

In the matter of:

CERTAIN SURVEYING DEVICES

Investigation No. 337-TA-68

USITC PUBLICATION 1085

JULY 1980



UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

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Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of)
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CERTAIN SURVEYING DEVICES)
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_____)

Investigation No. 337-TA-68

Notice of Commission Determination and Order

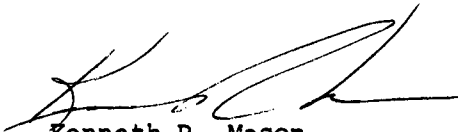
Notice is hereby given that the Commission, upon consideration of the presiding officer's recommended determination and the record in this proceeding, investigation No. 337-TA-68, Certain Surveying Devices, has determined (Chairman Alberger and Commissioner Stern dissenting) that there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) in the importation or sale of certain surveying devices which infringe the sole claim of U.S. Letters Patent 3,172,205, and has ordered that infringing surveying devices be excluded from entry into the United States for the term of the patent (until Mar. 9, 1982), unless the importation is licensed by the patent owner. The Commission also ordered that the surveying devices ordered to be excluded from entry are entitled to entry into the United States under bond in the amount of 32 percent ad valorem during the period that this action is pending before the President.

The Commission's order is effective on the date of publication of this notice in the Federal Register. Any party wishing to petition for reconsideration must do so within fourteen (14) days of service of the

Commission determination. Such petitions must be in accord with section 210.56 of the Commission rules (19 CFR 210.56). Any person adversely affected by a final Commission determination may appeal such determination to the United States Court of Customs and Patent Appeals.

Copies of the Commission's Determination, Order, and Memorandum Opinion (USITC Publication 1085, July 1980) are available to the public during official working hours at the Office of the Secretary, United States International Trade Commission, 701 E Street, NW., Washington, D.C. 20436, telephone (202) 523-0161. Notice of the institution of the Commission's investigation was published in the Federal Register of July 5, 1979 (44 F.R. 39315).

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: July 7, 1980

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of
CERTAIN SURVEYING DEVICES

Investigation No. 337-TA-68

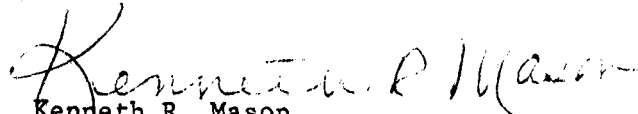
NOTICE OF INVESTIGATION

Notice is hereby given that a complaint was filed with the U.S. International Trade Commission on May 17, 1979, and amended on June 4, 1979, under section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), on behalf of Gammon Reel, Inc., San Francisco, California, alleging that unfair methods of competition and unfair acts exist in the importation into the United States of certain surveying devices, or in their sale, by reason of the alleged unfair acts, specified in the complaint, as follows: (1) coverage of such surveying devices by the claim of U.S. Letters Patent No. 3,172,205, (2) inducement to infringe the claim of said patent, (3) infringement of complainant's registered trademark (Registration No. 1,019,865), (4) false designation of origin, including country of origin, (5) appropriation of trade dress, (6) use of know-how, and (7) passing off.

The complaint, as amended, alleges that the effect or tendency of the unfair methods of competition and unfair acts is to substantially injure an industry, efficiently and economically operated, in the United States. Complainant requests permanent exclusion from entry into the United States of the imports in question after a full investigation.

701 E Street, N.W., Washington, D.C. 20436, and in the Commission's New York City office, 6 World Trade Center, New York, New York 10048.

By order of the Commission.


Kenneth R. Mason
Secretary

Issued: June 25, 1979

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of)
)
CERTAIN SURVEYING DEVICE) Investigation No. 337-TA-68
_____)

COMMISSION DETERMINATION AND ORDER

Introduction

This report concerns the disposition by the U.S. International Trade Commission of investigation No. 337-TA-68, Certain Surveying Devices, conducted pursuant to section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337). The investigation concerned alleged unfair methods of competition and unfair acts in the unauthorized importation and sale in the United States of certain surveying devices. On June 24, 1980, the Commission determined (Chairman Alberger and Commissioner Stern dissenting) that there is a violation of section 337 in the importation or sale of certain surveying devices which infringe the sole claim of U.S. Letters Patent 3,172,205, and ordered that infringing surveying devices be excluded from entry into the United States for the term of the patent (until Mar. 9, 1982), unless the importation is licensed by the patent owner.

The following Commission determination and order provide for the final disposition of the Commission's investigation on certain surveying devices.

Determination

Having reviewed the record compiled in this investigation, the Commission, Chairman Alberger and Commissioner Stern dissenting, on June 24, 1980, determined--

1. That with respect to the respondent in this investigation, there is a violation of section 337 of the Tariff Act of 1930, as amended, in the importation and sale by the owner, importer, consignee, or agent of either, of surveying devices which infringe U.S. Letters Patent 3,172,205, the tendency of which is to substantially injure an industry, efficiently and economically operated, in the United States;

2. That the appropriate remedy for such violation is to direct that surveying devices manufactured abroad which infringe U.S. Letters Patent 3,172,205 be excluded from entry into the United States for the term of said patent, except where such importation is licensed by the owner of said patent;

3. That, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive articles in the United States, and U.S. consumers, such surveying devices should be excluded from entry for the term of said patent, except where such importation is licensed by the owner of said patent; and

4. That the bond provided for in subsection (g) (3) of section 337 of the Tariff Act of 1930, as amended, be in the amount of 32 percent ad valorem of the imported article (ad valorem to be determined in accordance with sec. 402 of the Tariff Act of 1930, as amended (19 U.S.C. 1401a)).

Order

Accordingly, it is hereby ordered--

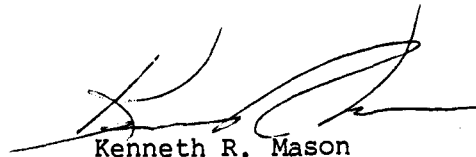
1. That surveying devices which infringe U.S. Letters Patent 3,172,205 are excluded from entry into the United States for the term of said patent, except where such importation is licensed by the owner of said patent;

2. That surveying devices ordered to be excluded from entry are entitled to entry into the United States under bond in the amount of 32 percent ad valorem (ad valorem to be determined in accordance with sec. 402 of the Tariff Act of 1930, as amended (19 U.S.C. 1401a)) from the day after this order is received by the President pursuant to section 337(g) 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, in any event, not later than 60 days after the date of receipt;

3. That notice of this order be published in the Federal Register and that this order and the opinion in support thereof be served upon each party of record in this investigation and upon the Department of Health and Human Services, the U.S. Department of Justice, the Federal Trade Commission, and the Secretary of the Treasury; and

4. That the Commission may amend this order at any time.

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: July 7, 1980

OPINION OF VICE CHAIRMAN MICHAEL J. CALHOUN AND
COMMISSIONERS GEORGE M. MOORE AND CATHERINE BEDELL

Procedural history

The complaint forming the basis of this investigation was filed with the Commission on May 17, 1979, on behalf of Gammon Reel, Inc., San Francisco, California (hereinafter complainant). An amendment to the complaint was filed on June 4, 1979. The complaint, as amended, alleged unfair methods of competition and unfair acts in the unauthorized importation of certain surveying devices into the United States, or in their sale, by reason of (1) the infringement of the claim of U.S. Letters Patent 3,172,205 (the '205 patent) issued to complainant on March 9, 1965; (2) inducement to infringe the claims of said patent; (3) infringement of complainant's registered trademark (Registration No. 1,019,865); (4) false designation of origin, including country of origin; (5) appropriation of trade dress; (6) use of know-how; and (7) passing-off. The complaint alleged that the effect or tendency of the alleged unfair methods of competition and unfair acts is to destroy or substantially injure an industry, efficiently and economically operated, in the United States.

