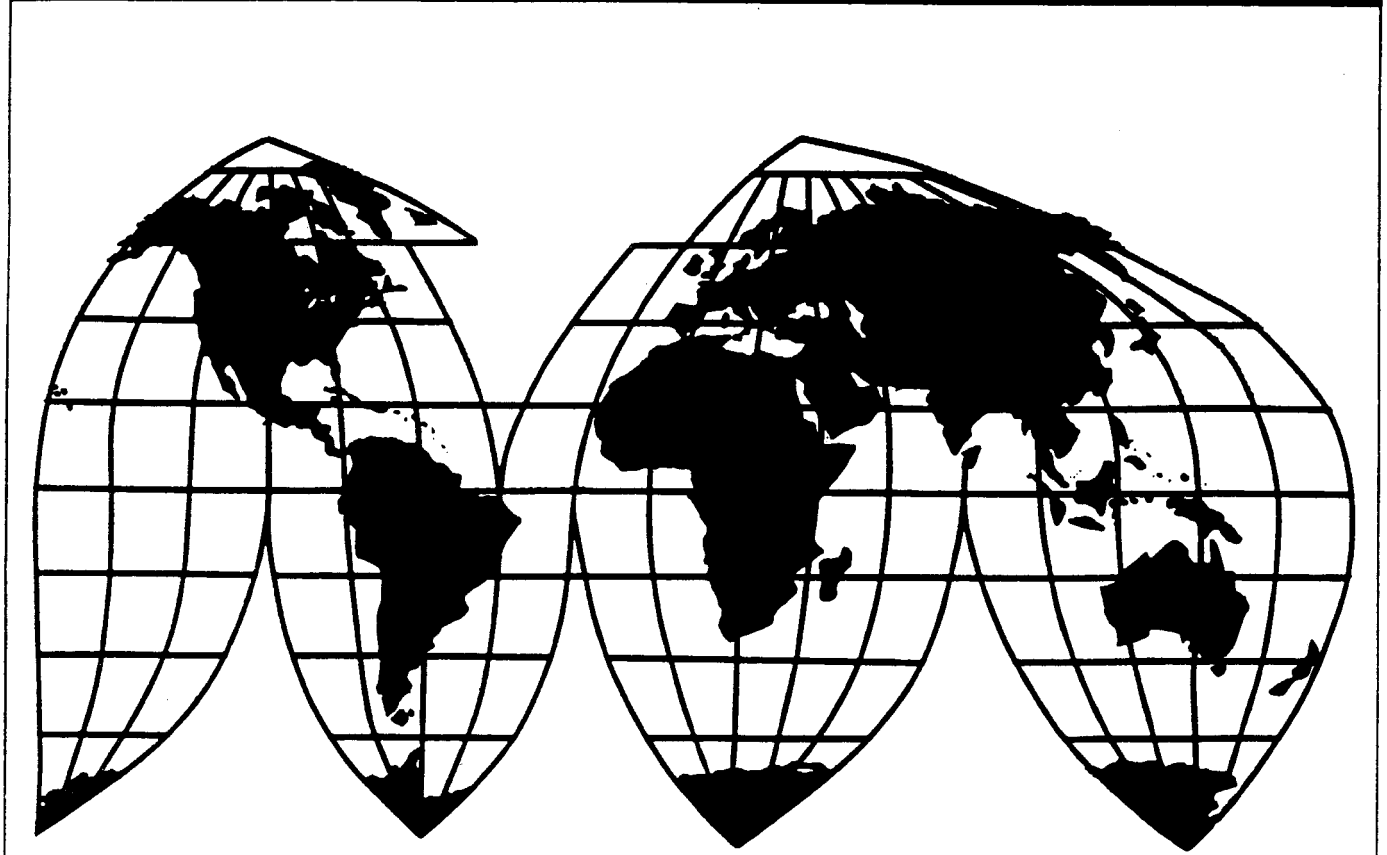
In the Matter of

Certain Devices for Connecting Computers Via Telephone Lines

Investigation No. 337-TA-360

Publication 2843 **December 1994**

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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In the Matter of

Certain Devices for Connecting Computers Via Telephone Lines

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of CERTAIN DEVICES FOR CONNECTING COMPUTERS VIA TELEPHONE LINES	Investigation No. 337-TA-360

NOTICE OF ISSUANCE OF GENERAL EXCLUSION ORDER

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has issued a general exclusion order in the above-captioned investigation.

FOR FURTHER INFORMATION CONTACT: Elizabeth C. Rose, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436. Telephone: (202) 205-3113.

SUPPLEMENTARY INFORMATION: The authority for the Commission's determination is contained in section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), and in section 210.58 of the Commission's Interim Rules of Practice and Procedure (19 C.F.R. § 210.58).

Farallon Computing, Inc. ("Farallon") filed a complaint on October 12, 1993, pursuant to section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) alleging that 16 respondents had violated section 337 in the importation into the United States, the sale for importation, or the sale within the United States after importation of certain devices for connecting computers via telephone lines. Those 16 respondents were: (1) ABL Electronics Corp. ("ABL"), (2) Caltechnology International Ltd. ("Caltechnology"), (3) CPU Products ("CPU"), (4) Enhance Cable Technology ("Enhance"), (5) Focus Enhancements, Inc. ("Focus"), (6) Full Enterprises Corp. ("Full"), (7) Good Way Industrial Co., Ltd. ("Good Way"), (8) MACProducts (USA) (now known as DGR Technologies, Inc.) ("DGR"), (9) MicroComputer Cable Co., Inc. ("MCC"), (10) Ming Technology Corp. ("Ming"), (11) Pan International (USA) ("Pan"), (12) Shiunn Yang Enterprises Co., Ltd. ("Shiunn Yang"), (13) Taiwan Techtron Corp. ("Techtron"), (14) Technology Works, Inc. ("TechWorks"), (15) Total Technologies, Ltd. ("Total"), and (16) Tremon Enterprises Co., Ltd. ("Tremon"). Complainant Farallon alleged infringement of certain claims of U.S. Letters Patent 5,003,579, which it owns. The Commission published a notice of investigation in the Federal Register on November 17, 1993 (58 Fed. Reg. 60671). Two additional respondents were subsequently added to the investigation: Ji-Haw Industrial Co., Ltd. ("Ji-Haw"), and Tri-Tech Instruments Co., Ltd. ("Tri-Tech"). See 59 Fed. Reg. 10164 (March 3, 1994).

