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**SEEKING ADJUDICATION OF A DESIGN-AROUND IN SECTION 337  
PATENT INFRINGEMENT INVESTIGATIONS: PROCEDURAL CONTEXT  
AND STRATEGIC CONSIDERATIONS**

*Merritt R. Blakeslee and Christopher V. Meservy\**

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## I. INTRODUCTION

One of the benefits of the patent system is the incentive it provides for "designing around" patented inventions, thereby creating new innovations and advancing the constitutional purpose of the patent system to promote progress in the useful arts.<sup>1</sup> Thus, while patents protect inventors, "competitors are entitled to review the public record, apply the established rules of claim construction, ascertain the scope of [the] patentee's claimed invention and . . . design around the claimed invention."<sup>2</sup> In short, if a competitor accused of patent infringement can develop a competitive non-infringing design, it can continue to participate in a market that will otherwise be closed to it in the event that the patentee prevails on its infringement claim.

The incentive to find a design-around becomes particularly pressing once an accused infringer becomes embroiled in patent litigation, and this is especially true of a respondent in an International Trade Commission Section 337 investigation, which involves claims under Section 337 of the Tariff Act of 1930 alleging the unlawful importation of articles into the United States that infringe a valid and enforceable U.S. patent.<sup>3</sup> Under Section 337, the U.S. International Trade Commission (Commission) in Washington, D.C. is becoming an increasingly popular forum for patentees to bring actions for patent infringement.<sup>4</sup> In part, this is due to the speed of litigating such actions.<sup>5</sup> It is also partially explained by the availability of an in rem general exclusion order that functions effectively as a universal injunction against the importation of any infringing product.<sup>6</sup> It is also in part because the complainant is not required to establish personal jurisdiction over respondents, which presents a particularly

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<sup>1</sup> *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828, 23 U.S.P.Q.2d (BNA) 1426, 1436 (Fed. Cir. 1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 34 U.S.P.Q.2d (BNA) 1321 (Fed. Cir. 1995); *Slimfold Mfg. Co. v. Kinkead Indus., Inc.*, 932 F.2d 1453, 1457, 18 U.S.P.Q.2d (BNA) 1842, 1845-46 (Fed. Cir. 1991).

<sup>2</sup> *Vitronics Corp. v. Conceptoronic, Inc.*, 90 F.3d 1576, 1583, 39 U.S.P.Q.2d (BNA) 1573, 1577 (Fed. Cir. 1996).

<sup>3</sup> 19 U.S.C. § 1337(a)(1)(B)(i) (2000).

<sup>4</sup> The Tariff Act of 1930 grants the Commission authority to investigate any alleged violations of Section 337. *See id.* § 1337(b)(1).

<sup>5</sup> Tom M. Schaumber et al., *Advantages of a Section 337 Investigation at the U.S. International Trade Commission*, 12 IP LITIGATOR 24, 28-29 (May/June 2006).

<sup>6</sup> *Id.*

distinct advantage in the case of foreign litigants.<sup>7</sup> In light of these perceived advantages for complainants, the number of Section 337 investigations instituted by the Commission more than tripled between 2000 and 2006, with the number of cases filed in 2007 running well ahead of those filed in 2006.<sup>8</sup> Consequently, parties accused of importing products that infringe U.S. patents are more likely than ever to find themselves in litigation before that federal agency rather than in federal district court.

Because of the procedural peculiarities of these investigations, in particular their expedited time frame, a Section 337 respondent faces real practical difficulties in having a newly developed design-around adjudicated in a pending investigation. For example, there is little time to develop a design-around, import it or sell it for importation, and then bring it into the investigation early enough so that its adjudication does not prejudice the complainant. Moreover, because of the peculiar legal status of the Commission's decisions on patent infringement,<sup>9</sup> a respondent that has a viable design-around must weigh a complicated set of competing factors in deciding, as a strategic matter, whether to seek adjudication of its design-around in a pending Section 337 investigation, default, or pursue other avenues to ensure that its new product can be imported into the U.S. market without challenge.<sup>10</sup>

This article first discusses the procedural and legal context in which the design-around issue arises in a Section 337 investigation at the Commission, including issues of timing, admissibility, preclusion, and the availability of advisory opinions. It then examines these issues in the context of three Section 337 investigations involving design-arounds. Finally, it offers some thoughts on the strategic considerations faced by a respondent as it decides whether to seek adjudication of its design-around in an ongoing Section 337 investigation.

## II. PROCEDURAL AND LEGAL CONTEXT OF A SECTION 337 INVESTIGATION

A Section 337 respondent's decision whether to seek adjudication of its design-around in a Section 337 investigation must be made in the peculiar

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<sup>7</sup> *Id.* at 25.

<sup>8</sup> See U.S. Int'l Trade Comm'n, *Pending 337 Investigations*, <http://info.usitc.gov/ouii/public/337inv.nsf/Pending?OpenView> (last visited Nov. 30, 2007).

<sup>9</sup> For an explanation of the "the peculiar legal status of the Commission's decisions on patent infringement," see the discussion of the preclusive effect of Commission decisions *infra* Part II.C.

<sup>10</sup> For a discussion of these other avenues, see *infra* Part IV.D.

procedural and legal context of such Commission investigations. The most pertinent procedural issues bearing on this decision include the timeframe of Section 337 investigations, the standards governing the admissibility of evidence, the preclusive effect of Commission orders, and the availability of advisory opinions.

#### A. *Timing of a Section 337 Investigation*

A salient characteristic of Section 337 investigations, and one that distinguishes them from most patent litigation in federal district court, is the narrow timeframe within which they must be completed.<sup>11</sup> Indeed, the Commission is widely viewed as the “rocket docket” for patent infringement litigation.<sup>12</sup> By statute, the Commission must set a target date for completion of the investigation within forty-five days after it is instituted and must complete the investigation “at the earliest practicable time.”<sup>13</sup> In practice, most Section 337 investigations are completed in twelve to fifteen months,<sup>14</sup> with discovery, development of expert testimony, and preparation for trial (called an “evidentiary hearing,” which is a bench trial before a presiding administrative law judge) normally completed within seven to ten months.<sup>15</sup> In other words, a respondent that wishes to introduce a design-around into a Section 337 investigation has a window of only a few months in which to produce an assertedly non-infringing design-around, introduce it into the investigation during the discovery period, and ensure that it is the subject of examination and testimony by its expert witness. The respondent must do all this early enough in the proceeding to permit the complainant to take discovery and develop its own

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<sup>11</sup> The Commission shall conclude any such investigation and make its determination under this section at the earliest practicable time after the date of publication of notice of such investigation. To promote expeditious adjudication, the Commission shall, within 45 days after an investigation is initiated, establish a target date for its final determination.

19 U.S.C. § 1337(b)(1); *see also* 19 C.F.R. § 210.51(a) (2007).

<sup>12</sup> Steve Seidenberg, *Patent Rocket Docket: Patent Holders Choose the International Trade Commission for Fast, Powerful Results*, 93 A.B.A.J., 2007, at 38, 38.

<sup>13</sup> 19 U.S.C. § 1337(b)(1).

<sup>14</sup> *Pending Case Target Dates*, 22 ITC TRIAL LAW. ASS'N 337 REP., Spring 2006, at 26, 26.

<sup>15</sup> *See* Schaumber et al., *supra* note 5, at 33.

expert testimony concerning the design-around in time for the evidence to be introduced at the evidentiary hearing.

## B. *Admissibility of the Design-Around*

In addition, the respondent's design-around must fall within the scope of the investigation in order to be adjudicated therein.<sup>16</sup> Unlike in federal district court litigation, however, the scope of the Commission investigation proposed in the complaint is not dispositive of what products may be adjudicated in the investigation.<sup>17</sup> As long as a design-around is within the scope of the notice of investigation issued by the Commission at the time that the investigation is instituted, it can be entered into the evidentiary record, notwithstanding any objection by the complainant that the product falls outside of the scope of its complaint.<sup>18</sup> Broadly speaking, the admissibility of design-arounds has sometimes been treated as a jurisdictional issue, but more often it is merely treated as an issue for discovery.