The Commission instituted the investigation on June 12, 1979. Notice of the investigation was published in the Federal Register of July 5, 1979 (44 F.R. 39315). Named as respondent in the notice of investigation was John Woods Survey Equipment, Ltd., Scarborough, Ontario, Canada. Respondent appeared and participated as a party to the investigation.

Upon institution, this investigation was referred to an administrative law judge (ALJ). A hearing in accord with 5 U.S.C. 551 et seq. was held before the administrative law judge on January 22-25, 1980. On March 25, 1980, the administrative law judge, as required under the Commission's rules, submitted to the Commission his recommended determination containing proposed findings of fact and conclusions of law and an opinion with respect thereto.

In his recommended determination, the administrative law judge recommended that the Commission determine that there is a violation of section 337 by reason of the unauthorized importation into the United States and sale therein of certain surveying devices which infringe U.S. Letters Patent 3,172,205 with the effect or tendency to substantially injure an industry, efficiently and economically operated, in the United States. He also recommended that the Commission find that respondent has induced others to infringe the patent. More specifically, the ALJ found the patent to be valid and enforceable and rejected respondent's arguments that the patent was invalid because of prior use and obviousness, that respondent's device was noninfringing, that there is no domestic industry because complainant's device is not made in accord with the claim of the patent, and, assuming an industry, that there is no effect or tendency to substantially injure an industry in the United States.

The administrative law judge also made recommended determinations, all in the negative, concerning four other alleged unfair methods of competition and unfair acts--(1) no infringement of complainant's registered trademark (Registration No. 1,019,865), (2) no false designation of origin, including

country of origin, (3) no misappropriation of trade dress, and (4) no passing off. The administrative law judge did not address an additional issue set forth in the notice of investigation--use of know how. The issue was not addressed by the parties during the trial.

Following receipt of the recommended determination, the Commission on May 7, 1980, held a public hearing for the purposes of (1) hearing oral argument concerning the ALJ's recommended determination, and (2) hearing presentations concerning relief, bonding, and the public interest in the event the Commission were to determine that there is a violation of section 337. Both complainant and respondent participated in that hearing and both filed posthearing briefs.

Violation of section 337

Having considered the administrative record in this proceeding, including the administrative law judge's recommended determination, the transcript of the Commission hearing of May 7, 1980, and the written submissions, we have determined that there is a violation of section 337 in the importation into or sale in the United States of certain surveying devices which infringe complainant's U.S. Letters Patent 3,172,205. We have determined in the negative with respect to the five other alleged unfair methods of competition and unfair acts--that is, (1) no infringement of complainant's registered trademark No. 1,019,865; (2) no false designation of origin, including country of origin; (3) no misappropriation of trade dress, (4) no passing off, and (5) no use of know how. We hereby adopt the findings of fact and conclusions of law of the administrative law judge, more fully discussed below, to the extent

not inconsistent with this opinion. The reasons for our findings are as follows.

Patented article

The product in question is described in the ALJ's findings of fact 6-14. It is a small, hand-held surveying device approximately the size and shape of a tape measure or lady's compact. 1/ Such devices have been manufactured with a metal housing, although both complainant's and respondent's devices utilize plastic housings. 2/ Both complainant's and respondent's devices are for use with a plumb bob. 3/ More specifically--

The surveying device consists of an outer case formed of two pieces. One piece forms a cover for the other. The second piece defines a center of gravity with a center axis that extends upward to abut the cover when the cover is in place. A spring-biased reel is mounted on this axis with a cord wound thereabout. Normally, the cord is retracted into the covered cavity. Tension on a plumb bob, attached to the cord, will draw the cord out so that the case, which has a target on one surface thereof, and the plumb bob may be used in conjunction with a datum in surveying.

The surveying device has a target and a cord guide means on its face, and a projection called a "boss" on its back side. The boss is used to loop the cord and hold the target in a vertical position relative to the plumb bob.

* * *

The retractability of the cord eliminates the need for rolling up the string on the plumb bob. If the cord were not rolled up, it would trail in mud or could become easily tangled in tools or brush. Retractability eliminates the need to have a knot in the string while setting up instruments. 4/

1/ Finding of fact 7, Recommended Determination (hereinafter R.D.), at p. 44.

2/ Id.

3/ Finding of fact 8, R.D., at p. 44.

4/ Findings of fact 9, 10, and 12, R.D., at pp. 44-45.

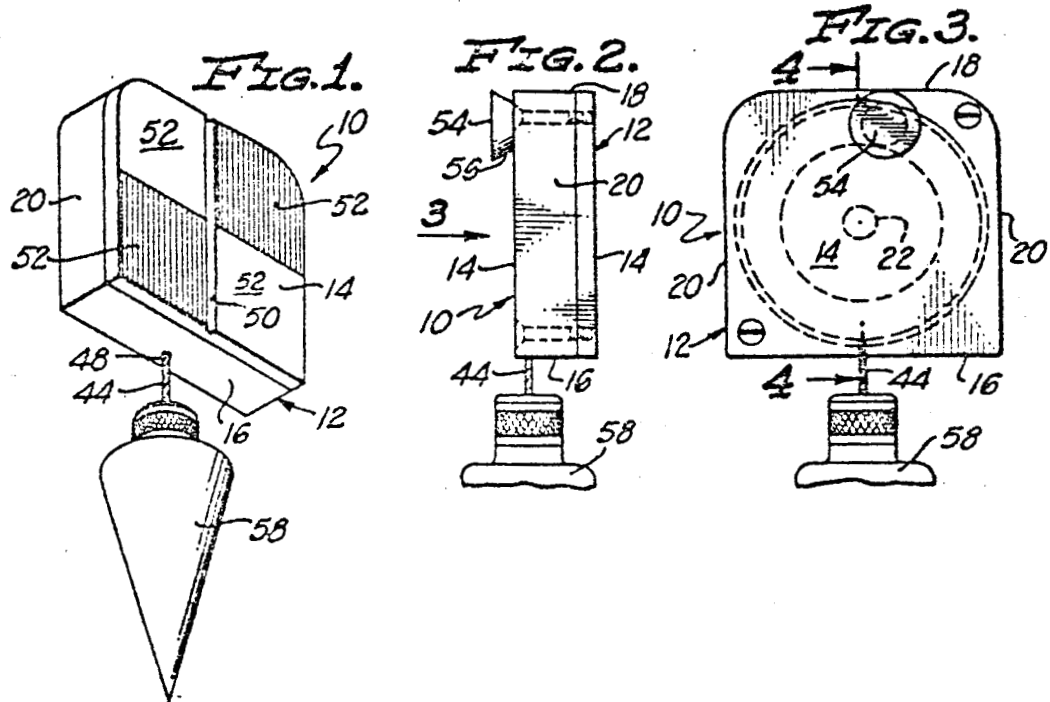
A drawing of the device is set forth below.