Of the 18 respondents named in this investigation, the Commission has approved terminations based on settlements with respect to the following 16 respondents: ABL, Caltechnology, CPU, DGR, Enhance, Focus, Full, Good Way, Ji-Haw, MCC, Ming, Pan, Shiunn Yang, Techtron, Total, and Tremon. Only respondents Tri-Tech and TechWorks have not settled with complainant Farallon.

On April 26, 1994, the ALJ granted Farallon's motion for a summary determination that a domestic industry exists in accordance with subsections 337(a)(2) and (a)(3). The Commission published a notice of its decision not to review that ID on May 24, 1994. See 59 Fed. Reg. 26811-12 (May 24, 1994).

On April 28, 1994, Farallon filed a motion for summary determination of violation of section 337. The motion was unopposed by any respondent and was supported by the Commission investigative attorney. On May 24, 1994, the presiding ALJ issued an ID finding that there was a violation of section 337. The ALJ found that the '579 patent was valid and infringed, that Tri-Tech imported the infringing product into the United States, and that after importation, TechWorks sold the infringing product in the United States. No petitions for review of the ID or government agency comments were received by the Commission.

On June 28, 1994, the Commission determined not to review the ID, which thereby became the determination of the Commission. The Commission also requested written submissions concerning the issues of remedy, the public interest, and bonding. See 59 Fed. Reg. 34862-63 (July 7, 1994) and 59 Fed. Reg. 48449 (Sept. 21, 1994).

On November 17, 1994, the Commission made its determinations on the issues of remedy, the public interest, and bonding. The Commission determined that the appropriate form of relief is a general exclusion order prohibiting the entry for consumption of infringing devices for connecting computers via telephone lines. Finally, the Commission determined that the public interest factors enumerated in 19 U.S.C. § 1337(d) do not preclude the issuance of the aforementioned relief, and that the bond during the Presidential review period shall be in the amount of 346 percent of the entered value of the infringing devices for connecting computers via telephone lines.

Copies of the Commission order, the Commission opinion in support thereof, and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-205-2000. Hearing-impaired persons are advised that information on the matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

By order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: November 18, 1994

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of	
CERTAIN DEVICES FOR CONNECTING COMPUTERS VIA TELEPHONE LINES	Investigation No. 337-TA-360

ORDER

On October 12, 1993, Farallon Computing, Inc. (Farallon) filed a complaint with the Commission alleging violations of section 337 in the importation into the United States, the sale for importation, or the sale within the United States after importation of certain devices for connecting computers via telephone lines. Farallon's complaint alleged infringement of claims 10, 18, and 20 of Farallon's U.S. letters Patent 5,003,579 (the '579 patent).

Pursuant to subsection 337(b), the Commission instituted an investigation into the allegations of Farallon's complaint, and published a notice to that effect in the Federal Register on November 17, 1993 (58 Fed. Reg. 60671). The notice named 16 respondents; two additional respondents were subsequently added. Those 18 respondents are: (1) ABL Electronics Corp. of Timonium, Maryland; (2) Caltechnology International Ltd. of Taipei City, Taiwan; (3) CPU Products of Derby, Kansas; (4) DGR Technologies, Inc., formerly known as MACProducts USA, of Austin, Texas; (5) Enhance Cable Technology of San Jose, California; (6) Focus Enhancements, Inc. of Woburn, Massachusetts; (7) Full Enterprises Corp. of Chung Ho City, Taiwan; (8) Good Way Industrial Co., Ltd. of Taipei City, Taiwan; (9) Ji-Haw Industrial Co., Ltd. of Hsin Tien City, Taiwan; (10) MicroComputer Cable Co., Inc. of Taylor,

Michigan; (11) Ming Technology Corp. of Taipei City, Taiwan; (12) Pan International USA of Rancho Cucamonga, California; (13) Shiunn Yang Enterprises Co., Ltd. of Pan Chiao City, Taiwan; (14) Taiwan Techtron Corp. of Taipei City, Taiwan; (15) Technology Works, Inc. ("TechWorks") of Austin, Texas; (16) Total Technologies, Ltd. of Santa Ana, California; (17) Tremon Enterprises Co., Ltd. ("Tremon") of Taipei City, Taiwan; and (18) Tri-Tech Instruments Co., Ltd. ("Tri-Tech") of Shu Lin Town, Taiwan.

All of the respondents except TechWorks and Tri-Tech have entered into settlement and/or patent license agreements with Farallon. See 59 Fed. Reg. 12345-46 (March 16, 1994), 14872 (March 30, 1994), 23078 (May 4, 1994), 26812 (May 24, 1994), 29616-17 (June 8, 1994), and 33542 (June 29, 1994). On April 26, 1994, the presiding administrative law judge (ALJ) issued an initial determination (ID) granting Farallon's motion for summary determination that a domestic industry exists in accordance with subsections 337(a)(2) and (a)(3). The Commission published a notice of its decision not to review that ID on May 24, 1994. 59 Fed. Reg. 26811-12.

Following discovery but prior to the scheduled evidentiary hearing, complainant Farallon moved on April 28, 1994, for summary determination that a violation of section 337 exists as to all remaining respondents ("summary violation motion"). The motion was not contested by any respondent. The Commission investigative attorney filed a response in support of the summary violation motion. The ALJ issued an ID on May 25, 1994, finding, inter alia, that the '579 patent is valid, that respondent Tri-Tech has manufactured and exported to the United States products that infringe claims 10 and 20 of the '579 patent, that respondent TechWorks has sold imported products that infringe claims 18 and 20 of the '579 patent, that Tri-Tech and TechWorks have violated section 337, and that Tri-Tech is in default. The Commission

published a notice of its decision not to review the violation ID on June 28, 1994. 59 Fed. Reg. 34862-63.