### 1. *Admissibility for Purposes of Jurisdiction*

In Section 337 investigations involving allegations of patent infringement, the statutory predicate to jurisdiction is "importation into the United States, the sale for importation, or the sale within the United States after importation" of the allegedly infringing product.<sup>19</sup> Notwithstanding the

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<sup>16</sup> See *Removable Hard Disk Cartridges & Prods. Containing Same*, Inv. No. 337-TA-351, 1993 ITC LEXIS 323, at \*7 (Int'l Trade Comm'n June 24, 1993) (Order No. 2). A Section 337 investigation is a quasi-in rem action, as shown by the captions of such cases, which identify the product under investigation, rather than the parties thereto. The Commission's notice of investigation formally states the scope of the investigation (e.g., Certain widgets powered by direct current), and products that fall outside of the announced scope of the investigation (e.g., Certain widgets powered by alternating current) are not within the Commission's jurisdiction unless the notice of investigation is subsequently amended to include them.

<sup>17</sup> In Section 337 investigations, the scope of the investigation is set out in the notice of investigation that the Commission issues at the time it institutes the investigation. *Id.*

<sup>18</sup> *Id.* However, the administrative law judge may look to the complaint to determine or interpret the scope of the notice of investigation. *Hardware Logic Emulation Sys. & Components Thereof*, Inv. No. 373-TA-383, 1996 ITC LEXIS 392, at \*14 (Int'l Trade Comm'n Oct. 1, 1996) (Order No. 48).

<sup>19</sup> 19 U.S.C. § 1337(a)(1)(B) (2000).



statutory language, however, the Commission has not always deemed actual importation (or sale for importation) a prerequisite for taking jurisdiction of an allegedly infringing product, holding that the Commission has jurisdiction over unfair acts, including patent infringement, in their incipiency.<sup>20</sup> Generally speaking, the Commission has taken a broad view of jurisdiction, thereby permitting investigation by the Commission, or discovery by complainant, of respondents' products. A number of cases have followed this "incipiency" line of reasoning, allowing discovery with respect to products likely to be imported during the investigation<sup>21</sup> and even with respect to products where future importation was merely possible.<sup>22</sup>

On the other hand, the Commission has once held that it lacks jurisdiction unless there is actual importation.<sup>23</sup> In that investigation, the judge allowed discovery of the product in question to determine if importation had occurred but made it clear that she would not address the infringement issue unless importation were shown first.<sup>24</sup>

The Commission's case law is also divided on the related question of whether a newly introduced design-around must be a commercially viable finished product or whether something less, such as a drawing, a prototype, or evidence of imminent importation, will satisfy the statutory jurisdictional

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<sup>20</sup> Apparatus for the Continuous Production of Copper Rod, Inv. No. 337-TA-89, 1981 ITC LEXIS 215, at \*13 (Int'l Trade Comm'n Apr. 1981) (Comm'n Op.) ("The Commission, under the authority granted to it in Section 337, may prevent unfair acts in their incipiency.").

<sup>21</sup> See, e.g., Variable Speed Wind Turbines & Components Thereof, Inv. No. 337-TA-376, 1996 ITC LEXIS 251, at \*28-33 (Int'l Trade Comm'n May 30, 1996) (Initial Determination) (rejecting assertion that Commission has no authority over "incipient acts" when sale for importation or importation has not actually occurred and finding jurisdiction where domestic respondent contracted for the sale of foreign goods).

<sup>22</sup> See, e.g., Hardware Logic Emulation Sys., 1996 ITC LEXIS 409, at \*8 (Nov. 6, 1996) (Order No. 57) ("[T]he mere assertion of no importation is insufficient to avoid Commission jurisdiction and to prevent discovery.").

<sup>23</sup> See Rotary Wheel Printers, Inv. No. 337-TA-145, 1983 ITC LEXIS 62, at \*1 (Int'l Trade Comm'n July 11, 1983) (Order No. 19) ("The Commission has no jurisdiction to find an unfair act in connection with the sale of articles that have not been imported into the United States.").

<sup>24</sup> *Id.*

requirements.<sup>25</sup> In deciding whether a product is “commercially available,” case law has focused on two questions: (1) whether the article is a “finished” product and (2) whether it has actually been imported into the United States. Guiding the analysis are powerful considerations of judicial economy and fairness to the parties, with a strong preference for litigating all infringement allegations concerning the same patent in a single proceeding.<sup>26</sup>

In one case in which the complainant sought discovery and adjudication of alleged infringement with respect to two products still under development by the respondent, the judge ruled that if there was enough information available to predict that products under development were “close to completion[,] . . . [then the] complainant should be given a chance to try to prove . . . that the products *would be infringing if imported*, and to save the parties the cost of an additional trial on this issue.”<sup>27</sup> But in another investigation, the Commission held that where a product remains under development and has not yet been sold anywhere, it is outside the scope of the investigation.<sup>28</sup> If samples were sent to

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<sup>25</sup> See *Safety Eyewear & Components Thereof*, Inv. No. 337-TA-433, 2000 ITC LEXIS 232, at \*2-3 (Int'l Trade Comm'n Aug. 11, 2000) (Order No. 15); cf. *Static Random Access Memories & Integrated Circuit Devices Containing Same, Processes for Making Same Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-325, 1991 ITC LEXIS 952, at \*2-3 (Int'l Trade Comm'n July 9, 1991) (Order No. 12).

<sup>26</sup> See *Safety Eyewear*, 2000 ITC LEXIS 232, at \*3 (citing “policy reasons of fairness to all parties and resource economies” in support of decision granting motion to compel discovery); *Video Graphics Display Controllers & Prods. Containing Same*, Inv. No. 337-TA-412, 1998 ITC LEXIS 285, at \*7 (Int'l Trade Comm'n Oct. 29, 1998) (Order No. 14) (despite increasing the scope of the proceeding, emphasizing that “the efficiencies realized by resolving all of [the] infringement allegations with respect to the patent at issue in one proceeding would . . . ultimately result in a lower overall discovery burden” and reduce the complexity for the parties in otherwise having to cross-reference related proceedings); *Hardware Logic Emulation Sys. & Components Thereof*, Inv. No. 373-TA-383, 1996 ITC LEXIS 409, at \*7 (Int'l Trade Comm'n Nov. 6, 1996) (Order No. 57) (finding that a single proceeding favors fundamental fairness and judicial economy).

<sup>27</sup> *Static Random Access Memories*, 1991 ITC LEXIS 952, at \*2-3 (emphasis added).

<sup>28</sup> See *Memory Devices with Increased Capacitance & Prods. Containing Same*, Inv. No. 337-TA-371, 1995 ITC LEXIS 354, at \*40 (Int'l Trade Comm'n Apr. 20, 1995) (Order No. 18).

the United States during the investigation, however, then the product would be discoverable. In accordance with these principles, the judge in that later case allowed a *prototype* to be the subject of discovery.<sup>29</sup> Additionally, the judge stated that if producing a prototype were cost prohibitive, complainants could instead take discovery of drawings and specifications.<sup>30</sup>

## 2. Admissibility for Purposes of Discovery

Although a respondent seeking to bring a design-around into an investigation is rigidly bound by the judge's interpretation of the limits of the Commission's jurisdiction, where admissibility is characterized as a discovery (as opposed to a jurisdictional) issue, respondents and complainants benefit from the liberal discovery standard set out in Commission Rule 210.27(b).<sup>31</sup> Thus, to be considered in the investigation, the design-around need not be specifically identified in the complaint or notice of investigation.<sup>32</sup> A party can later amend either the pleadings or notice of investigation to conform to the evidence.<sup>33</sup> In

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<sup>29</sup> *Id.* at \*11 (Apr. 15, 1995) (Order No. 7).