March 9, 1965

N. P. GAMMON
SURVEYING DEVICE

3,172,205

Filed Jan. 15, 1962



Patent validity

Respondent challenged the validity of the Gammon patent on two grounds-- (1) the patent was in public use in this country more than 1 year prior to the date of the patent application, and (2) the patent should not have been granted because of obviousness.

Invalid because of prior use. Respondent challenged the correctness of findings of fact 31-34, which concern a finding that use by others of complainant's device more than 1 year prior to the filing of the patent application was "essentially experimental" in nature and not the proscribed

"use" of the patent laws. 1/ (See 35 U.S.C. 102(b)--loss of right to an invention if "in public use . . . in this country, more than one year prior to the date of the application for patent in the United States")

In the present case, the administrative law judge found that a model surveying device was given to a Mr. Baker by the inventor more than 1 year prior to the filing of the patent application "for use on a surveying job site so that a fair and unbiased opinion of the device's operation and usefulness could be obtained," 2/ and that such use was "for solely experimental purposes." 3/ He also found that the witnessing by 45 people of the use by Mr. Baker of the surveying device did not alter the essentially experimental nature of that use, 4/ nor did the fact that the device became worn during the use by Mr. Baker. 5/ Finally, the administrative law judge found that there was no sale of the article in this country more than 1 year prior to the date of the patent application. 6/ Respondent, as noted above, contests the presiding officer's findings that the use was experimental. 7/

In the above regard, the inventor (Mr. Gammon) testified that his surveying party chief (Mr. Baker) used the device for 3 days around April 1960, and that he (Mr. Gammon) took it back after 3 days because of wear on the metal. 8/ He testified that he let Mr. Baker use the reel because "I wanted to find somebody else's opinion that would be impartial." 9/ The

1/ Respondents exceptions to the Recommended Determination, at p. 12.

2/ Finding of fact 31, R.D., at p. 48.

3/ Finding of fact 32, R.D., at p. 48.

4/ Finding of fact 33, R.D., at p. 48.

5/ Finding of fact 34, R.D., at p. 48.

6/ Finding of fact 35, R.D., at p. 49.

7/ Respondent's exceptions, at p. 12.

8/ Transcript of hearing, at pp. 26, 179.

9/ Id., at p. 178.

inventor testified that he himself had tested the reel at home, but he could not recall testing it on the job himself. 1/ He also testified that the 45 persons who had witnessed the device had seen it on or about April 6, 1960, and that he received a number of compliments on the idea. 2/ The record is devoid of other information concerning such prior use.

First of all, we recognize that there is a statutory presumption that a patent is valid. The burden of establishing invalidity falls on the party asserting it. More specifically, 35 U.S.C. 282 provides--

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The burden of proving invalidity is "heavy" and invalidity must be demonstrated "by clear and convincing proof." Trio Process Corp. v. L. Goldstein's Sons, Inc., 461 F.2d 66, 70 (3d Cir. 1972), cert. denied 409 U.S. 997 (1972).

The general rule regarding public use is that expressed in the statute--
the invention was . . . in public use or on sale in this country, more than one year prior to the date of the application in the United States (35 U.S.C. 102(b)).

The courts have given the term public use "an extraordinarily broad meaning." 3/ The leading Supreme Court case on this point is the 1881 case of Egbert v. Lippmann. 4/ In that case, the inventor had given a novel corset

1/ Id., at p. 179.

2/ Id., at p. 180.

3/ Watson v. Allen, 254 F.2d 342, 345 (D.C. Cir 1958). The opinion was written by Circuit Judge Burger, who is now the Chief Justice.

4/ 104 U.S. 333 (1881).

stay to a lady friend, and the Court found the stay to be in public use notwithstanding the fact that there was but one user, that the invention was given without profit, or that it was hidden from the general public's eye.

The courts have engrafted onto the statute a well established exception to the effect that public use does not bar a patent where that use is incidental to an experiment. 1/ The leading experimental use case is City of Elizabeth v. American Nicholson Pavement Co., an 1877 Supreme Court decision. 2/ In that case the Court held that public use of an improved wooden pavement for a 6-year period prior to the filing of the patent application was not a bar to patentability because such use was incidental to experiment.

The burden of establishing experimental use falls on the inventor. Once a prima facie case of public use or sale more than 1 year prior to the filing of the application has been established, the inventor bears a "heavy burden" of establishing "by affirmative and convincing proof" that the alleged public use or sale was "a direct part of or necessarily incident to the experimentation exempted from the effect of the statute." 3/ The inventor must show that the experimental motive predominates, and this is basically a question of the inventor's intent. 4/

The Southern District of New York, in determining that use of an electronic computer more than 1 year prior to the filing of the application

1/ See Watson v. Allen, supra at p. 345. See also Application of Blaisdell, 242 F.2d 779, 783 (C.C.P.A. 1957).

2/ 97 U.S. 126 (1877).

3/ Application of Blaisdell, supra, at p. 784.

4/ In re Yarn Processing Patent Validity Litigation, 498 F.2d 271 (5th Cir. 1974).

was experimental and not a bar to patentability, considered several factors which prove helpful in the present context (Sperry Rand Corp. v. Bell Telephone Laboratories, Inc., 208 F.Supp. 598 (S.D.N.Y. 1962)). The court considered the absence of the inventor's attempt to profit at this point in time important. 1/ The court also considered it important that problems run on the computer were of a test nature, rather than practical nature; that answers were not checked for accuracy; that a Government official did not recommend acceptance of the computer more than 1 year prior to the filing; and that numerous manufacturing defects were found and corrected during the experimental period. 2/

We agree with the findings and conclusions of the administrative law judge that the public use of the reel by Mr. Baker was experimental and of a test nature. We believe it is particularly relevant in this regard that Mr. Gammon was seeking "somebody else's opinion," that the test lasted only 3 days, that Mr. Gammon took the reel back after 3 days because of problems with the device (metal wear), and that there is no evidence of an attempt to sell or profit from the device during the period. We find that complainant has satisfied his burden of proving that the use was experimental.

Invalid because of obviousness. Respondent argued that findings of fact 43-44 are incorrect in that (1) the prior art and "simultaneous invention" (by John Woods, president of respondent) show obviousness, and (2) respondent has met his burden of proof as to obviousness. 3/

1/ Sperry Rand Corp. v. Bell Telephone Laboratories, Inc., 208 F.Supp. 598, 604 (S.D.N.Y. 1962).

2/ Id., at pp. 604-05.

3/ Respondent's exceptions, at pp. 12-13

Respondent notes the presiding officer's conclusion that Woods and Gammon developed their surveying devices "almost simultaneously" in response to the same problem (the plumb bob spring getting entangled or in the way during surveying), 1/ but asserts that the presiding officer has dismissed such "simultaneous invention" as not indicating obviousness notwithstanding law to the contrary. 2/

Complainant, in rebutting respondent's allegation of obviousness, asserted that respondent offered no evidence and made no argument at the hearing before the administrative law judge that the Patent Office was wrong in issuing the patent. 3/ Complainant argued that the 35 U.S.C. 282 presumption of validity thus prevails. 4/

Section 103 of 35 U.S.C. requires that an invention, to be patentable, must be non-obvious-- 5/

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

1/ Id., at p. 24, referring to p. 21 of the recommended determination.

2/ Respondent's exceptions, at pp. 24-25.