The Commission, having determined that there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the unlawful importation and sale of certain devices for connecting computers via telephone lines that infringe certain claims of U.S. Letters Patent 5,003,579, and having considered the issues of remedy, public interest, and bonding, hereby ORDERS that --

1. Devices for connecting computers via telephone lines that are covered by claims 10, 18, or 20 of U.S. Letters Patent 5,003,579, are excluded from entry for consumption into the United States for the remaining term of the patent, except under license of the patent owner or as provided by law.

2. Notwithstanding paragraph 1 of this Order, the aforesaid devices for connecting computers via telephone lines are entitled to entry for consumption into the United States under bond in the amount of 346 percent of the entered value of such articles, from the day after this Order is received by the President, pursuant to subsection (j) of section 337 of the Tariff Act of 1930, as amended, until such time as the President notifies the Commission that he approves or disapproves this action, but no later than 60 days after the date of receipt of this Order by the President.

3. In accordance with 19 U.S.C. § 1337(1), the provisions of this Order shall not apply to devices for connecting computers via telephone lines imported by and for the United States.

4. The Secretary shall serve copies of this Order upon each party of record in this investigation and upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the U.S. Customs Service.

5. Notice of this Order shall be published in the Federal Register.

By order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: November 18, 1994

PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of CERTAIN DEVICES FOR CONNECTING COMPUTERS VIA TELEPHONE LINES	Investigation No. 337-TA-360

COMMISSION OPINION

I. BACKGROUND

Farallon Computing, Inc. ("Farallon") filed a complaint on October 12, 1993, pursuant to section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) alleging that 16 respondents had violated section 337 in the importation into the United States, the sale for importation, or the sale within the United States after importation of certain devices for connecting computers via telephone lines. Those 16 respondents were: (1) ABL Electronics Corp. ("ABL"), (2) Caltechnology International Ltd. ("Caltechnology"), (3) CPU Products ("CPU"), (4) Enhance Cable Technology ("Enhance"), (5) Focus Enhancements, Inc. ("Focus"), (6) Full Enterprises Corp. ("Full"), (7) Good Way Industrial Co., Ltd. ("Good Way"), (8) MACProducts (USA) (now known as DGR Technologies, Inc.) ("DGR"), (9) MicroComputer Cable Co., Inc. ("MCC"), (10) Ming Technology Corp. ("Ming"), (11) Pan International (USA) ("Pan"), (12) Shiunn Yang Enterprises Co., Ltd. ("Shiunn Yang"), (13) Taiwan Techtron Corp. ("Techtron"), (14) Technology Works, Inc. ("TechWorks"), (15) Total Technologies, Ltd. ("Total"), and (16) Tremon Enterprises Co., Ltd. ("Tremon"). Complainant Farallon alleged infringement of certain claims of U.S. Letters Patent 5,003,579, which it owns. The Commission published a notice of investigation in the Federal Register on November 17, 1993 (58 Fed. Reg. 60671). Two additional respondents were subsequently added to the investigation: Ji-Haw Industrial Co., Ltd. ("Ji-Haw"), and Tri-Tech Instruments Co., Ltd. ("Tri-Tech"). See 59 Fed. Reg. 10164 (March 3, 1994).

Of the 18 respondents named in this investigation, the Commission has approved terminations based on settlements with respect to the following 16 respondents: ABL, Caltechnology, CPU, DGR, Enhance, Focus, Full, Good Way, Ji-Haw, MCC, Ming, Pan, Shiunn Yang, Techtron, Total, and Tremon. Only respondents Tri-Tech and TechWorks have not settled with complainant Farallon.

On April 26, 1994, the presiding administrative law judge (ALJ) issued an initial determination (ID) granting Farallon's motion for a summary determination that a domestic industry exists in accordance with subsections 337(a)(2) and (a)(3). The Commission published a notice of its decision not to review that ID on May 24, 1994. See 59 Fed. Reg. 26811-12 (May 24, 1994). On

April 28, 1994, Farallon filed a motion for summary determination of violation of section 337. The motion was unopposed by any respondent and was supported by the Commission investigative attorney ("IA"). On May 24, 1994, the presiding ALJ issued an ID finding a violation of section 337. The ALJ found that the '579 patent was valid and infringed, that Tri-Tech imported the infringing product into the United States, and that after importation, TechWorks sold the infringing product in the United States. No petitions for review of the ID or government agency comments were received by the Commission.

On June 28, 1994, the Commission determined not to review the ID, which thereby became the determination of the Commission. The Commission also requested written submissions concerning the issues of remedy, the public interest, and bonding. See 59 Fed. Reg. 34862-63 (July 7, 1994) and 59 Fed. Reg. 48449 (Sept. 21, 1994).

On November 17, 1994, the Commission made its determinations on the issues of remedy, the public interest, and bonding. The Commission determined that the appropriate form of relief is a general exclusion order prohibiting the entry for consumption of infringing devices for connecting computers via telephone lines. The Commission also determined that the public interest factors enumerated in 19 U.S.C. § 1337(d) do not preclude the issuance of the aforementioned relief, and that the bond during the Presidential review period shall be in the amount of 346 percent of the entered value of the infringing devices for connecting computers via telephone lines.

II. REMEDY

1. The General Exclusion Order

The standard for issuance of a general exclusion order was set forth by the Commission in Certain Airless Paint Spray Pumps ("Spray Pumps").[1] According to Spray Pumps, two tests must be met for issuance of a general exclusion order. They are (1) a widespread pattern of unauthorized use of the patented invention, and (2) business conditions from which one might infer that foreign manufacturers other than the respondents to the investigation may enter the United States with infringing articles.

In Spray Pumps, the Commission enumerated the following factors as relevant to demonstrating whether a widespread pattern of unauthorized use exists:

> (1) a Commission determination of unauthorized importation into the United States of infringing articles by numerous foreign manufacturers; or
>
> (2) the pendency of foreign infringement suits based upon foreign patents which correspond to the domestic patent at issue; or

[1] Inv. No. 337-TA-90, 3 ITRD 2041, 2049 (Nov. 1981).