<sup>30</sup> *Id.*

<sup>31</sup> See 19 C.F.R. § 210.27(b) (2007) ("It is not grounds for objection that the information sought will be inadmissible at the hearing if the information sought appears reasonably calculated to lead to the discovery of admissible evidence."); see also FED. R. CIV. PRO. 26(b)(1). Although the Commission's rules, rather than the Federal Rules of Civil Procedure, constitute binding authority in Section 337 investigations, the Commission may look to the Federal Rules for guidance in interpreting its own rules. See Encapsulated Integrated Circuit Devices & Prods. Containing Same, Inv. No. 337-TA-501, 2004 ITC LEXIS 338, at \*8 (Int'l Trade Comm'n Apr. 16, 2004) (Order No. 33) ("The Federal Rules are considered useful as a guide in interpreting the Commission's Rules.").

<sup>32</sup> Diltiazem Hydrochloride & Diltiazem Preparations, Inv. No. 337-TA-349, 1993 ITC LEXIS 767, at \*2-4 (Int'l Trade Comm'n Nov. 16, 1993) (Order No. 31) (allowing the respondent to enter an alternative process not specifically identified in the pleadings or notice of investigation but reasonably within the scope of the investigation).

<sup>33</sup> When issues not raised by the pleadings or notice of investigation, but reasonably within the scope of the pleadings and notice, are considered during the taking of evidence by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings and notice. Such amendments of the

practice, as will be discussed below, the Commission tends to treat admissibility as a discovery issue governed by Rule 210.27(b).

**C. *Preclusive Effect of Decisions on Patent Infringement and Validity Issued by the Commission and Federal District Courts***

Because both the Commission and federal district courts have jurisdiction over allegations of patent infringement, a patentee will often bring parallel actions concerning the same allegations of infringement in both forums. When this occurs, a respondent in the Section 337 investigation has an absolute right, by making the appropriate motion within the prescribed period of time, to stay the federal district court action until the conclusion of the Commission investigation.<sup>34</sup> Moreover, the record of the Commission proceeding will be made available for use in the subsequent federal district court action.<sup>35</sup> On the other hand, a respondent in a Section 337 investigation is not barred from bringing a defensive civil action in district court, such as a declaratory judgment action, on the same subject matter during the pendency of the Commission's Section 337 investigation,<sup>36</sup> although the district court has the discretion to stay the action before it pending completion of the Commission's investigation.

When the same patent claims are presented simultaneously or successively to the Commission and a federal district court, the rules governing preclusion are not symmetrical. If a patent infringement claim has already been litigated in federal district court and would be barred by principles of res judicata if brought there again, the same claim would also be barred in a Section 337 proceeding.<sup>37</sup> The reverse, however, is not true. Federal courts have

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pleadings and notice as may be necessary to make them conform to the evidence and to raise such issues shall be allowed at any time, and shall be effective with respect to all parties who have expressly or impliedly consented.

19 C.F.R. § 210.14(c) (2007).

<sup>34</sup> 28 U.S.C. § 1659(a) (2000); 19 C.F.R. § 210.39(b) (2007).

<sup>35</sup> 28 U.S.C. § 1659(b).

<sup>36</sup> *Tex. Instruments Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1330, 56 U.S.P.Q.2d (BNA) 1674, 1678 (Fed. Cir. 2000).

<sup>37</sup> *See Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1315, 219 U.S.P.Q. (BNA) 1142, 1151 (Fed. Cir. 1983) (holding that even though a Section 337 proceeding provides relief that is not available in federal court, it would be unreasonable for the Commission to devote time and attention to a matter that has already been litigated).

consistently held that a decision by the Commission concerning infringement or validity has no claim preclusive effect on later district court litigation concerning the same patents and infringement allegations.<sup>38</sup> Even a Commission decision that has been appealed to, and upheld by, the Federal Circuit, which is charged with ensuring that the patent laws are interpreted in a uniform manner, does not have preclusive effect in subsequent federal district court litigation.<sup>39</sup>

In support of its conclusion that Commission decisions have no preclusive effect, the Federal Circuit cites various contributing factors. Most importantly, it states that federal courts, not the Commission, have original and exclusive jurisdiction over patent infringement cases.<sup>40</sup> The Commission's authority is accordingly limited to determining whether the importation of an allegedly infringing device is in violation of Section 337.<sup>41</sup> However, in making such a determination, the Commission may decide the validity of the asserted patent for the purposes of its Section 337 investigation. Additionally, only federal district courts may award damages for patent infringement.<sup>42</sup> Because of this lack of preclusive effect, a Section 337 respondent that requests adjudication

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<sup>38</sup> *Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1564, 38 U.S.P.Q.2d (BNA) 1321, 1329 (Fed. Cir. 1996).

[I]n patent-based cases, the Commission considers, for its own purposes under Section 337, the status of imports with respect to the claims of U.S. patents. The Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have a res judicata or collateral estoppel effect in cases before such courts.

*Id.* (alteration in original) (quoting S. REP. NO. 1298, 93d Cong., 2d Sess. 196 (1974)); see also *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569, 39 U.S.P.Q.2d (BNA) 1492, 1501 (Fed. Cir. 1996) ("decisions of the [Commission] involving patent issues have no preclusive effect in other forums").

<sup>39</sup> See *Tex. Instruments Inc. v. Cypress*, 90 F.3d at 1569, 39 U.S.P.Q.2d (BNA) at 1501; *Tandon Corp. v. U.S. Int'l Trade Comm'n*, 831 F.2d 1017, 1019, 4 U.S.P.Q.2d (BNA) 1283, 1285 (Fed. Cir. 1987).

<sup>40</sup> *Bio-Tech. Gen. Corp.*, 80 F.3d at 1564, 38 U.S.P.Q.2d (BNA) at 1329.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

of its design-around in a Section 337 investigation must be mindful that a favorable decision by the Commission does not preclude a federal court from adjudicating the same issue and reaching the opposite result.

As a practical matter, however, Commission decisions have a strong persuasive effect in subsequent federal district court litigation.<sup>43</sup> When a Commission decision has been affirmed by the Federal Circuit, principles of stare decisis apply,<sup>44</sup> and "district courts are not free to ignore holdings of [the Federal Circuit] that bear on cases before them."<sup>45</sup>

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<sup>43</sup> A study examining two recently concluded cases where the patent issues adjudicated in a Section 337 investigation were subsequently litigated to conclusion in a parallel federal district court action concludes:

For the cases that have a reported outcome on similar issues before the Commission and the court, the decision of the Commission appears to compel a similar outcome in the district court though the Commission's determination on patent issues does not have preclusive effect. Furthermore, the Commission's conclusions seem to persuade parties to move for a quick resolution in the district court proceedings.

Jeremiah B. Frueauf, *A Comparison of Section 337 Decisions at the ITC and Parallel District Court Proceedings: The Commission's Decisions Affect Dispositions at the District Courts*, 22 ITC TRIAL LAW. ASS'N 337 REP., Summer 2006, at 31, 36 (examining *Minnesota Mining & Mfg. Co. v. Beautone Specialties Co.*, 117 F. Supp. 2d 72 (D. Mass. 1999) and *Zoran Corp. v. MediaTek, Inc.*, No. C-04-02619 RMW, 2005 WL 2649203 (N.D. Cal. Oct. 17, 2005)).

<sup>44</sup> See *Thomson Consumer Elecs., Inc. v. Innovatron, S.A.*, 3 F. Supp. 2d 49, 51 (D.D.C. 1998) (noting that the Commission's claim construction in a co-pending Section 337 investigation, would, if upheld on appeal, "in practical terms . . . have near-preclusive effect with respect to any review of this Court's construction").