3/ Complainant's response to respondent's posthearing brief, filed Feb. 29, 1980, at p. 9.

4/ Id.

5/ Nonobviousness is one of three explicit conditions of patentability. The other two are novelty and utility as defined in 35 U.S.C. 101 and 102. See *Graham v. John Deere Co.*, 383 U.S. 1, 12 (1966). Prior public use, discussed in the previous section, goes to the question of novelty--that is, an invention in public use more than 1 year prior to the filing of a patent application has lost its novelty (unless the use was experimental).

Section 103 was added to the patent law by the Patent Act of 1952. It represented a codification of a concept engrained in the case law for more than 100 years. 1/ It involved in particular the codification of standards laid down by the Supreme Court in Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248 (1850), the porcelain doorknob case. 2/

The leading case on section 103 is Graham v. John Deere Co., 383 U.S. 1 (1966). In that case the Court discussed the concept of obviousness and set forth guidelines in the form of "basic factual inquiries" to be made in determining obviousness. 3/ The Court said that under section 103--

the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined. 4/

The Court in Graham also enumerated certain secondary considerations to be taken into account, such as commercial success, long felt but unsolved needs, and failure of others. 5/ The Court said that such consideration might be used to give light to the circumstances surrounding the origin of the subject matter sought to be patented. 6/ The Court reaffirmed these criteria in Sakraida v. Ag Pro, Inc., 425 U.S. 273 (1976). The courts have referred to the first three tests (scope and content of the prior art, etc., reproduced

1/ See P. J. Federico, "Commentary on the New Patent Act," published in 35 U.S.C., at p. 20.

2/ The Court in Hotchkiss held that the use of a known substance, porcelain or clay (in place of wood or metal), in combination with a known mechanism (a doorknob mechanism) was obvious and nonpatentable.

3/ Graham v. John Deere Co., supra, at p. 17.

4/ Id.

5/ Id.

6/ Id., at pp. 17-18.

above) as the "three mandatory criteria" and have referred to the secondary considerations as "permissive." 1/

In the present case the administrative law judge found that despite the nearly simultaneous invention of a substantially similar device by respondent in Canada, complainant's device is not in and of itself proved to be obvious. 2/ The administrative law judge concluded that respondent has not met the substantial showing necessary to rebut the 35 U.S.C. 282 presumption of validity regarding complainant's patent. 3/

In finding that respondent had not proven obviousness, the administrative law judge applied the tests of Graham and concluded that respondent had provided insufficient evidence to overcome the statutory presumption of validity. 4/ He found that the record was devoid of any opinion or discussion by one with ordinary skill in the pertinent art of the scope and content of the prior art, that respondent did not adduce evidence of record to define the level of ordinary skill in the pertinent art, and the respondent did not secure an opinion of obviousness with respect to the Gammon patent from someone qualified at that level of skill. 5/ He noted that respondent had cited three other patents, all of which were references cited by the patent examiner, and a fourth patent, the Zelnick patent, not cited by the examiner. 6/ He found the record to be devoid of any showing that the Zelnick patent was more pertinent than the prior art before the examiner, and,

1/ See Universal Athletic Sales Co. v. American Gym, 546 F.2d 530, 541 (3d Cir. 1976), cert. denied, 430 U.S. 984 (1977).

2/ Finding of fact 43, R.D., at p. 50.

3/ Finding of fact 44, R.D., at p. 50.

4/ Opinion of the administrative law judge, R.D., at pp. 18-19.

5/ Id., at p. 19.

6/ Id.

further, he found the record to be devoid of any showing of how any of the four patents teaches or differs from the claim of complainant's patent. 1/ He concluded that the statutory presumption of patent validity was strengthened rather than rebutted where prior art references were before the examiner. 2/

The administrative law judge also rejected respondent's contention that the patent was obvious and therefore invalid because it consisted of a combination of old elements which failed to produce a synergistic effect--i.e., the whole does not exceed the sum of its parts. 3/ He found respondent's assertion to be unsupported by competent evidence (other than the aforementioned prior art patents, which were attached to respondent's answer to the amended complaint). 4/ He found that such an "incomplete" defense "hardly rises to the level of clear and convincing evidence" necessary to rebut the presumption of validity under 35 U.S.C. 282. 5/

Finally, the administrative law judge concluded that the fact of near simultaneous invention of the Gammon and Woods devices and the coincident optimum conditions for such innovation by routine experimentation did not negate unobviousness. 6/

We agree with the administrative law judge that respondent has not provided sufficient evidence to establish obviousness within the meaning of 35 U.S.C. 103 and to rebut the validity presumption of 35 U.S.C. 282. There is

1/ Id.

2/ Id., citing *Laser Alignment v. Woodruff & Sons*, 491 F.2d 866, 871 (7th Cir. 1974), cert. denied 419 U.S. 874 (1974); and *Universal Athletic Sales Co. v. American Gym*, supra, at p. 540.

3/ Opinion of administrative law judge, R.D., at p. 19, referring to respondent's brief, p. 15.

4/ Opinion of administrative law judge, R.D., at p. 20.

5/ Id., citing *FMC Corp. v. F.E. Myers & Bro. Co.*, 384 F.2d 4, 10 (6th Cir. 1967), cert. denied 390 U.S. 988 (1968).

6/ Opinion of administrative law judge, R.D., at p. 21.

little evidence in the record concerning the three criteria set forth in Graham--that is, concerning the scope and content of the prior art, differences between the prior art and claims of the suit patent, and the level of ordinary skill in the pertinent art. The burden of overcoming the presumption of validity is heavy and is satisfied only on the basis of clear and convincing evidence. The record is devoid of such evidence. We also agree with the administrative law judge's finding that the simultaneous invention of the device by Gammon and Woods does not in and of itself establish obviousness.

The facts of the present case, when viewed in terms of the secondary considerations set forth in Graham, further support a finding that the Gammon invention was nonobvious. The invention clearly has been commercially successful. Further, the device met a need and resolved a problem facing surveyors for some time--it resolved the problem of what to do with the string on the plumb bob, which either had to be rolled up or else got in the way, and was perhaps stepped on, entangled in bushes, or caught in the surveying instrument. 1/

Infringement/inducement to infringe

Respondent accepts findings of fact 45-56, which, among other things, describe several ways in which the claim of complainant's patent reads on respondent's product; but respondent contests findings of fact 56-61, which concern the absence of a functional front cord guide on the face of the Woods (respondent's) device. 2/ Respondent states that the patent requires a

1/ See transcript of hearing of Jan. 22, 1980, at pp. 18-19. See also finding of fact 12, R.D., at p. 45.

2/ Respondent's exceptions, at p. 13.

functional cord guide, 1/ and that neither its nor complainant's present devices incorporate such a guide. 2/ In finding infringement and inducement to infringe, the administrative law judge found that "(e)ach and every element or its equivalent" recited in complainant's patent "is embodied in the respondent's product when the latter is used with a plumb bob." 3/

Respondent also objects to finding of fact 89, under the topic of domestic industry, where the administrative law judge found complainant to be producing the "functional equivalent" of the invention disclosed in the patent. 4/

The law concerning infringement and inducement to infringe is set forth in 35 U.S.C. 271 as follows--

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

Section 271 codified the case law developed prior to 1952. Prior to the 1952 patent act, the question of infringement was settled by the courts without the aid of legislative guidelines. Probably the leading and most

1/ Id.