(3) other evidence which demonstrates a history of unauthorized foreign use of the patented invention.[2]

The Spray Pumps decision listed the following factors to evaluate in determining whether there are business conditions from which one might infer that foreign manufacturers other than the respondents to the investigation may enter the United States with infringing articles:

(1) an established demand for the patented product in the U.S. market and conditions of a world market;

(2) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;

(3) the cost to foreign entrepreneurs of building a facility capable of producing the patented article;

(4) the number of foreign manufacturers whose facilities could be retooled to produce the patented article; and

(5) the cost to foreign manufacturers of retooling their factories to produce the patented article.[3]

With regard to whether there is a widespread pattern of unauthorized use, there is uncontested evidence in the record indicating that all 18 of the named respondents have imported the accused products into the United States, sold such products for importation, or sold such products after importation. Seven foreign respondents (Caltechnology, Full, Good Way, Ming, Shiunn Yang, Techtron, and Tremon) and eight domestic respondents (ABL, CPU, Enhance, Focus, DGR, MCC, Pan, and Total) admit to unauthorized use of Farallon's '579 patent.[4] Furthermore, defaulting

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[2] Spray Pumps, 3 ITRD at 2049.

[3] See Spray Pumps at 18. See also, Certain Battery Powered Ride-On Toy Vehicles and Components Thereof, Inv. No. 337-TA-314, Commission Opinion On Issue Under Review And On Remedy, The Public Interest, And Bonding (April 9, 1991) ("Toy Vehicles") at 5-6.

[4] See settlement agreements of Full, Good Way, Ming, Shiunn Yang, and Tremon at ¶ 4(c)) and settlement agreements of ABL, Enhance, MCC, Pan, and Total; See also Complainant Farallon Computing, Inc.'s Motion for Summary Determination Regarding a Violation of Section 337 ("337 Violation Memorandum") at Exhibits 5, 8, and 19 -- CPU Products' Response to Farallon's First Set of Document Requests, No. 1; Letter from J. Ledbetter, counsel for DGR, to J. Dibble, Counsel for Farallon (December 21, 1993); and Focus's Response to Farallon's First Set of Interrogatories to Respondents, Int. No. 2(a), 4(b), respectively. Foreign respondents Caltechnology and Techtron also admit to unauthorized use of the '579 patent. See Caltechnology and Techtron settlement agreements at ¶ 4(c).

Although foreign respondent Ji-Haw did not admit to infringement in its settlement agreement, Farallon's expert testified that Ji-Haw's connectors infringed the '579 patent. See 337 Violation Memorandum at Exhibit 6, Declaration of Samuel F. Wood, and Exhibit 13, Affidavit of *****. There is evidence that foreign respondent Tri-Tech is a manufacturer of PhoneNET-type

foreign respondent Tri-Tech has indicated that it plans to restart production of infringing connectors.[5] In addition, there are 15 non-respondent companies that manufacture or export generic, infringing PhoneNET-type connectors.[6] There are also two imported, infringing brand-name connectors in this investigation, Hyper-Net and CableNet, for which no foreign manufacturer or foreign broker could be positively identified.[7] This evidence leads us to conclude that there has been a widespread pattern of unauthorized use of the patented invention, thus satisfying the first Spray Pumps test.

With respect to whether there are business conditions showing that foreign manufacturers other than respondents may attempt to enter the U.S. market with infringing articles, the record demonstrates that there is an established demand for connectors in the United States. Farallon licenses the '579 patent to ***** companies, including ***** and had ***** agreements with ***** other firms for combined sales of ***** connectors for the fiscal year ending September 30, 1993.[8]

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connectors. See 337 Violation Memorandum at Exhibit 13, Affidavit of *****. Moreover, domestic respondent Total admits that it imported infringing connectors from Tri-Tech. Id. at Exhibit 12, Affidavit of Sharon Huang.

Finally, domestic respondent TechWorks admits that it purchased all of its connectors from domestic respondent Focus (Id. at Exhibit 21, TechWorks Response to Farallon's First Set of Interrogatories to Respondents, Int. No. 1) and has sold and distributed them in the United States since September 1992 (Id. at Exhibit 22, TechWorks Response to Commission Investigative Staff's Revised First Set of Interrogatories to Respondents, Int. No. 6). Focus admits that its connectors infringe Farallon's '579 patent. See Focus settlement agreement at ¶¶ 11, 12(a); patent license agreement at ¶ 2.5.

[5] 337 Violation Memorandum at Exhibit 15, Facsimile from Chuck Chang, Tri-Tech, to J. Dibble, counsel for Farallon (April 1, 1994).

[6] Those non-respondents are **********. All of these companies reportedly manufacture generic connectors without a brand name, except for *****, which produced its connector under the brand name of HS. See Farallon's Remedy Submission at 7; 337 Violation Memorandum at 23 and Exhibit 25, Affidavit of *****.

Four additional non-respondent manufacturers or exporters of infringing devices have also been identified. They are: (1) Data System Technology Co., Ltd., Taipei, Taiwan (see 337 Violation Memorandum at Exhibit 5, CPU Products' Response to Farallon's First Set of Document Requests, ¶ 1(a)); (2) Ming Fortune Industry Co., Ltd., Taipei, Taiwan (not affiliated with respondent Ming Technology Corp., see Id. at Exhibit 17, Letter to C. Mulrow, counsel for Farallon, from D. Goldman, counsel for Enhance (March 9, 1994)); (3) ***** (see Id. at Exhibit 19, Focus Enhancement's Response to Farallon's First Set of Interrogatories to Respondents, Int. No. 2(a)); and (4) *****, a wholly owned subsidiary of ***** (see Id. at Exhibit 20, Focus Enhancement's Response to Farallon's Second Set of Interrogatories to Respondents, Int. No. 23(a)).

[7] Farallon reports that an examination of the Hyper-Net connector reveals it to be identical to the FullNet connector, leading Farallon to believe that this is another connector sold for importation or imported into the United States by Full. Farallon's Remedy Submission at 7 n.5; 337 Violation Memorandum at Exhibit 6, Declaration of Samuel F. Wood, ¶ 12.

[8] Farallon's Remedy Submission at 9 and Exhibit 1, Zukerman Declaration.