*Texas Instruments* also makes clear that this [c]ourt cannot simply ignore the Federal Circuit's decision affirming the [Commission] finding of no infringement in this case. As the panel stated, while district court[s] can attribute whatever persuasive value to the prior [Commission] decision that [they] consider[] justified they are not free to ignore holdings of [the Federal Circuit] that bear on cases before them. . . . Moreover, this [c]ourt must bear in mind

#### D. *Availability of International Trade Commission Advisory Opinions*

The availability of advisory opinions under specified circumstances is also relevant to the design-around issue. After the Commission has issued an exclusion order, a cease-and-desist order, or a consent order, a respondent may request an advisory opinion concerning the legality of its "proposed course of action or conduct."<sup>46</sup> In other words, a respondent may wait until the

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that on appeal [s]ubsequent panels of [the Federal Circuit] are similarly not free to ignore precedents set by prior panels of the court, but are bound to follow [Federal Circuit] precedents and must have thoroughly justified grounds to deviate from prior panel holdings.

Minn. Mining & Mfg. Co. v. Beautone Specialties Co., 117 F. Supp. 2d 72, 83 (D. Mass. 1999) (alteration in original) (internal quotations and citations omitted); see also Atmel Corp. v. Silicon Storage Tech., Inc., No. C 96-0039 SC, 2001 U.S. Dist. LEXIS 25640, at \*6 (N.D. Cal. June 22, 2001); Anthony A. Frediani, *Preclusive Effect on Decisions in Section 337 Investigations in Subsequent District Court Actions: A Survey of the State of the Law*, 21 ITC TRIAL LAW. ASS'N 337 REP., Summer 2005, at 117, 118; Tony V. Pezzano & Whitney A. Fellberg, *The Effect and Admissibility of Findings of the ITC in a Section 337 Proceeding on a Co-Pending or Subsequent Federal District Court Proceeding*, 19 ITC TRIAL LAW. ASS'N 337 REP., Summer 2003, at 63, 65-69.

<sup>45</sup> Tex. Instruments Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569, 39 U.S.P.Q.2d (BNA) 1492, 1501 (Fed. Cir. 1996).

<sup>46</sup> Upon request of any person, the Commission may, upon such investigation as it deems necessary, issue an advisory opinion as to whether the person's proposed course of action or conduct would violate a Commission exclusion order, cease and desist order, or consent order. The Commission will consider whether the issuance of such an advisory opinion would facilitate the enforcement of [S]ection 337 of the Tariff Act of 1930, would be in the public interest, and would benefit consumers and competitive conditions in the United States, and whether the person has a compelling business need for the advice and has framed his request as fully and accurately as possible.

19 C.F.R. § 210.79(a) (2007); see also *Surveying Devices*, Inv. No. 337-TA-68, 1981 ITC LEXIS 182 (Int'l Trade Comm'n Aug. 1981) (Advisory Op.). The proposed course of action must not be hypothetical. DONALD K. DUVAL ET

Commission has concluded its investigation, adjudicated the infringement allegations, and imposed a remedy before seeking from the Commission, in a separate proceeding, an advisory opinion that its design-around does not infringe the patents-in-suit.<sup>47</sup> Because it is not a final determination, an advisory opinion is not reviewable.<sup>48</sup> For the same reason, an advisory opinion has no preclusive effect in federal district court and will not forestall subsequent civil litigation concerning the imports that are the subject of the advisory opinion.

### III. SECTION 337 INVESTIGATIONS INVOLVING DESIGN-AROUNDS

Until recently, there have been relatively few Section 337 investigations where design-arounds were at issue. The three cases discussed below offer a useful overview of the Commission's approach to the various issues raised by design-arounds.

#### A. Plastic Encapsulated Integrated Circuits

*Plastic Encapsulated Integrated Circuits*, an early Section 337 proceeding, laid the groundwork for the Commission's present approach to the adjudication of design-arounds.<sup>49</sup> Complainant, Texas Instruments Inc. ("TI"), claimed that

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AL., UNFAIR COMPETITION AND THE ITC: ACTIONS BEFORE THE INTERNATIONAL TRADE COMMISSION UNDER SECTION 337 OF THE TARIFF ACT OF 1930, at 421 (West Group 2006).

<sup>47</sup> Although the regulation refers to a "proposed course of action," in practice, judges have issued advisory opinions after the respondent has started importing the product. See *Automated Mechanical Transmission Sys. for Medium-Duty & Heavy-Duty Trucks & Components Thereof*, Inv. No. 337-TA-503, 2006 ITC LEXIS 12, at \*1 (Int'l Trade Comm'n Jan. 10, 2006) (Enforcement Initial Determination and Initial Advisory Op.); see also *Systems for Detecting & Removing Viruses or Worms, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-510, 71 Fed. Reg. 16827, 16828 (Int'l Trade Comm'n Apr. 4, 2006) (Notice Granting Request for Advisory Opinion).

<sup>48</sup> *Allied Corp. v. U.S. Int'l Trade Comm'n*, 850 F.2d 1573, 1578, 7 U.S.P.Q.2d (BNA) 1303, 1306 (Fed. Cir. 1988).

<sup>49</sup> See *Inv. No. 337-TA-315*, 1992 ITC LEXIS 738 (Int'l Trade Comm'n Nov. 1992).



certain respondents imported and sold plastic encapsulated integrated circuits that were manufactured through a process that infringed TI's patent.<sup>50</sup>

In his scheduling order, the judge set an early date for each respondent to submit "documents which fairly encompass [its] plastic encapsulation process" and for TI to provide supplemental claim charts for all processes newly identified by respondents.<sup>51</sup> In other words, at the beginning of the investigation, the judge established specific provisions in his scheduling order for the timely consideration of any design-arounds put forward by respondents.

Although some respondents had apparently been manufacturing the "bottom-gated" circuits that were the subject of the complaint at the time the investigation was instituted, at least two of the respondents began producing "top-gated" circuits shortly after institution of the proceeding.<sup>52</sup> When TI failed to provide claim charts for the top-gated exemplars submitted by the respondents, respondents moved for an order to compel.<sup>53</sup> TI opposed, arguing that the exemplars were untimely, outside the scope of the investigation, and not commercial products. TI also argued that respondents were impermissibly seeking an advisory opinion.<sup>54</sup>

The judge rejected TI's argument that the exemplars "were manufactured after the date [the] investigation was filed and thus not subject to [its] allegations,"<sup>55</sup> holding that "[t]he scope of [the] investigation extends to allegedly infringing processes that are in operation during the discovery period prior to the evidentiary hearing."<sup>56</sup> The judge reasoned that this approach

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<sup>50</sup> Plastic Encapsulated Integrated Circuits, Inv. No. 337-TA-315, 1992 ITC LEXIS 738, at \*1 (Int'l Trade Comm'n Feb. 18, 1992) (Pt. 1, Notice of Issuance of Limited Exclusion Order and Cease and Desist Orders).

<sup>51</sup> Plastic Encapsulated Integrated Circuits, Inv. No. 337-TA-315, 1990 ITC LEXIS 332, at \*5-6 (Int'l Trade Comm'n Oct. 2, 1990) (Order No. 3).

<sup>52</sup> See Plastic Encapsulated Integrated Circuits, Inv. No. 337-TA-315, 1990 ITC LEXIS 408, at \*1 (Int'l Trade Comm'n Dec. 27, 1990) (Order No. 16).

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> Plastic Encapsulated Integrated Circuits, Inv. No. 337-TA-315, 1990 ITC LEXIS 394, at \*2 (Int'l Trade Comm'n Dec. 11, 1990) (Order No. 15).