2/ Id., at p. 26.

3/ Finding of fact 59, R.D., at p. 53.

4/ Respondent's exceptions, at p. 13.

instructive recent case on the concept of infringement is that of Autogiro Co. of America v. United States, 384 F.2d 391 (Ct.Cl. 1967). In that case, the court said that the determination of patent infringement is a two-step process--(1) one must first determine the meaning of the claims in issue by studying the relevant patent documents (i.e., the specification, any drawings, and the file wrapper), and (2) the claims must be found to read on the accused structures. 1/ In doing this, the court said, it is of little value that they read literally on the structures--

What is crucial is that the structures must do the same work, in substantially the same way, and accomplish substantially the same result to constitute infringement. 2/

Infringement is not necessarily ruled out if the claims do not read literally on the accused structures. The doctrine of equivalence casts a "penumbra" around a claim, and this penumbra must be avoided if there is to be a finding of no infringement. The doctrine provides that a structure infringes, without there being literal overlap, if it performs substantially the same function in substantially the same way and for substantially the same purpose as the claims set forth. 3/ The rationale behind the doctrine was set forth by the Supreme Court in Graver Tank & Mfg. Co. v. Linde Air Products Co., 339 U.S. 605, 607 (1950), as follows--

(T)o permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant to a hollow and useless thing. Such a limitation would leave room for--indeed encourage--the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim, and hence outside the reach of the law. * * *

1/ Autogiro Co. of America v. United States, 384 F.2d 391, 401 (Ct. Cl. 1967).

2/ Id.

3/ Id., at 400.

The concept of inducement to infringe is set forth in 35 U.S.C. 271(b), quoted above. Liability for inducement under section 271(b) is dependent upon a showing that (1) the conduct being induced constitutes direct infringement, 1/ and (2) the person inducing the infringement "actively" and knowingly aided and abetted another's direct infringement of the patent. 2/

In support of its allegation of direct infringement, complainant offered evidence in the form of testimony by an expert witness, a Mr. D. J. Williamowsky, a retired examiner-in-chief of the PTO Board of Appeals. 3/ The presiding officer concluded, on the basis of Mr. Williamowsky's testimony, that complainant established that every element of the claim of the suit patent read on (infringed) three models of respondent's infringing retractable targets (RPX 6, CPX 12, and CPX 15), all of which are representative of surveying devices respondent has imported into the United States. 4/

The administrative law judge rejected respondent's contention that its devices are noninfringing because they have never been manufactured or sold with a front cord guide, which respondent asserts is an essential element of the suit patent. 5/ In support of its contention, respondent cited testimony

1/ *Stukenborg v. Teledyne*, 441 F.2d 1069, 1072 (9th Cir. 1971); *Nordberg Mfg. Co. v. Jackson Vibrators, Inc.*, 153 U.S.P.Q. 777, 783 (N.D. Ill. 1967), rev'd on other grounds 393 F.2d 197 (7th Cir. 1968).

2/ While sec. 271(b) does not use the term "knowingly" (even though the concept is employed in sec. 271(c), which concerns contributory infringement), commentators are of the view, based on pre-1952 cases and analogous post-1952 cases, that sec. 271(b) requires a finding that the defendant have some knowledge of the patent as well as the nature of his acts and their consequences. See 4 *Chisum on Patents* sec. 17.04 (1979). For a dissenting view on the knowledge (i.e., intent) requirement, see *Hauni Werke Koerber & Co. v. Molins, Ltd.*, 183 U.S.P.Q. 168 (E.D. Va. 1974).

3/ See transcript of the Jan. 22, 1980, hearing, at pp. 408-42.

4/ Findings of fact 46-47 and 59, in R.D., at pp. 51, 53; and opinion in R.D., at p. 25.

5/ Opinion, R.D., at p. 25; referring to respondent's brief, at p. 16.

of Mr. Woods to the effect that, when the cord is draped over the front of the target side of the case in respondent's physical exhibit 6 (RPX 6) there is no restraint of the cord and that the front of the target would have to be observed at all times to make certain that the cord was in the center of the target (and therefore falling perpendicular to the ground to facilitate and assure accurate sighting of the point being plumbed). (Tr. 550-554). 1/ However, the administrative law judge found that on cross-examination Mr. Williamowsky specifically testified on the basis of a demonstration that the cord on RPX 6 when hanging vertically across the target was restrained by the edge of the raised white plastic material at the top and bottom (Tr. 463-464) and that the cord on CPX 12 was restrained by a cord guide means (nodule projection or protrusion) at the top and bottom of the center of the target. (Tr. 468). 2/ The administrative law judge stated that he independently confirmed Mr. Williamowsky's observations and opinion. 3/

The administrative law judge further found that the indentation in the plastic on the target (as in RPX 6 and CPX 12), at least on the Gammon reels, was to serve as a cord guard means as well as to facilitate application of the fluorescent tape on the target. 4/ He found that, even if Mr. Woods were correct in asserting that a cord guide means was not necessary to the functioning of respondent's device (tr. 553-554), such a difference does not avoid literal or equivalent infringement of the patent. 5/

1/ Opinion, R.D., at p. 25.

2/ Id., at pp. 25-26.

3/ Id., at p. 26.

4/ See transcript, at p. 199; findings of fact 57-58, R.D., at p. 53; and opinion, R.D., at p. 26.

5/ Opinion, R.D., at p. 26.

The administrative law judge also found complainant to have sustained its burden of proving that respondent is liable for inducement to infringe the patent under 35 U.S.C. 271(b). 1/ As discussed in the above paragraphs, he found direct infringement to have clearly been shown. He also found there to be substantial evidence to show that respondent had knowledge of the (alleged) infringement, based on complainant's letter notice, no later than November 15, 1978, during the year of respondent's greatest volume of imports (RX 7). 2/ Further, he found that the record shows that respondent performed a number of inducing acts prohibited by the statute, including designing an infringing surveying device for sale to dealers for resale, based in part on a plastic sample of complainant's Gammon reel, and advertising and issuing price lists promoting infringing use, including a notice to all dealers in the United States disclosing the notice of infringement from complainant, by inviting purchases at a competitive price on the strength of respondent's assertion of noninfringement. 3/

We, too, have examined the record, including the testimony of Mr. Williamowsky and the devices entered into the record as exhibits, and are of the view that complainant has sustained its burden of proving clearly and convincingly that respondent (1) has directly infringed the patent under 35 U.S.C. 271(a), and (2) is liable for inducement to infringe the patent under 35 U.S.C. 271(b). In particular, we have carefully reviewed respondent's assertions, including Mr. Woods' testimony, concerning the cord guide means

1/ Id., at p. 24.

2/ Finding of fact 72, R.D., at p. 55, and opinion, R.D., at p. 24.

3/ Finding of fact 61, R.D., at p. 53; and opinion, R.D., at p. 24.

and are of the view that respondent's device reads on the claim of the suit patent, if not literally, then in equivalent terms.

