 23-27, 1999).

[5] Nat'l Steel Car, Ltd. v. Can. Pac. R.R., Ltd., Case No. 03-1256 (Fed. Cir., Jan. 29, 2004), quoting Intel Corp. v. ULSI System Tech., Inc., 995 F.3d 1566, 1568 (Fed. Cir. 1993), quoting Ill. Tool Works, Inc. v. Grip-Pak, Inc., 906 F.2d 679, 683 (Fed. Cir. 1990).

[6] Nat'l Steel Car, Ltd. v. Can. Pac. R.R., Ltd., Case No. 03-1256 (Fed. Cir., Jan. 29, 2004); Amazon.com, Inc. v. barnesandnoble.com, inc., 239 F.3d 1343 (Fed. Cir. 2001).

[7] Medpointe Healthcare Inc. v. Hi-Tech Pharmacal Co., Case No. 04-1310 (Fed. Cir., Nov. 17, 2004) (nonprecedential).

[8] *See, e.g.,* Jack Guttman, Inc. v. Kopykake Enterprises, Inc., 302 F.3d 1352 (Fed. Cir. 2002); Nat'l Steel Car, Ltd. v. Can. Pac. R.R., Ltd., 357 F.3d 1319 (Fed. Cir. 2004) (declining to review the trial court's claim construction at the preliminary injunction stage). *But see* Oakley, Inc. v. Sunglass Hut Int'l, 316 F.3d 13314, 1344 (Fed. Cir. 2003)(majority implicitly suggesting that the claim construction must be "settled" even at the preliminary injunction stage).

[9] The number of cases instituted per fiscal year is: 1999 (12), 2000 (12), 2001 (32), 2002 (16), 2003 (21), and 2004 (27). Fiscal 2005 is on track for in excess of 20 cases. Source: ITC Annual Reports.

Trademarks at the Border

Continued from cover

CBP itself is not required for the seizure of goods, it increases the likelihood that the CBP will actively monitor shipments and prevent the importation of counterfeit or infringing products bearing a recorded mark. Practitioners should note that if a registered trademark has not been recorded with the CBP, an infringing item may not be detained or seized. Thus, practitioners would be well advised to record vital marks to a client's business to ensure more reliable protection at the border (currently, there are more than 25,000 recorded copyrights and trademarks with the CBP).

Trademark owners may record their rights by using the CBP's Trademark Recordation Application Template located at www.cbp.gov. Recordations are kept in a searchable database called the Intellectual Property Rights Search (IPRS), which is updated nightly. A recordation with the CBP will be effective on the date that the application is approved, and the recordation remains in force concurrently with the 20-year (or, in some cases, 10-year) registration period of the USPTO registration. Renewals of customs recordations must be submitted no later than three months after the expiration of the 20-year trademark registration issued by the USPTO.

The CBP also protects trade names that are not registered with the USPTO. Trade names may be recorded with the CBP (typically recorded as the complete business name unless it is demonstrated that only part of the name is customarily used) after the trade name has been used for at least six months to identify the business. *See* 19 C.F.R. §§ 133.11–133.15 (however, words or designs used as trademarks will not be accepted for recordation as a trade name).

Types of Infringing Activity Stopped at the Border

The CBP recognizes three levels of trademark infringement: (1) counterfeit, (2) confusingly similar, and (3) gray market (parallel imports). For requesting enforcement actions, it is important to characterize the offense as one of these three types. If items are detained by the CBP, within 30 days of seizure, the trademark owner will be given information on the date of importation, date of entry, description of merchandise, quantity, and country of origin (additional information, such as manufacturer name and address and exporter and importer name and address, will also be provided if the article is a counterfeit good).

In urgent cases involving imminent importation of infringing products, practitioners should immediately alert the port director for the suspected port of entry of the infringing goods. Contact numbers for port directors and other Customs officials at port of entry offices and other helpful information can be found at www.cbp.gov.

The three levels of infringement can be understood as follows:

Counterfeit Marks. A "spurious trademark that is identical to, or substantially indistinguishable from" a registered mark is a counterfeit trademark under 15 U.S.C. § 1127; 19 C.F.R. § 133.21; *see also* 19 U.S.C. § 1526(e). Once the CBP determines that there is probable cause that a counterfeit violation exists, based on the factors expounded in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961) (the "*Polaroid* factors"), it will seize the counterfeit goods. Registered, but unrecorded marks (with Customs) may also be seized pursuant to 19 U.S.C. § 1595a(c)(2)(C) (trafficking in counterfeit goods). Seized and forfeited merchandise must be destroyed unless the intellectual property rights owner provides written consent and the goods are not unsafe or do not pose a health risk.