<sup>56</sup> *Id.* (citing Concealed Cabinet Hinges & Mounting Plates, Inv. No. 337-TA-289, 1990 ITC LEXIS 3, at \*31-32 (Int'l Trade Comm'n Jan. 9, 1990) (Comm'n

conserved judicial resources.<sup>57</sup> The judge also stressed that the exemplars were made available to TI within the deadline established by the scheduling order,<sup>58</sup> a holding that leaves open the possibility that the decision would have been different had the exemplars not been introduced at a very early stage of the investigation.

The judge also rejected TI's assertion that the design-arounds could not be adjudicated because they were not sold commercially, stating: "[t]he question is not whether an individual exemplar is commercially available, but whether it is representative of circuits encapsulated by a respondent and thus reasonably calculated to lead to admissible evidence regarding an accused process."<sup>59</sup> The judge dismissed TI's argument that because it had informed respondents that the top-gated process would not be a part of the investigation, it did not have to answer respondents' contention interrogatories, holding that a complainant cannot unilaterally narrow the scope of an investigation.<sup>60</sup> Finally, the judge rejected TI's argument that, because the exemplars were not commercially available products, respondents were impermissibly trying to obtain an advisory opinion as to whether the design-arounds could be imported into the United States.<sup>61</sup>

In the Initial Determination, the judge found that the design-arounds did not infringe any of the claims in suit, and the Commission sustained the judge's finding of non-infringement with respect to these products.<sup>62</sup> Even though the Commission also found that certain other processes used by respondents did infringe, the result had little practical effect on the respondents because they had

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Op.) (assessing existence of domestic industry as of the discovery cutoff date prior to the evidentiary hearing)).

<sup>57</sup> *Id.* at \*2-3 ("By investigating whether a product manufactured during the discovery period was created by an infringing process, it is possible to obviate the need for subsequent investigations.").

<sup>58</sup> *Encapsulated Circuits*, 1990 ITC LEXIS 408, at \*2-3.

<sup>59</sup> *Encapsulated Circuits*, 1990 ITC LEXIS 394, at \*4.

<sup>60</sup> *Id.* at \*5.

<sup>61</sup> *Id.*

<sup>62</sup> *Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, 1992 ITC LEXIS 75, at \*2-3 (Int'l Trade Comm'n Feb. 18, 1992) (Notice of Limited Exclusion Order).

by then switched production to the non-infringing process.<sup>63</sup> TI appealed, but the Federal Circuit affirmed the Commission's decision.<sup>64</sup>

## B. Safety Eyewear

In *Safety Eyewear and Components Thereof*, complainants Bacou USA Safety, Inc. and Uvex Safety Manufacturing, Inc. (collectively "Uvex") requested an investigation into the unlawful importation of certain safety eyewear by respondent Crews, Inc. ("Crews").<sup>65</sup> Uvex alleged that the eyewear infringed particular claims of its utility and design patents.<sup>66</sup> Although *Safety Eyewear* was settled prior to a decision on the merits,<sup>67</sup> the judge's treatment of respondent's design-around is instructive.

During discovery, Crews propounded contention interrogatories concerning whether a "new product recently developed by Crews," i.e., a design-around, infringed Uvex's design patent.<sup>68</sup> Although the article in question was a prototype, it appeared that Crews intended to begin marketing the product.<sup>69</sup> After Uvex declined to answer the interrogatories, Crews moved to compel, asserting three bases for its motion, all directed to avoiding additional litigation.<sup>70</sup>

First, Crews argued that because its new design could potentially infringe one of the patents-in-suit and trigger further litigation, it would be fairer

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<sup>63</sup> See DUVALL ET AL., *supra* note 46, at 473.

<sup>64</sup> *Tex. Instruments Inc. v. U.S. Int'l Trade Comm'n*, 988 F.2d 1165, 1173, 26 U.S.P.Q.2d (BNA) 1018, 1024 (Fed. Cir. 1993).

<sup>65</sup> *Inv. No. 337-TA-433*, 2000 ITC LEXIS 343, at \*1 (Int'l Trade Comm'n Nov. 28, 2000) (Notice of Comm'n Decision).

<sup>66</sup> *Safety Eyewear & Components Thereof, Inv. No. 337-TA-433*, 2000 ITC LEXIS 232, at \*3 (Int'l Trade Comm'n Aug. 11, 2000) (Order No. 15).

<sup>67</sup> See Robert W. Hahn, *Assessing Bias in Patent Reform Cases: A Review of International Trade Commission Decisions* 51 (AEI-Brookings Joint Center for Regulatory Studies, Working Paper No. RP07-03, 2007), available at <http://ssrn.com/abstract=950583>.

<sup>68</sup> *Safety Eyewear*, 2000 ITC LEXIS 232, at \*2.

<sup>69</sup> *Id.* at \*3.

<sup>70</sup> *Id.* at \*1-2.

to both parties to have the design-around adjudicated in the ITC investigation.<sup>71</sup> Second, Crews argued that it was trying to develop a product that did not infringe any Uvex patent; therefore, it would be costly to Crews to wait for subsequent litigation to see if it infringed one of Uvex's patents.<sup>72</sup> Finally, Crews argued that adjudication of the design-around in the ongoing litigation would conserve the Commission's resources by precluding the need for an advisory opinion, an enforcement action, or a subsequent investigation.<sup>73</sup>

The Commission Staff supported Crews' position.<sup>74</sup> It argued that the scope of the investigation was sufficiently broad to include products not specifically named in the complaint.<sup>75</sup> It also argued that if a product was likely to be imported into the United States before the close of the evidentiary record, then that product would fall within the scope of investigation.<sup>76</sup> As in *Encapsulated Circuits*, the judge chose to treat the dispute as a discovery issue rather than as a jurisdictional question and granted the motion to compel on Rule 210.27(b) relevance grounds.<sup>77</sup> In support of her decision, however, the judge also invoked the policies favoring fairness and conservation of resources.<sup>78</sup>

Less than two months later, and only two days before the evidentiary hearing was scheduled to begin, the parties informed the judge that they had

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<sup>71</sup> *Id.* at \*2.

<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> In every Section 337 investigation, the government is a full party to the litigation, represented by staff attorneys from the Commission's Office of Unfair Import Investigations, whose responsibility it is to protect the public interest. This is because "a [Section 337] proceeding is not purely private litigation 'between the parties' but rather is an 'investigation' by the Government into unfair methods of competition or unfair acts in the importation of articles into the United States." *Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1315, 219 U.S.P.Q. (BNA) 1142, 1152 (Fed. Cir. 1983).

<sup>75</sup> *Safety Eyewear*, 2000 ITC LEXIS 232, at \*3.

<sup>76</sup> *Id.* at \*3-4.

<sup>77</sup> *See id.* at \*4-5.

<sup>78</sup> *Id.* at \*5.

reached an agreement in principle concerning settlement.<sup>79</sup> Shortly thereafter the investigation was terminated.<sup>80</sup> Crews' success in persuading the judge to adjudicate its design-around likely played a role in precipitating the settlement.

### C. Laminated Floor Panels

In *Laminated Floor Panels*, complainants, Unilin Beheer B.V., Flooring Industries Ltd. and Unilin Flooring N.C. LLC (collectively "Unilin"), alleged infringement of patents covering the design of glueless tongue-and-groove coupling for laminated floor panels.<sup>81</sup> Respondent Yekalon Industry, Inc. ("Yekalon") and respondents Power Dekor Group Co., Ltd.; Shengda Flooring Corp., and Vöhringer Wood Product (Shanghai) Co., Ltd. (collectively the "PSV Respondents") developed design-arounds that they sought to include in the investigation.<sup>82</sup>

A little more than a month before the evidentiary hearing was to commence, and nearly a week after the deadline for issuing discovery requests had passed, Yekalon moved for leave to file a supplemental expert report concerning "two new locking profiles for its laminated flooring panels that it believes do not infringe the patents in issue,"<sup>83</sup> which it called its "Engagement Products."<sup>84</sup> Yekalon argued that although actual products had only been developed "within the past several weeks," there was no prejudice to Unilin because: (1) Yekalon had informed Unilin of the existence of those new designs more than two months before discovery closed and as soon as a successful design had been developed; (2) engineering drawings of those new designs were also provided to Unilin's counsel as soon as they were available, two months before discovery closed; (3) the rebuttal report of Yekalon's expert opining on the

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<sup>79</sup> Safety Eyewear & Components Thereof, Inv. No. 337-TA-433, 2000 ITC LEXIS 279, at \*1 (Int'l Trade Comm'n Sept. 27, 2000) (Order No. 34).