Trademark infringement

The administrative law judge found that there was no infringement of complainant's registered trademark, No. 1,019,865, "Gammon Reel." 1/ By stipulation, the parties agreed that respondent's listing in its catalogue of complainant's devices as a "Gabbon Reel" was a typographical error 2/ (in its complaint complainant asserted that use of the term "Gabbon Reel" constituted trademark infringement). The administrative law judge also found that respondent, after depleting its stock of Gammon Reels in 1978, no longer advertised such reels, advised customers that it no longer sold Gammon Reels but sold its own "retractable target," that respondent's device was differently packaged, and that there was no evidence respondent sold its own device as a Gammon Reel. 3/

Only complainant took exception to the presiding officer's findings of fact concerning trademark infringement. Complainant proposed the addition of a new finding of fact 73a as follows--

On at least two occasions, respondent used the trademark Gammon Reel in commerce by substituting its product for that of the requested trademarked Gammon Reel without the consent of the customer (TR 559-560 and CX, 75). 4/

Complainant asserts that in this context there was both use of the trademark "Gammon Reel" without the owner's consent and confusion on the part of at

1/ Findings of fact 62-73, R.D., at pp. 53-55.

2/ Finding of fact 67, R.D., at p. 54.

3/ Findings of fact 71-73, R.D., at pp. 54-55.

4/ Complainant's exceptions, at p. 4.

least one customer. 1/ Complainant further requested that conclusion of law 5 be amended to state that complainant's trademark is "valid and infringed." 2/

The law concerning trademark infringement is set forth in 15 U.S.C. 1114--

Any person who shall, without consent of the registrant - (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant

The basic test of both statutory and common law trademark infringement is "likelihood of confusion." 3/ One need not show actual confusion, but a showing of actual confusion is strong proof of the likelihood of confusion. 4/ However, evidence of actual confusion of a very limited scope may be dismissed as de minimis. 5/ Further, likelihood of confusion must be shown by more than an "occasional misdirected letter." 6/ Finally, lack of actual confusion over a period of time has been regarded as evidence of a lack of likelihood of confusion. 7/

The only evidence purporting to show trademark infringement is that involving respondent's filling of two orders of B. L. Makepeace for Gammon Reels. 8/ The administrative law judge found (1) that respondent had not used

1/ Id.

2/ Id.

3/ See 2 McCarthy, Trademarks and Unfair Competition, sec. 23:1; and Safeway Stores, Inc. v. Safeway Properties, Inc., 307 F.2d 495 (2d Cir. 1962).

4/ Coca-Cola Co. v. Clay, 324 F.2d 198 (CCPA 1963); and McCarthy, supra, at section 23:2.

5/ McGraw-Hill Publications Co. v. American Aviation Associates, 117 F.2d 293 (D.C. Cir. 1940).

6/ Everest & Jennings, Inc. v. E. & J. Mfg. Co., 263 F.2d 254 (9th Cir. 1958).

7/ Smith v. Tobacco By-Products & Chemical Corp., 243 F.2d 188 (CCPA 1957); and McCarthy, supra, at sec. 23:3.

8/ See complainant's exhibits 54, 55, and 57, and transcript, at pp. 558-559. See also opinion, R.D., at p. 28.

complainant's trademark "Gammon Reel," (2) that respondent's devices were differently packaged (actually, respondent's devices were unpackaged, complainant's were packaged), and (3) that there was no marking on respondent's devices that could cause customer confusion between respondent's and complainant's surveying devices. 1/

We agree with the findings and conclusion of the administrative law judge that complainant has not shown trademark infringement in this case. There is no evidence of actual use by respondent of complainant's trademark, and the record does not support a finding, in our view, that a purchaser of surveying devices is likely to confuse the devices of complainant and respondent. In the instance of the two shipments to B. L. Makepeace, the record indicates (transcript, pp. 558-560) that Makepeace knew it was receiving respondent's reels in response to its request for "Gammon Reels." There is no evidence indicating confusion on the part of Makepeace.

False designation of origin

The administrative law judge found there was no false designation of origin under section 43(a) of the Lanham Act (15 U.S.C. 1125(a)). 2/ He found that, while the device made by respondent which Gammon bought in Hawaii was unmarked as to origin, 3/ respondent shipped its devices to the United States during the period 1977-79 with a "Made in Canada" sticker across their faces. 4/ He found complainant had failed to prove customer confusion as to

1/ Opinion, R.D., at p. 28.

2/ Findings of fact 74-77, R.D., at p. 55, and opinion, R.D., at pp. 29-31.

3/ Finding of fact 74, R.D., at p. 55.

4/ Finding of fact 77, R.D., at p. 55.

the source of respondent's device 1/ and that a finding that respondent's devices were shipped to B. L. Makepeace, Inc., without country of origin designation (as alleged by complainant) was not supported by the evidence. 2/

Complainant took exception to finding of fact 77 and recommended that it be amended and added to so as to state that "some" of respondent's devices were shipped to the United States marked "Made in Canada" during the period 1977-79, but that during the same period "some" were shipped to the United States "without indicating the country of origin so required by 19 U.S.C.

1304." 3/ Complainant further requested that conclusion of law 6 be changed to reflect a conclusion of improper marking in contravention of 19 U.S.C.

1304. 4/ Complainant asserted that it obtained devices of respondent unmarked as to origin in at least two instances and that the devices of respondent which were marked as to origin were marked with a "non-indelible, non-permanent paste-on label." 5/

The statutory provision for false designation of origin is found in section 43(a) of the Lanham Act (15 U.S.C. 1125(a)), which provides--

(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation. (Emphasis added.)

1/ Finding of fact 76, R.D., at p. 55.

2/ Finding of fact 77, R.D., at p. 55.

3/ Complainant's exceptions, at p. 6.

4/ Id.

5/ Id.

A second provision is set forth in section 304(a) of the Tariff Act of 1930 (19 U.S.C. 1304(a)), which provides--

(a) Except as hereinafter provided, every article of foreign origin (or its container, as provided in subsection (b) hereof) imported into the United States shall be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or container) will permit in such manner as to indicate to an ultimate purchaser in the United States the English name of the country of origin of the article. . . .

Section 43(a) of the Lanham Act was designed to protect consumers as well as commercial interests from the effects of false advertising. 1/ The purpose and import of section 43(a) is perhaps best summed up in Gold Seal Co. v. Weeks, 129 F. Supp. 928, 940 (D.D.C. 1955), aff'd sub nomine S. C. Johnson & Son v. Gold Seal Co., 230 F.2d 832 (D.C. Cir. 1956), as follows--

It means that wrongful diversion of trade resulting from false description of one's products invades that interest which an honest competitor has in fair business dealings--an interest which the courts should and will protect It represents, within this area, an affirmative code of business ethics whose standards may be maintained by anyone who is or may be damaged by this segment of the code. In effect it says: you may not conduct your business in a way that unnecessarily or unfairly interferes with and injures that of another; you may not destroy the basis of genuine competition by destroying the buyer's opportunity to judge fairly between rival commodities by introducing such factors as false descriptive trademarks which are capable of misinforming as to the true qualities of the competitive products.

The basic test for relief under section 43(a) is a showing of likelihood of confusion of customers of the plaintiff-competitor. 2/ There is no requirement in section 43(a) that the falsification occur willfully or with intent to deceive. 3/

1/ 2 McCarthy, Trademarks and Unfair Competition, at sec. 27:3 (p. 246).

2/ See Frostie Co. v. Dr. Pepper Co., 341 F.2d 363 (5th Cir. 1965).

3/ McCarthy, supra, at sec. 27:7 (p. 255).