Available established distribution channels which facilitate marketing of infringing connectors exist in the United States. There are at least ten resellers or retailers of infringing PhoneNet-type connectors, many of whom advertise the infringing devices in computer magazines which are sold nationwide.[9] Moreover, connectors can be manufactured with relative ease and minimal investment. PhoneNET-type connectors contain only a single printed circuit board with less than 10 components which are easily obtained in any developed country. Assembly may be completed in three to four minutes by a person with minimal skill and education.[10] The record also reveals that the small physical plants required by foreign manufacturers to build the connectors suggests that operational overhead for foreign connector manufacturers is likely to be insignificant. The sizes of foreign manufacturing facilities range from about 720 square feet to 1,800 square feet.[11] It is therefore reasonable under Spray Pumps to infer that additional foreign manufacturers may attempt to enter the United States with infringing PhoneNET-type connectors.[12]

The Commission has broad discretion in selecting the form, scope, and extent of the remedy in a section 337 proceeding.[13] The Commission has issued general exclusion orders in cases where the intellectual property right at issue is one that might readily be infringed by foreign manufacturers that are not parties to the investigation.[14]

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[9] See 337 Violation Memorandum at Exhibits 4 and 11, Declaration of Les A. Edelman, and Declaration of Richard McCloskey, respectively. Purchases of imported, infringing connectors can reportedly be made through telephone calls to nationwide "800" numbers. Id. at Exhibit 4. Purchases of imported, infringing connectors could also reportedly be made directly from retail outlets, mail order companies, or from domestic respondents' sales offices. Id. at Exhibits 4, 9 (Declaration of Daniel J. Schwieger), and 11.

[10] See 337 Violation Memorandum at Exhibit 6, Declaration of Samuel F. Wood.

[11] See 337 Violation Memorandum at Exhibit 3, Affidavit of *****.

[12] The Commission has identified the following circumstances from which it can reasonably be inferred that foreign manufacturers other than the respondents may attempt to enter the United States market with infringing goods: (1) a small capital investment required to begin production of the subject product; (2) a large number of potential infringers; (3) an established demand in the United States; and (4) availability and/or ease in establishing a distribution network in the United States. See e.g., Toy Vehicles, Inv. No. 337-TA-314.

[13] Viscofan, S.A. v. United States International Trade Commission, 787 F.2d 544, 548 (Fed. Cir. 1986) (affirming Commission remedy determination in Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Products, Inv. Nos. 337-TA-148/169, USITC Pub. 1624 (December 1984)).

[14] See Spray Pumps, Inv. No. 337-TA-90, USITC Pub. No. 1199 at 17, 216 U.S.P.Q. 465, 472-73 (1981).

We believe that the Spray Pumps criteria for issuance of a general exclusion order have been met in this investigation. U.S. demand for the devices is substantial, the devices are easily assembled with readily available components, operational overhead costs are minimal, and there is no evidence of any other barriers to entry into the business or into the U.S. market. U.S. distribution channels already exist. There is evidence of manufacturing or exporting of infringing devices by fifteen foreign non-respondents.[15] We therefore believe that the record supports the view that unauthorized distribution of infringing connectors is likely to occur. In such circumstances, failure to issue a general exclusion order would allow non-respondent companies to infringe the patent in controversy with impunity, requiring complainant Farallon to initiate successive section 337 investigations to redress the likely infringement by new manufacturers.

The Commission in a similar situation, in Certain Tape Dispensers, issued a general exclusion order when, in addition to three named foreign respondents, four foreign non-respondent companies were allegedly producing and exporting infringing tape dispensers.[16] Similarly, in Toy Vehicles, a general exclusion order was issued when, in addition to one named foreign respondent, two foreign non-respondents were allegedly infringing one of the design patents in issue. In that case, the Commission found that the presence of the two additional foreign producers constituted the potential for "a widespread unauthorized use."[17] A similar result was reached in Certain Apparatus for Installing Electrical Lines and Components Thereof ("Electrical Lines"),[18] where the Commission

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[15] See supra note 6.

[16] Certain Tape Dispensers, Inv. No. 337-TA-345, USITC PUB. 2787 (June 1994) at 4-5.

[17] Toy Vehicles at 6-7. The Commission declined to find "widespread unauthorized use" in connection with the product patent at issue in Toy Vehicles, but that decision was a result of the complainant's inability to identify any foreign producer of such toy vehicles other than the one named respondent. Id. at 13.

The Commission indicated in Toy Vehicles that it may consider evidence of widespread foreign manufacture of products that would be likely to be found infringing if sold in the United States pertinent to its examination of whether a "widespread pattern of unauthorized use" exists. Id. at 7, citing Certain Strip Lights, Inv. No. 337-TA-287, Commission Opinion at 5 & n.8 (October 3, 1989) (allegation that at least 8 Taiwanese factories operated by non-respondent manufacturers produced a product like that of complainant used to support determination that "widespread pattern of unauthorized use" exists); Certain Chemiluminescent Compositions and Components Thereof, Inv. No. 337-TA-285, Commission Opinion at 10 (August 17, 1989) (although "hesitant" to rely heavily on information, Commission referenced complainant's documented allegations concerning foreign manufacture of allegedly infringing product by numerous non-respondents); Certain Vinyl-Covered Foam Blocks, Inv. No. 337-TA-178, USITC Pub. 1604, Commission Opinion at 2 (November 1984) (existence of numerous non-respondent foreign manufacturers of purportedly infringing product supports issuance of general exclusion order).