<sup>80</sup> Safety Eyewear & Components Thereof, Inv. No. 337-TA-433, 2000 ITC LEXIS 334, at \*3 (Int'l Trade Comm'n Nov. 3, 2000) (Order No. 37).

<sup>81</sup> Inv. No. 337-TA-545, 2006 ITC LEXIS 507, at \*4 (Int'l Trade Comm'n July 3, 2006) (Final Initial and Recommended Determinations).

<sup>82</sup> Laminated Floor Panels, Inv. No. 337-TA-545, 2006 ITC LEXIS 200, at \*1 (Int'l Trade Comm'n Mar. 21, 2006) (Order No. 27).

<sup>83</sup> Laminated Floor Panels, Inv. No. 337-TA-545, 2006 ITC LEXIS 199, at \*1 (Int'l Trade Comm'n Mar. 13, 2006) (Order No. 23).

<sup>84</sup> Laminated Floor Panels, Inv. No. 337-TA-545, 2007 ITC LEXIS 175, at \*13 (Int'l Trade Comm'n Jan. 24, 2007) (Comm'n Opinion).

two new profiles had been filed within the relevant deadline; (4) Yekalon's expert supplemented his report after he received and analyzed physical samples of the new profiles; (5) Yekalon immediately supplied samples to Unilin's counsel; and (6) commercial products incorporating those two new profiles had been imported and were in the process of being supplied to Yekalon's customers so that they could be offered for sale in the United States at once.<sup>85</sup> In addition, Yekalon offered to allow Unilin extra time to evaluate the new profiles and file a rebuttal expert report.<sup>86</sup>

Unilin vigorously opposed the motion, arguing, *inter alia*, that (1) the supplemental expert report sought to introduce into the investigation two proposed products whose designs were "under development, continue to change, are not in commercial manufacture, and exist only as non-functioning prototypes," and (2) it would be unfair to require it to have the new designs made part of the investigation at so late a date.<sup>87</sup>

The judge granted Yekalon's motion to file the supplemental rebuttal expert report but expressly declined to rule whether evidence concerning the new profiles would be admitted at the evidentiary hearing.<sup>88</sup> Immediately after the judge granted its motion to file a supplemental expert report, Yekalon moved to include its new "Engagement Products" in the investigation.<sup>89</sup> The judge granted Yekalon's motion over the opposition of Unilin and the Staff Attorney.<sup>90</sup> At the same time, the judge granted Unilin's request to serve expedited discovery on Yekalon regarding these new products and to file a supplemental expert report.<sup>91</sup> He also ordered Yekalon to produce additional samples of each new product, together with installation instructions.<sup>92</sup> Ultimately, evidence and

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<sup>85</sup> *Laminated Floor Panels*, 2006 ITC LEXIS 199, at \*1-2.

<sup>86</sup> *Id.* at \*2-3.

<sup>87</sup> *Id.*

<sup>88</sup> *Id.*

<sup>89</sup> *Laminated Floor Panels*, Inv. No. 337-TA-545, 2006 ITC LEXIS 200, at \*1 (Int'l Trade Comm'n Mar. 21, 2006) (Order No. 27).

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at \*3.

<sup>92</sup> *Id.*

testimony concerning Yekalon's design-arounds were received at the hearing.<sup>93</sup> The judge found that Yekalon's design-around did not infringe any of the asserted claims.<sup>94</sup> The Commission did not disturb this finding.<sup>95</sup>

The PSV Respondents also developed a design-around, called its "Lock 7" product, during the investigation and, less than a month before the evidentiary hearing was scheduled to begin, sought to have it adjudicated as part of the investigation.<sup>96</sup> As with Yekalon, the judge granted the PSV Respondents' motion and modified the discovery schedule to permit Unilin to take discovery and file a rebuttal expert report with respect to the PSV design-around.<sup>97</sup> Evidence and testimony on the PSV design-around were received at trial.<sup>98</sup> Unilin accused the Lock 7 product of infringing claims of three patents-in-suit.<sup>99</sup> In his Initial Determination, the judge found the asserted claims of one of the three patents-in-suit invalid and held that the PSV design-around did not infringe the asserted claims of the other two patents-in-suit.<sup>100</sup> However, the Commission reversed each of these findings and issued a general exclusion order that covered the PSV Lock 7 product.<sup>101</sup>

To the extent that it is possible to generalize from this small body of cases, two points emerge. First, the Commission's administrative law judges have granted the parties—both complainants and respondents—substantial leeway in raising issues bearing on design-arounds. Second, design-arounds can

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<sup>93</sup> *Laminated Floor Panels*, Inv. No. 337-TA-545, 2006 ITC LEXIS 507, at \*140-45 (Int'l Trade Comm'n July 3, 2006) (Final Initial and Recommended Determinations).

<sup>94</sup> *Id.*

<sup>95</sup> *Laminated Floor Panels*, Inv. No. 337-TA-545, 2007 ITC LEXIS 175, at \*13 n.6, \*27 (Int'l Trade Comm'n Jan. 24, 2007) (Comm'n Op.).

<sup>96</sup> *Laminated Floor Panels*, 2006 ITC LEXIS 200, at \*1.

<sup>97</sup> *Id.* at \*2.

<sup>98</sup> *Laminated Floor Panels*, 2006 ITC LEXIS 507, at \*191.

<sup>99</sup> *Id.* at \*120.

<sup>100</sup> *Id.* at \*60-61, \*158, \*190-91.

<sup>101</sup> *Laminated Floor Panels*, Inv. No. 337-TA-545, 2007 ITC LEXIS 175, at \*27, \*39, \*43 (Int'l Trade Comm'n Jan. 24, 2007) (Comm'n Op.). The PSV Respondents have not appealed the Commission's ruling. The appeal period for the PSV Respondents runs from the end of the presidential approval period.

play a powerful role in precipitating settlement, including settlement of any co-pending federal district court litigation.

**IV. STRATEGIC CONSIDERATIONS IN DECIDING WHETHER TO SEEK ADJUDICATION OF A NEWLY-INTRODUCED DESIGN-AROUND IN A PENDING SECTION 337 INVESTIGATION**

Like any other respondent in a Section 337 investigation, a respondent that has the ability within the necessary timeframe to develop a design-around must, nevertheless, first make the same threshold decision faced by every Section 337 respondent—namely, whether to participate in the investigation or to default. If the respondent decides to participate, it must then decide whether to defend its current accused product,<sup>102</sup> seek adjudication of its design-around, or both. It goes without saying that these and all subsequent decisions are heavily influenced by the twin factors of timing and cost. Indeed, either of these two material considerations may entirely negate any strategic considerations a respondent otherwise contemplates.

**A. *Defaulting in an Ongoing Section 337 Investigation***

A respondent in a newly instituted Section 337 investigation that believes it has developed a viable design-around that was not identified as an accused product in the complaint has certain incentives to default, particularly if it has doubts concerning its ability to successfully defend its existing accused product at the Commission. In this situation, the respondent may decide to abandon its existing accused product and concentrate its resources on its design-around. By defaulting, the respondent can focus its resources on perfecting its design-around and bringing it to market and can spare itself the cost of defending the Section 337 investigation. Moreover, if other respondents do defend, thereby ensuring that the investigation goes to completion, the defaulting respondent will be able to continue importing its existing product for the fifteen to eighteen months until an exclusion order issues, if one issues at all.<sup>103</sup>

Thus, for reasons of cost, timing, or tactics, a respondent may decide to postpone litigation of its design-around until a follow-on federal district court

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<sup>102</sup> For purposes of this discussion, we assume that the accused product is *not* the respondent's design-around.