Confusingly Similar Marks. Goods that are considered confusingly similar to registered and recorded marks are detained, and the importer has 30 days to prove that he received permission from the trademark owner or that he has a personal exemption. If the importer is unable to prove either of these or is not willing to obliterate the infringing mark, the merchandise will be seized and destroyed. 19 C.F.R. § 133.22. The CBP also relies on the *Polaroid* factors in assessing confusing similarity, with the greatest emphasis on the similarity between two marks.

For famous marks, the CBP may rely more heavily on other *Polaroid* factors in assessing Infringement. For example, in one case, the CBP seized "Marlboro rodeo ropes" under the "related goods" standard.

Gray Market (Parallel Imports). Genuine merchandise that is manufactured abroad, but bearing a U.S. registered trademark without the owner's permission is commonly referred to as "gray market goods" (also known as "parallel imports"). *See* 19 C.F.R. § 133.23. Such a scenario may occur, for example, if the imports are genuine goods typically manufactured in a foreign country and imported into the United States without the U.S. trademark owner's consent. The customs regulations incorporated *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993) (the "Lever rule") in 1999 to protect U.S. trademark owners and consumers against the importation of gray market goods. Trademark owners asserting that "physical and material differences exist must state the basis for such a claim with particularity, and must support such assertions by competent evidence and provide summaries of physical and material differences for publication [in the Customs Bulletin]." *See* 19 C.F.R. §§ 133.2(e), (f).

Practitioners should note that merchandise will not be restricted if a label is placed on the imported merchandise in close proximity to the trademark appearing on the goods, stating that "[t]his product is not the product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product." 19 C.F.R. § 133.23(b).

Enforcement of Federal Court Orders

In addition to border protection and enforcement through administrative action, trademark owners may seek private redress by filing a civil action in federal district court, requesting injunctive relief and/or monetary damages. This process can be more time-consuming and expensive than the administrative remedies available through the CBP. Once an injunction is obtained from a court, it may be presented to the CBP for enforcement.

Under the Trademark Counterfeiting Act of 1984, the Lanham Act provides for ex parte seizures where counterfeit marks are used in conjunction "with the sale, offering for sale, or distribution of goods or services." *See* 15 U.S.C. § 1116. In addition, ex parte trademark seizures may arise under 15 U.S.C. § 1114(1)(a) (likelihood of confusion).

When preparing an application for ex parte seizure to a court, an applicant must provide the court with factual and legal grounds for the request (including affidavits supporting such assertions) as well as a surety bond determined adequate by the court for the payment of damages if there is a wrongful seizure. Once an ex parte seizure order is issued, a court must hold a hearing no sooner than 10 days and not later than 15 days unless waived by all parties, the applicant for the order shows good cause for another date, or the defending party consents to a different date. The court must order that service of a copy of the order be made by a federal law enforcement officer (such as an officer or agent of customs) who, upon making service, shall then carry out the seizure directed by the order. *See* 15 U.S.C. §§ 1116(d)(2)–(11). Court orders may simply be presented to the CBP field operations office providing oversight over the relevant port(s) of entry.

In conclusion, trademark owners have several tools available through the CBP and federal courts to protect their marks against the importation of counterfeit or infringing products. Practitioners should become familiar and work closely with CBP agents in order to effectively monitor imports for infringing articles or for the enforcement of seizure orders. ●

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Endnote

[1] According to the CBP's "Yearly Comparisons," there were approximately 6,500 seizures in 2003 (700 more than in 2002) involving trademark rights violations, with a domestic value of $94,019,227. By midyear 2004, the total domestic value of all seizures was $64,403,339 compared with $37,985,143 by midyear 2003. The top commodity seized in 2003 was cigarettes, comprising 44 percent of the products seized. Clothing came in second at 15 percent, handbags/wallets/backpacks came in third at 12 percent and media (including recorded music and motion pictures and computer software) comprised 8 percent of merchandise seized. In addition, 66 percent of the seized imports in 2003 originated in China (the largest percentage) and Hong Kong came in a far second place with 9 percent of goods originating there.

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