[18] Inv. No. 337-TA-196, USITC Pub. 1858 (1986).

found that the ease of entry and high demand for the product in the United States justified the issuance of a general exclusion order.[19]

2. The Meaning of "Entry"

The Commission has issued orders excluding unfair imports from entry into the United States since 1974. The question of what constitutes an "entry," however, only recently arose for the first time in connection with enforcement of an exclusion order issued pursuant to another investigation, Certain Processes for the Manufacture of Skinless Sausage Casings and Resultant Product ("Sausage Casings").[20] The order, issued in 1984, excluded "from entry into the United States" certain sausage casings. In 1993, a question was addressed to the Commission as to whether prohibited sausage casings that were being transhipped in bond from Spain to Mexico via port of Houston, Texas (but not sold or consumed in the United States) violated the Commission's exclusion order.[21]

A majority of the Commission concluded that the order covered these entries. The majority also indicated that it was "cognizant of the uncertainties which may arise as a result of different interpretations of the word 'entry' in Commission exclusion orders and Customs practice." The majority said it would draft exclusion orders in the future to "avoid such uncertainties."[22] Two Commissioners disagreed with the majority's view. They said that "[r]esolution of this issue implicates terms of art under the Customs laws of the United States -- specifically, 'entry', 'exclusion' and 'importation' -- matters clearly falling within the experience and province of the Customs Service."[23]

This investigation concerning Certain Devices for Connecting Computers via Telephone Lines presents us with the opportunity to address the meaning of "entry" as we consider how to craft the exclusion order. We agreed to seek briefing specifically on the scope of the proposed exclusion order, and in particular, on the use of the term "entry." Submissions were received from complainant Farallon, the U.S. Customs Service ("Customs") and the IA.

Farallon stated that because imported connectors infringing its '579 patent are manufactured abroad due to lower labor and material costs, it is unlikely that any such connectors would be "manufactured" under temporary importation bonds in the United States. Farallon further stated that

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[19] Electrical Lines at 13.

[20] Inv. No. 337-TA-148/169, USITC Pub. 2812 (September 1994).

[21] Letter from Harvey Fox, Director, Office of Regulations and Rulings, U.S. Customs Service, to Lyn M. Schlitt, General Counsel (September 3, 1993).

[22] See Sausage Casings at 4 n.17.

[23] See Sausage Casings, Separate Views of Commissioners Rohr and Newquist, at 9.

while foreign manufacturers of infringing connectors might transport goods "in bond" through the United States, it believed it unlikely that the number of connectors involved would seriously impact Farallon's enforcement of its '579 patent. Farallon concluded that the facts in this case do not mandate an order with a scope greater than the exclusion of connectors "entered for consumption."[24]

Customs stated that because the orders proposed by Farallon and the IA would only exclude articles from entry into the United States, the orders will not exclude devices that are shipped in bond through the United States.[25]

Customs cited section 553 of the Tariff Act of 1930 (19 U.S.C. § 1553), which provides that "[a]ny merchandise, other than explosives and merchandise the importation of which is prohibited, shown . . . to be destined to a foreign country, may be entered for transportation in bond through the United States by a bonded carrier . . . under such regulations as the Secretary of the Treasury shall prescribe." (Emphasis added by Customs.) Customs further noted that the exclusion order in Sausage Casings did not prohibit the "importation" of sausage casings. Rather, like the proposed exclusion orders in this case, it excluded articles from "entry into the United States." (Emphasis added by Customs.) Customs concluded that pursuant to section 553 and the Custom's regulations at 19 C.F.R. § 18.20 et. seq., an importer's right to have such merchandise shipped in bond through the United States would not be affected by a section 337 exclusion order that excluded connectors from "entry into the United States."[26]

The IA noted that "[t]he Commission has broad discretion in selecting the form, scope, and extent of the remedy in a Section 337 proceeding."[27] The IA recommended that the Commission adopt a general rule that the phrase "excluded from entry into the United States" covers all forms of

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[24] Farallon's Submission Regarding the Scope of the Proposed Exclusion Order (October 3, 1994) at 1-2 ("Farallon's Scope Submission").

[25] Memorandum from Harvey Fox, Director, Office of Regulations & Rulings, U.S. Customs Service, to Donna R. Koehnke, Secretary, U.S.I.T.C., regarding request for written submissions on the scope of a proposed exclusion order in Inv. No. 337-TA-360 (October 7, 1994) at 1-2 ("Customs' Scope Submission").

[26] Customs' Scope Submission at 1. Referring to its June 1994 letter, Customs notes that such a bonded shipment **through** the United States effectively excludes the merchandise from entry **into** the United States. Id.

[27] Brief of the Office of Unfair Import Investigations Concerning the Scope of the Proposed Exclusion Order with Respect to the Term "Entry" (October 3, 1994) ("IA's Scope Submission") at 8-9, citing Viscofan, S.A. v. U.S.I.T.C., 787 F.2d 544, 548 (Fed. Cir. 1986); Hyundai Electronics Industries v. U.S.I.T.C., 899 F.2d 1208-09 (Fed. Cir. 1990).

"entry" except for "entry for direct exportation" under 19 C.F.R. § 18.25.[28] The effect of such a rule would be to generally prohibit transshipments and other forms of entry into or through the United States, unless such shipments were specifically excepted from the scope of the exclusion order issued in a particular case.[29] The IA also recommended that the Commission issue a general exclusion order in this case excluding all forms of entry except entry for direct exportation.

After careful consideration of the written submissions, we conclude that section 337 does not differentiate among types of entry. As noted by the IA, there are many different kinds of "entry", including "entry for consumption" and "entry for shipment through the United States." There is no statutory definition of the term "entry", however, which applies to section 337.

The legislative history for section 337 sheds little light on the meaning of this term. Quite possibly, Congress simply never considered the issue. Nevertheless, we must construe and apply the statute as written. In construing the statute, we are mindful that what the legislative history does make clear is the broad scope permitted for section 337 remedial orders. The remedy of excluding prohibited imports "from entry into the United States" has been a part of federal law since Congress enacted the predecessor to section 337, section 316 of the Tariff Act of 1922, more than 70 years ago. The report of the Senate Committee on Finance that accompanied section 316 expressly stated that section 316 "is broad enough to prevent every type and form of unfair practice" with respect to imports.[30] Nothing since then indicates any Congressional intent to narrow this remedial authority. We conclude, therefore, that the term "entry" is not limited to "entry for consumption", but encompasses all types of entry. Thus, exclusion orders may exclude all types of entry.

This leaves the question of whether exclusion orders should exclude all types of entry. As noted above, the Commission's remedial authority is conceptually quite broad. Nevertheless, the Commission generally has applied this authority in measured fashion and has issued only such relief as is adequate to redress the harm caused by the prohibited imports. For example, the Commission will issue a limited exclusion order rather than a general one when the limited exclusion order will provide adequate relief.[31] Likewise, the Commission generally includes within the scope of an

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[28] IA's Scope Submission at 29, 31.