<sup>103</sup> See James B. Altman, *Quick IP Relief—The ITC, Rocket Dockets, and Preliminary Injunctions*, 16 INTELL. PROP. LITIG. 1, 13 (2005).



action—either an infringement action brought by complainant or an action by the respondent seeking a declaratory judgment of non-infringement or invalidity. In other words, the pendency of the Section 337 investigation, during which federal district court litigation brought by the complainant will, in most cases, be stayed,<sup>104</sup> could provide a defaulting respondent with the time necessary to finish developing and begin importing its design-around and to phase out imports of its existing accused product.

There are, of course, significant countervailing considerations. A respondent that continues importing an accused product following institution of a Section 337 investigation risks liability for willful infringement, with the accompanying possibility of treble damages, in a follow-on federal district court action.<sup>105</sup> In addition, the respondent's U.S. customers may be unwilling to continue buying from a respondent that has, by defaulting, tacitly conceded that its existing products infringe the patent-in-suit. Even if the defaulting respondent immediately stops importing its accused product and shifts to a design-around, there remains a risk that, in enforcing a subsequently issued exclusion order against the respondent, U.S. Customs and Border Protection (CBP) will fail to distinguish between products that have been adjudicated to infringe the patent-in-suit and the as-yet-unadjudicated design-around and will indiscriminately interdict shipments of the latter.

#### **B. *Defending the Existing Accused Product***

A respondent that believes it has a strong case for non-infringement or for invalidity of the asserted patent has certain incentives to defend its existing accused product rather than default or seek a decision on its design-around. If the respondent prevails, it can continue to import its existing product without interruption, including during any appeal of the Commission's decision to the Federal Circuit. In the event that the complainant brings subsequent litigation in federal district court, a Commission's decision in favor of the respondent will be persuasive, although, as discussed above, not dispositive, in the federal court action. Moreover, a respondent with a strong case for non-infringement or invalidity may be able to achieve an early, advantageous settlement with the complainant, permitting the respondent to continue importing without interruption.

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<sup>104</sup> See 28 U.S.C. § 1659(a) (2000).

<sup>105</sup> 35 U.S.C. § 284 (2000).

**C. *Seeking Adjudication of a Design-Around in a Pending Section 337 Investigation***

A respondent weighing how best to seek adjudication of its design-around has already made the major decision to expend the resources necessary to remain in the U.S. market with a product that competes with the patentee's. The respondent must then decide whether to adjudicate the design-around in the current Section 337 investigation or in another forum.

A number of considerations might lead a respondent to seek adjudication of its design-around in the ongoing Section 337 investigation. For example, if the respondent also intends to defend an existing accused product or to challenge the validity or enforceability of the patent-in-suit in the Section 337 investigation, considerations of cost may lead it to include the design-around in the same action. Moreover, if the respondent believes it has a good chance of demonstrating that its design-around is non-infringing, doing so in the Section 337 investigation will permit it to continue to sell in the U.S. market without the interruption that might occur if it sought adjudication of its design-around in another forum. In addition, if the respondent believes that its design-around is clearly different from the other accused products in the investigation, it may conclude that the contrast will enhance its chances of success. Finally, if the respondent's design-around presents a strong case for non-infringement, thereby strengthening the respondent's leverage in obtaining settlement on favorable terms, the respondent may seek adjudication in the Section 337 investigation with the hope of obtaining an early, favorable settlement. In the best case, such a settlement could permit the respondent to remain in the market with its design-around without fear of future litigation. In this scenario, the earlier the respondent puts its design-around into contention, the greater the savings in litigation costs and the less the disruption of its markets if adjudication or settlement is successful.

**D. *Alternatives to Seeking Adjudication of a Design-Around in a Pending Section 337 Investigation***

If the respondent decides not to seek adjudication of its design-around by the Commission, it has at least three other options. First, the respondent may choose to withhold the product from the market during the pendency of the Section 337 investigation and then seek an advisory opinion under Commission Rule 210.79 that the design-around is not subject to the Commission's exclusion

order.<sup>106</sup> Alternatively, the respondent may seek a declaratory judgment in federal district court that the design-around does not infringe the patent claims asserted in the Section 337 investigation.<sup>107</sup> As noted above, the respondent need not wait for the termination of the Section 337 investigation to seek such declaratory judgment. Finally, the respondent may seek a Headquarters Ruling or other decision from the CBP that the design-around can be imported.<sup>108</sup>

A major consideration that might lead a respondent *not* to seek adjudication of its design-around at the Commission is the lack of preclusive effect of the Commission's patent infringement decisions in subsequent federal district court litigation. A design-around presents a significant challenge to the value of a complainant's patent. If the design-around is based on prior art that has entered the public domain, effectively making the design-around available to any participant in the complainant's market, the design-around has the power to reduce the value of the complainant's patent substantially. In such a situation, it is likely that the complainant will challenge any finding by the Commission that the design-around does not infringe. If it appears likely that a complainant will file suit in federal district court if the Section 337 result is not favorable, the respondent may wish to preserve its resources for that proceeding.

This fact is, arguably, the single most difficult consideration faced by a Section 337 respondent with a design-around. Nevertheless, certain factors weigh in favor of introducing the design-around into the pending investigation. First, as a practical matter, in most cases federal district courts have followed the Commission's decisions.<sup>109</sup> Second, as the Commission's expertise in intellectual property matters becomes better appreciated by the federal judiciary, the persuasive effect of the Commission's decisions will be enhanced

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<sup>106</sup> 19 C.F.R. § 210.79 (2007).

<sup>107</sup> See 28 U.S.C. § 2201(a).

<sup>108</sup> A respondent that chooses to withhold the product from the market during the pendency of the Section 337 investigation should be mindful of the risk of taking any action that could be deemed to constitute importation or sale for importation, thereby bringing the design-around within the Commission's jurisdiction and subjecting it to discovery by complainant and adjudication by the Commission. See *supra* Part II.B.1 (discussing the Commission's "incipiency" decisions).

<sup>109</sup> See *supra* Part II.A.3 (discussing preclusion).

correspondingly.<sup>110</sup> Finally, if, by introducing a design-around, the Section 337 respondent can precipitate a settlement covering both the Commission action and pending or subsequently filed federal district court proceeding, the preclusion issue vanishes.

If claim construction is crucial, a respondent might choose to withhold its design-around from consideration in the Section 337 investigation and defend its existing products with the tacit goal of obtaining a ruling on claim construction that would be favorable to the design-around in a subsequent enforcement action or district court litigation. If the investigation involves numerous accused products and the features distinguishing of design-around from the other accused products are subtle, the respondent may not wish to run the risk that the Commission will lump its design-around in with the other, more clearly infringing products. A respondent might reach the same decision if it appears that the claim construction will be unfavorable or that the momentum of the investigation favors a broad finding of violation and a wide-reaching general exclusion order.

### 1. Advisory Opinion from the Commission

A respondent that withholds its design-around from adjudication during a Section 337 investigation has the option, if the Commission issues a remedial order or orders, to seek an advisory opinion under Rule 210.79 that the design-around is not subject to the order(s).<sup>111</sup> The availability of an advisory opinion permits a respondent to withhold importation of the design-around during the

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<sup>110</sup> See *Minn. Mining & Mfg. Co. v. Beautone Specialties Co.*, 117 F. Supp. 2d 72, 83 (D. Mass. 1999).