Complainant does not appear to have asserted a violation of the Lanham Act. The possible applicability of the Lanham Act was raised by the Commission investigative attorney in his submission to the administrative law judge on February 20, 1980. In its submissions to the presiding officer after the January hearing, complainant appears to have lumped the false designation allegation with palming off allegations. 1/

Section 304 of the Tariff Act of 1930 is a customs law provision administered by the U.S. Customs Service. It provides (sec. 304(c)) for the imposition of a 10 percent ad valorem additional tariff in the event of improper marking. Complainant appears to have raised the possibility of a violation of section 304 only in its exceptions to the recommended determination. Our perusal of the case law under section 304 does not indicate any cases in which the section has been asserted in connection with an unfair competition case, although the provision was cited in the course of at least one prior section 337 case. 2/

We agree with the findings and conclusions of the administrative law judge as summarized on pages 29-31 of his opinion (R.D., at pp. 29-31). Mr. Woods testified that respondent's devices exported to the United States have always been marked "Made in Canada" (Tr. 556). Testimony by Mrs. Morrison of Makepeace and Mr. Gammon that some of respondent's devices shipped to or sold in the United States were not so marked (Tr. 269, 289-292, 387) was not sufficient, in our view, to rebut Mr. Woods' testimony or to constitute false

1/ Complainant's posthearing brief, filed Feb. 15, 1980, at pp. 8-9.

2/ See Convertible Game Tables and Components Thereof: Report on Investigation No. 337-34 . . ., TC Publication 705, December 1974, at p. A-16. The citation was in the Commission report and only mentioned. It was not discussed in detail and was not even mentioned in Commissioner views. The case turned on a patent question.

designation of origin or false description or representation likely to cause confusion or mistake or to deceive purchasers as to the source or origin of respondent's imported devices.

Appropriation of trade dress and passing off

The administrative law judge recommended that the Commission determine that there is no misappropriation of trade dress or passing off. 1/

The trade dress issue involved allegations by complainant that respondent's product was so like its own as to be likely to cause confusion among purchasers. The administrative law judge found that, while both parties' devices are similar in shape and configuration and both use functional (for sighting) color-contrasting target faces, the packaging of the respective products is different (Gammon Reels are packaged in a blister package, respondent's are not), respondent has never used distinctive trade dress in the sale of its devices, and the trade dress (or lack thereof) of respondent's device is not likely to lead to customer confusion. 2/ Respondent expressly accepted the administrative law judge's trade dress findings; 3/ complainant did not take exception to them. Complainant appears to have conceded the trade dress issue. We accept the administrative law judge's findings of fact and conclusions of law with respect thereto, and we will not discuss the issue further.

Complainant did take exception to the administrative law judge's findings concerning passing off. 4/ The administrative law judge found that the fact

1/ Findings of fact 78-87, R.D., at pp. 56-57.

2/ Findings of fact 78-81, 84-85, R.D., at pp. 56-57.

3/ Respondent's exceptions, at p. 14.

4/ Complainant's exceptions, at pp. 6-8.

that some of respondent's defective reels were returned to complainant did not constitute sufficient evidence to conclude that such defective reels or other reels were intentionally passed off by respondent as being those of complainant. 1/

Complainant asserted that intent is not a necessary element in the present case because respondent knowingly substituted its goods for complainant's when requested to supply Gammon Reels. 2/ (As noted above, respondent sold Gammon Reels in addition to its own through 1978.) 3/ Complainant cited several cases supporting the proposition that the substitution of one product for another without giving the purchaser an opportunity to refuse the substituted product constitutes such passing off. 4/ Complainant also asked that conclusion of law 8 be changed to reflect a conclusion of passing off. 5/

The term "passing off"--which the administrative law judge used--and the term "palming off"--which complainant used in its February 15 brief (pp. 8-9)--are largely synonymous with each other. 6/ The terms historically were used in the context of describing a "wrongful intent" on the part of the defendant to pass or palm off his own goods as being those of the plaintiff, but most courts have come to use the terms to describe cases where likelihood

1/ Findings of fact 86-87, R.D., at p. 57.

2/ Complainant's exceptions, at pp. 6-7.

3/ See finding of fact 75, R.D., at p. 55.

4/ Complainant's exceptions, at pp. 7-8.

5/ Id., at p. 8.

6/ 2 McCarthy, supra, at sec. 25:1 (p. 169). Complainant similarly cited McCarthy (Feb. 15, 1980, brief, at p. 9), as did the presiding officer (opinion, R.D., at p. 32).

of confusion is present. 1/ Thus, the courts have shifted from emphasizing the wrongful action to emphasizing the effect on the customer. 2/ The shift has come about in large part as a result of an effort by the courts to conform the test for common-law trademark infringement (the essence of complainant's palming off/passing off allegation) with the test for statutory trademark infringement (i.e., likelihood of customer confusion). 3/ Thus, the key test in establishing passing off is likelihood of confusion.

To prove passing off, the courts have required that two additional tests be met. It must be shown that the trademark, design, shape, or overall appearance of the product sought to be protected (1) is inherently distinctive or has a secondary meaning (i.e., has become distinctive in the minds of the buying public), and (2) is nonfunctional (i.e., is outside the scope of and therefore not in conflict with or protectable by the patent laws). 4/ Thus, in effect, there are a total of three tests which must be proved--

(1) likelihood of confusion, (2) inherently distinctive or secondary meaning, and (3) nonfunctionability.

In the present case, we agree with the findings of the administrative law judge concerning nonfunctionability (that complainant has failed to prove nonfunctionability of the design feature of its device); secondary meaning (that the record supports a finding that the design of complainant's device has acquired a secondary meaning); and customer confusion (there is some

1/ 2 McCarthy, *supra*, at 25:1 (p. 171).

2/ *Id.*

3/ *Id.*, at secs. 23:1, 23:30 (pp. 34-35, 99).

4/ See Application of Deister Concentrator Co., 289 F.2d 496, 502-03 (C.C.P.A. 1961); Rolls-Royce Motors, Ltd. v. A & A Fiberglass, Inc., 428 F.Supp. 689 (1977); and Certain Steel Toys: Investigation No. 337-TA-31, USITC Publication 880, April 1978, at pp. 27-28.

evidence of confusion in view of the return to complainant of some of respondent's devices by dissatisfied customers of respondent). 1/ We agree with his conclusion that, secondary meaning or some confusion notwithstanding, the rule favoring preservation of the freedom to copy unpatented functional features controls, and that the test for finding passing off therefore is not satisfied. 2/

Domestic industry

The administrative law judge recommended that the Commission find the domestic industry to include those firms producing the functional equivalent of the invention disclosed in the patent. 3/ He also accepted the parties' stipulated description of the industry as the surveying devices "market" in the United States. 4/ The administrative law judge found there to be no substantial evidence that counters the proof produced by complainant that the industry is efficiently and economically operated. 5/

Respondent took exception only to finding of fact 89 and argued that there is no domestic industry because the current Gammon Reel and all Gammon Reels produced since 1963 are outside the patent. 6/

We believe that the administrative law judge's first statement concerning industry (firms producing the functional equivalent of the invention) more accurately defines the concept of industry employed in the statute and by the

1/ Opinion, R.D., at pp. 35-36.

2/ Id., at p. 36, citing 2 McCarthy, *supra*, at sec. 15:7 (p. 533). In support, see Application of Shenango Ceramics, Inc., 362 F.2d 287, 291-92 (C.C.P.A. 1966).