[29] IA's Scope Submission at 31-32.

[30] S. Rep. No. 595, 67th Cong., 2d Sess. 3 (1922). See also, Viscofan, S.A. v. U.S.I.T.C., 787 F.2d 544, 548 (Fed. Cir. 1986); Hyundai Electronics Industries v. U.S.I.T.C., 899 F.2d 1208-09 (Fed. Cir. 1990).

[31] Certain Dynamic Random Access Memories, Components Thereof and Products Containing Same, Inv. No. 337-TA-242, USITC Pub. 2034 (November 1987) at 84-86.

exclusion order downstream products that incorporate the infringing device only when the facts in a particular case so warrant.[32]

We see no reason to depart from this measured approach when deciding what types of entry should be excluded. In the vast majority of cases, the type of entry that is adversely affecting a complainant is an entry for consumption. Other types of entry, such as the entry for transhipment in bond through the United States in Sausage Casings, may not cause adverse effects to a complainant. Certainly, in the instant matter, there is no reason to issue an order that excludes other types of entry when complainant Farallon itself has not requested or demonstrated the need for a broader order. In future investigations, types of entry other than "entry for consumption" may be restricted as appropriate in light of the facts of a given case. A complainant that seeks exclusion of other types of entry should present evidence that activities by respondents involving other types of entry either are adversely affecting it or are likely to do so.

III. The Public Interest

Section 337(d) provides that the Commission shall issue an order excluding the goods in question unless, after considering the effect of such remedy upon (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) the U.S. production of articles that are like or directly competitive with those which are the subject of the investigation, and (4) U.S. consumers, it finds that a remedy should not be issued. The legislative history of section 337 makes it clear that these statutory public interest factors are to be the overriding consideration in the administration of the statute.[33] The Commission has invoked the public interest as a basis for denying relief to a prevailing complainant on only three occasions.[34]

We do not believe that the statutory public interest considerations preclude the issuance of a general exclusion order in this investigation. The subject connectors are not products which have

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[32] Certain Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories and Processes for Making Such Memories, Inv. No. 337-TA-276, USITC Pub. 2196 (May 1989) at 123-126.

[33] S. Rep. No. 1298, 93d Cong., 2d Sess. 193 (1974).

[34] In Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, U.S.P.Q. 71 (ITC 1979), the Commission denied relief because of an overriding national policy in maintaining and increasing the supply of fuel efficient automobiles, coupled with the domestic industry's inability to supply domestic demand. In Certain Inclined Field Acceleration Tubes, Inv. No. 337-TA-67, USITC Pub. 1119 (1980), the Commission denied relief because there was an overriding public interest in continuing basic atomic research using the imported acceleration tubes, which were of a higher quality than the domestic product. Finally, in Certain Fluidized Supporting Apparatus, Inv. No. 337-TA-182/188, USITC Pub. No. 1667 (1984), the Commission denied relief because the domestic producer could not supply demand for hospital beds for burn patients within a commercially reasonable time, and no therapeutically comparable substitute for care of burn patients was available.

general implications for the public health and welfare of the type implicated in the previous cases in which the Commission denied relief based upon the public interest. It appears that complainant Farallon and its licensees have adequate capacity to supply U.S. demand for the subject connectors. Finally, there is no showing that other sources of non-infringing connectors, both foreign and domestic, are unavailable.

IV. Bonding

Section 337(j)(3) provides for the entry of infringing articles upon the payment of a bond during the 60-day Presidential review period.[35] The bond is to be set at a level sufficient to "offset any competitive advantage resulting from the unfair method of competition or unfair act enjoyed by persons benefitting from the importation."[36] The bond should not be set so high that it effectively prevents importation during the Presidential review period. However, the period of Presidential review is relatively short, and the consequences of any bond are therefore likely to be short-lived.

Complainant Farallon proposed that the Commission impose a bond of 346 percent of the entered value of the imported infringing connectors during the 60-day Presidential review period.[37] Farallon based its proposed bond on a calculation of the average amounts by which infringing imports undersell its PhoneNET connector.[38] It asserted that a bond of 346 percent would "equalize the price of the infringing imported product with the price" of its PhoneNET connector.[39]

The IA used the same general methodology to calculate a bond, but arrived at a proposed bond of 364 percent of the entered value of the accused products because the IAs calculation was based on different prices.[40] According to the IA, this difference in the recommended bond amounts is attributable to Farallon's inclusion of a TechWorks price of $***** in its calculation of the

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[35] 19 U.S.C. § 1337(j)(3).

[36] S. Rep. No. 1298, 93rd Cong., 2d Sess. 198 (1974).

[37] Farallon's Remedy Submission at 12.

[38] See Farallon's Remedy Submission at Exhibit 1, Attachment A, and Exhibit 2.

[39] Farallon's Remedy Submission at 12, citing In re Certain Acid-Washed Denim Garments, Inv. No. 337-TA-324, 15 ITRD 2211, 2223 (November 1992).

[40] We note that both complainant and the IA have proposed a bond that would be applied against the "entered value" of infringing imports. The Commission's exclusion order refers to "entered value," which is also preferred by Customs.

average respondents' price and its use of a Focus price of $***** instead of the Focus price of $***** (after deducting a *****) used by the IA.[41]

We have determined that a bond in the amount of 346 percent of the entered value of each infringing connector imported is appropriate during the Presidential review period. We have adopted the lower bond level proposed by Farallon because of the likelihood that most imports will be sold in larger quantities without *****.

[41] The IA used a price from a November 11, 1993 Focus Purchase Order that applied a ***** to the $***** invoice price, whereas Farallon used a price from an August 18, 1993 Focus Purchase Order that contained no *****. See IA's Reply Brief at 3, comparing IA's Remedy Brief at Confidential Attachment B with Farallon's Remedy Submission at Exhibit 2.