In sum, while neither of the bases offered by [defendants]—the “law of the patent” or collateral estoppel—for according preclusive effect to the claim interpretation adopted by the [Commission] and allegedly affirmed by the Federal Circuit carries the day, this Court must construe the . . . claims and analyze the question of infringement against the background of these earlier proceedings.

*Id.*

<sup>111</sup> See 19 C.F.R. § 210.79.

pendency of the investigation.<sup>112</sup> If a violation is found, the respondent, before seeking an advisory opinion of non-infringement, has the option of further modifying the design-around to decrease the likelihood that it infringes the patent-in-suit. Withholding importation would also be attractive to a respondent that was unable to complete the development of a marketable design-around in time to have it adjudicated during the investigation. As noted above, however, an advisory opinion, like a Commission finding on infringement, has no preclusive effect in federal district court.

## 2. Declaratory Judgment from a Federal District Court

Instead of seeking an advisory opinion from the Commission, a respondent may wish to seek a declaratory judgment in a federal district court. However, although a respondent may seek an advisory opinion to ascertain the legality of a "*proposed* course of action or conduct,"<sup>113</sup> in order to obtain a declaratory judgment, it must demonstrate the existence of an actual case or controversy, not merely a future controversy.<sup>114</sup> In other words, a party may not seek a declaratory judgment merely to obtain an advisory opinion.<sup>115</sup> In addition, a court has broad discretion as to whether to grant a declaratory judgment.<sup>116</sup> However, the allegations made by the complainant against the respondent's accused product during a pending or recently concluded Section 337 investigation would likely be sufficient grounds for the court to find the existence of an actual case or controversy if it is clear that those allegations could extend to the design-around. If the respondent meets the threshold requirement for pursuing a declaratory judgment, the respondent will be able to focus its efforts on the federal court litigation and conserve its resources by not participating in the Commission's investigation. Because of the preclusive effect of a finding of non-infringement by a federal district court, a respondent that

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<sup>112</sup> See *Eaton Corp. v. United States*, 395 F. Supp. 2d 1314, 1318 (Ct. Int'l Trade 2005) (noting the availability of an advisory opinion to remove a product from an exclusion order and the purview of its requirements).

<sup>113</sup> 19 C.F.R. § 210.79 (emphasis added).

<sup>114</sup> *Coffman v. Breeze Corp.*, 323 U.S. 316, 324-25, 64 U.S.P.Q. (BNA) 1, 5 (1945). The controversy can arise from an actual accusation of infringement or be implied by the patentee's conduct. See *Goodrich-Gulf Chemicals, Inc. v. Phillips Petroleum Co.*, 376 F.2d 1015, 1018-19, 153 U.S.P.Q. (BNA) 436, 438-39 (6th Cir. 1967).

<sup>115</sup> *Elec. Bond & Share Co. v. SEC*, 303 U.S. 419, 443 (1938).

<sup>116</sup> *United States v. Washington*, 759 F.2d 1353, 1356-57 (9th Cir. 1985).

obtains a favorable outcome at the district court level renders the outcome of the Commission's investigation irrelevant.<sup>117</sup>

### 3. Headquarters Ruling from U.S. Customs and Border Protection

Finally, instead of seeking adjudication in a pending Section 337 investigation, a respondent may wish to seek a determination from the CBP that its design-around is not subject to the Commission's exclusion order.<sup>118</sup> In the past, the CBP Intellectual Property Rights (IPR) Branch has made such decisions on an *ex parte* basis<sup>119</sup> and has reserved the option of doing so in the future.<sup>120</sup> However, in November 2006, the head of the CBP IPR Branch made public his department's intention to test a new procedure for deciding how to treat a design-around following the Commission's issuance of an exclusion order in a Section 337 investigation.<sup>121</sup>

If the issues surrounding the design-around are highly technical or are disputed by the parties, the IPR Branch will consider convening an adversarial administrative hearing to address the applicability of the newly issued exclusion order to a respondent's design-around if that issue has not already been adjudicated by the Commission.<sup>122</sup> Indeed, the IPR Branch expects that such an

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<sup>117</sup> See *Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1316, 219 U.S.P.Q. (BNA) 1142, 1152 (Fed. Cir. 1983); Pezzano & Fellberg, *supra* note 44, at 64.

<sup>118</sup> Such determinations may be issued in the form of a ruling letter. See generally 19 C.F.R. pt. 177 (2007) (specifically defining the issuance of rulings for prospective transactions at 19 C.F.R. § 177.1(a)(1)). However, not all such determinations are made public; in some cases the determination will remain internal. Telephone Interview with George McCray, Supervisory Attorney-Advisor/Chief, Intellectual Prop. Rights Branch, Customs & Border Prot. (Sept. 10, 2007) [hereinafter McCray Interview].

<sup>119</sup> See *Ammex, Inc. v. United States*, 62 F. Supp. 2d 1148, 1167-68 & n.16 (Ct. Int'l Trade 1999) (finding *ex parte* communications proper in the issuance of a Headquarters Ruling). See generally 19 C.F.R. §§ 177.2, 177.4, 177.8 (allowing a ruling based on the letter and oral statements of the requester).

<sup>120</sup> McCray Interview, *supra* note 118.

<sup>121</sup> George McCray, Supervisory Attorney-Advisor/Chief, Intellectual Prop. Rights Branch, Customs & Border Prot., Address at the Annual Meeting of the Int'l Trade Comm'n Trial Lawyers Ass'n (Nov. 9, 2006).

<sup>122</sup> *Id.*

adversarial hearing will be held in virtually every case before it reaches a determination that a design-around is *not* subject to the newly issued order.<sup>123</sup> As of early Fall 2007, CBP had convened two such hearings.<sup>124</sup> New regulations are not presently in the works.<sup>125</sup>

A determination by CBP that a respondent's design-around is subject to the Commission's exclusion order can be appealed to the Court of International Trade by the importer through CBP's normal protest procedures.<sup>126</sup> It is less clear that a disappointed complainant has standing to seek review of a determination by CBP that a respondent's design-around is *not* subject to a Commission exclusion order.

In short, the CBP procedures provide yet another means by which a respondent can seek a determination of non-infringement permitting it to import its design-around even if the Commission has issued a general exclusion order in a recently completed Section 337 investigation.

## V. CONCLUSION

The International Trade Commission is becoming increasingly popular as a forum in which to bring actions for patent infringement. In part, this is because the Commission is a "rocket docket" in which such claims are litigated far more expeditiously than in most federal district courts. In part, this is because of the availability of an *in rem* general exclusion order that functions effectively as a universal injunction against the importation of any infringing product. In part, it is also because a complainant is not required to establish personal jurisdiction over respondents, a distinct advantage in the case of foreign respondents. In light of these perceived advantages to complainants, the number of Section 337 investigations instituted by the Commission more than tripled between 2000 and 2006, with cases filed in 2007 running well ahead of 2006.

In consequence, parties accused of importing products that infringe a U.S. patent will increasingly find themselves in litigation at the Commission rather than in federal district court. Because of the peculiarities of the Commission's rules governing such proceedings, and particularly because of the

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<sup>123</sup> McCray Interview, *supra* note 118.

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

<sup>126</sup> See 28 U.S.C. § 1581(a) (2000); 19 C.F.R. § 174.11(d) (2007).

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complicated interrelationship between the Commission's authority and that of the federal courts in matters of patent infringement, a respondent in a Section 337 investigation that has a viable design-around faces an array of strategic options that is both complex and quite different from the set of options that obtain in federal district court litigation. These range from defending the Commission action to defaulting to seeking a declaratory judgment in district court to seeking post-investigation advisory opinion from the Commission or CBP.

The present article provides an overview of the procedural context and strategic considerations that are relevant to these options and offers an importer or foreign manufacturer with a potential design-around an analytical framework for evaluating its alternatives when named as a respondent in a Section 337 investigation.



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