RWDY

ID rec'd 5-25-94
Conf. 5-25-94
Public 5-25-94
ID svd. 5-25-94
Petition due
Resp to pet. due
Gov't comments due
Public comments due
Comm decision due 6-24-94

PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington DC 20436

In the Matter of	)	
	)	
CERTAIN DEVICES FOR CONNECTING COMPUTERS VIA TELEPHONE LINES	)	Investigation No. 337-TA-360
	)	

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OFC OF THE SECRETARY
INT'L TRADE COMMISSION

INITIAL DETERMINATION
ON MOTION FOR SUMMARY DETERMINATION

On April 28, 1994, complainant Farallon Computing, Inc. filed a motion for summary determination regarding a violation of Section 337 (Motion No. 360-31). The motion is not opposed by any of the respondents. The Commission investigative attorney supports the motion.

All of the respondents except Technology Works and Tri-Tech Instruments Co., Ltd. have entered into settlement agreements with complainant.

Farallon previously moved for summary determination as to the existence of a domestic industry, and that motion was granted in Order No. 20.

Section 210.50(b) of the Commission's Rules provides that a summary determination "shall be rendered if the pleadings and any depositions, admissions on file, and affidavits show that there is no genuine issue as to any material fact and that the moving party is entitled to a summary determination as a matter of law."

Section 210.50(c) provides that when a motion for summary determination is made and supported as provided in this rule, a party opposing the motion may not rest upon mere allegations or denials in his pleadings; his response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue of fact for hearing. If no such

response is filed, a summary determination, if appropriate, shall be rendered.

Complainant has submitted declarations, affidavits and exhibits that, if the facts stated therein are true, would support a conclusion that complainant is entitled to a determination as a matter of law that the two remaining respondents have violated § 337. Neither respondent filed a response to this motion.

Sale or importation

Farallon submitted an affidavit stating that an employee of Tri-Tech Instruments Co. Ltd. admitted manufacturing the product in issue in Taiwan and an affidavit indicating that Tri-Tech sold this product to a U.S. company after the '579 patent was issued. The patent was issued on March 26, 1991. (Motion p. 14; Exs. 1, 12, 13, and 15.)

Farallon also submitted interrogatory responses indicating that Technology Works, Inc. had purchased from respondent Focus Enhancements, Inc. a product that had been imported into the United States by Focus after the '579 patent had been issued, and that Technology Works had resold this product in the United States. (Motion pp. 15-16; Exs. 19-22.)

The '579 patent

Exs. 1 and 2 show that the '579 patent was issued on March 26, 1991, and was assigned to complainant Farallon Computing, Inc.

Validity of the patent

A patent is presumed to be valid. 35 U.S.C. § 282. In the absence of a challenge to the validity of a patent, this issue is not reached. (The issue of unenforceability also is not reached unless the issue is raised.)

Earlier in this case, one of the respondents, Focus Enhancements, Inc., filed a motion for summary determination that the '579 patent was invalid,

with supporting affidavits. Before responses to the motion were filed, Focus withdrew its motion for summary determination because complainant and Focus had reached a settlement agreement licensing the patent to Focus. The agreement has been approved by the Commission.

No other party adopted the motion of Focus. When any respondent files a motion for summary judgment that a patent is invalid and supports this assertion with affidavits, and the motion is opposed with supporting affidavits by another party, this almost always raises an issue of fact that goes to hearing. The Commission's investigative attorney considered the prior art and the other evidence of patent invalidity offered in the motion for summary judgment before it was withdrawn, and decided not to oppose complainant's motion for summary determination. The reasoning underlying this decision was not disclosed. No affidavits supporting the position that the patent is invalid are in the record at this time, no prior art is in the record, no issue of fact has been raised by any party still in the case, and there is no record on the validity issue to consider here or on review. Since there is a presumption of patent validity, and no party challenges that presumption, it is found that the patent is valid. The outcome would have been the same if the Commission investigative attorney were not a party in this case. I recognize that it would be costly to the parties to litigate this issue, and that there are advantages to both complainant and respondent in settling the case by licensing the patent. In any event, I am not authorized to consider issues relating to the public interest or remedy here (i.e., the question of whether monopolies based on patents that may or may not be valid should be enforced by the Commission against anyone other than the parties who admitted that the patent is valid in their settlement agreements).

Infringement

Complainant has offered affidavits asserting facts indicating that the products manufactured by Tri-Tech and exported to the United States infringe claims 10 and 20 of the '579 patent, and facts indicating that the imported products sold by Technology Works in the United States infringe claims 18 and 20 of the '579 patent. The affidavits are unopposed.

Conclusion

It already has been found in Order No. 20 that there is a domestic industry. Based on the information in the present motion, these additional findings are made:

1. It is found that U.S. Letters Patent No. 5,003,579 is valid and that it was assigned to complainant Farallon Computing, Inc.

2. It is found that Tri-Tech manufactured the product in issue and exported it to the United States after the '579 patent was issued (March 26, 1991.)

3. It is found that Tri-Tech's product infringed claims 10 and 20 of the '579 patent.

4. It is found that Technology Works sold a product imported into the United States after the '579 patent was issued.

5. It is found that the product sold by Technology Works infringed claims 18 and 20 of the '579 patent.

It is concluded that Tri-Tech and Technology Works violated Section 337 of the Tariff Act, as amended. Motion 360-31 is granted with respect to Technology Works and Tri-Tech Instruments Co., Ltd.

It is also found that because Tri-Tech failed to respond to an order to show cause why it should not be found in default (Order 22), it is in default.

All of the other respondents have entered into settlement agreements that either have been accepted by the Commission or are pending before the Commission, and it is not necessary to reach the question of whether these

respondents have violated Section 337 in this order.

The hearing, previously scheduled for May 31, 1994, is cancelled. The record, consisting of all documents and things properly filed with the Secretary, is certified to the Commission.[1]

Janet D. Saxon

Janet D. Saxon
Administrative Law Judge

Issued: May 24, 1994

[1] Pursuant to § 210.53(h) of the Commission's Rules, this initial determination shall become the determination of the Commission unless a party files a petition for review of the initial determination pursuant to § 210.54, or the Commission pursuant to § 210.55 orders on its own motion a review of the initial determination or certain issues therein. For computation of time in which to file a petition for review, refer to §§ 210.54, 201.14, and 201.16(d).