3/ Findings of fact 89, R.D., at p. 58.

4/ Findings of fact 88, R.D., at p. 58.

5/ Findings of fact 90, R.D., at p. 58.

6/ Respondent's exceptions, at p. 14.

Commission in other cases. The Commission generally has defined the domestic industry as consisting of "that portion of complainant's business involved in the patented article" or to similar effect. 1/ The concept of market employed in the stipulation implies something vaguely broader, perhaps including customers, which goes beyond the statutory concept of industry, at least as previously interpreted. The question of market impact seems more relevant to a discussion of the public interest factors.

Respondent has taken no exception to the finding that the industry, however defined, is efficiently and economically operated, and we know of no reason to find differently.

Respondent's exception to finding of fact 89 goes to the infringement issue. Respondent apparently agrees that, if complainant's devices are within the patent, there is then a domestic industry.

Injury

The administrative law judge found that the unauthorized imports of respondent have the effect or tendency to substantially injure the domestic industry, 2/ as alleged by complainant. 3/ In so concluding, he found that

1/ See, for example, Certain Roller Units: Investigation No. 337-TA-44, USITC Publication 944, February 1979, at pp. 9-10; and Certain Combination Locks: Investigation No. 337-TA-45, USITC Publication 945, February 1979, at pp. 8-9. This is the same concept employed in the House Ways and Means Committee report on the bill which became the Trade Act of 1974--"In cases involving the claims of U.S. patents . . . the industry in the United States generally consists of the domestic operations of the patent owner, his assignees and licensees devoted to such exploitation of the patent." Trade Reform Act of 1973: Report of the Committee on Ways and Means...., H. Rept. 93-571 (93d Cong., 1st sess. (1973)), at p. 78.

2/ Conclusion of law 10, R.D., at p. 63.

3/ See complainant's brief of Feb. 15, 1980, at p. 19. Complainant did not allege effect or tendency to destroy an industry, or an effect or tendency to prevent the establishment of an industry.

complainant's sales, receipts, and production have all increased, 1/ that respondent had shipped 4700 infringing units to the United States since 1977 (3400 of them in 1978, the last full year for which data were available), and that 17 of the respondent's top 20 customers were formerly customers of complainant. 2/ He found that complainant increased its discount in at least one instance to regain a lost customer; 3/ that complainant's annual sales increases, in percent, have decreased since respondent began importing its devices into the United States; 4/ and that respondent has sought to acquire additional sales outlets and production facilities. 5/ The administrative law judge also found that respondent's productive capacity is small in comparison with that of complainant; 6/ that during the year of highest import penetration by respondent, 1978, complainant's sales and production increased about 18 percent; 7/ and that complainant admits that since 1977, the relevant period, there has been no decrease in employment. 8/

In his opinion, the ALJ concluded, among other things, that the lost sales establish the "requisite causal nexus" between the unfair act and injury, 9/ that complainant's decreasing rate of growth in sales since respondent's devices entered the U.S. market "clearly reflects an effect suggesting present injury" reasonably attributable to the accused infringing

1/ Findings of fact 99, 100, 102, R.D., at p. 60.

2/ Findings of fact 91, 103, 107, R.D., at pp. 59, 61.

3/ Finding of fact 97, R.D., at p. 60.

4/ Finding of fact 110, R.D., at p. 62.

5/ Finding of fact 112, R.D., at p. 62.

6/ Findings of fact 102, 104, R.D., at pp. 60, 61.

7/ Finding of fact 108, R.D., at p. 61.

8/ Finding of fact 111, R.D., at p. 62.

9/ R.D., at p. 38.

imports, 1/ and that imports are continuing in substantial numbers. 2/ The ALJ stated, however, that complainant is "hard pressed" to show any substantial injury based on many of the usual criteria considered by the Commission in determining injury in section 337 proceedings. 3/

Respondent generally accepted the findings of fact relating to injury, but took exception to findings 96, 102, and 103, and, in part, 110. 4/ Findings of fact 96, 102, and 103, respondent argues, incorrectly depict respondent's top 20 U.S. customers for surveying equipment as being its top 20 U.S. customers for surveying devices. 5/ Respondent quoted testimony at the trial of Mrs. Gammon which it claims is the basis for the ALJ error. 6/ Respondent claims that in "many instances" it supplied either no surveying devices or only one device to the 20 companies listed in finding of fact 96. 7/

Respondent also argued that finding of fact 110 should include annual percentage sales increase figures for years prior to 1977 (the year in which imports began) so as to reflect the fact that complainant had its biggest sales gain, in annual percentage terms, after imports began. 8/ Respondent also questioned the use of the percentage increase in sales as an indicator of injury, and suggested it is "highly speculative" as an indicator and that the percentages were susceptible to being used out of context. 9/

1/ Id., at p. 39.

2/ Id., at p. 40.

3/ Id.

4/ Respondent's exceptions, at pp. 14, 16.

5/ Id., at p. 15.

6/ Id., at pp. 16-18.

7/ Id., at p. 18. Respondent implies that this point is not in the record.

8/ Respondent's exceptions, at pp. 19-20.

9/ Id., at p. 20.

In order to find the alleged injury, the Commission must find that the unfair methods or acts have "the effect or tendency . . . to substantially injure an industry" (19 U.S.C. 1337). The causal link for there to be a "tendency" to injure is less than the causation required to demonstrate an "effect." 1/ This difference was discussed by the Committee on Ways and Means of the House of Representatives in its report on the bill which became the Trade Act of 1974. With regard to injury findings in section 337 investigations, the report states:

As in the past, the Commission would make its determinations in cases involving the claims of a U.S. patent following the guidelines of Commission practices and the precedents of the CCPA Where unfair methods and acts have resulted in conceivable losses of sales, a tendency to substantially injure such industry has been established (cf., In re Von Clemm, 229 F.2d 441 (CCPA 1955)). 2/

In Von Clemm, no actual loss of sales was shown to have occurred. Nevertheless, the C.C.P.A. held that there was sufficient causation shown to establish a "tendency" to injure.

Further evidence of congressional intent to establish a low threshold of injury with respect to a "tendency" to substantially injure can be found in the legislative history of section 337 and its predecessor, section 316 of the Tariff Act of 1922. The legislative history indicates that undesirable methods of competition were to be stopped in their incipiency. The Senate Finance Committee report on the bill that became the Tariff Act of 1922 stated: 3/

1/ The concept of injury, including "effect or tendency," was discussed at length in the Commission's memorandum opinion in Certain Apparatus for the Continuous Production of Copper Rod: Investigation No. 337-TA-52, USITC Publication 1017, November 1979, at pp. 57-61.

2/ House of Representatives, Committee on Ways and Means, Trade Reform Act of 1973: Report . . . to Accompany H.R. 10710, H. Rept. 93-571 (93d Cong., 1st sess. (1973)), at 78.

3/ U.S. Senate, Committee on Finance, Report to Accompany H.R. 7456, S. Rept. No. 595, 67th Cong., 2d sess., at 3.

The provision relating to unfair methods of competition in the importation of goods (section 316) is broad enough to prevent every type and form of unfair practice and is therefore a more adequate protection to American industry than any antidumping statute the country has every had (Emphasis added).

Notwithstanding the fact that several of the more usual indicators of injury (e.g., declining sales, profits, employment, etc.) are not present in this case, we have concluded that the unfair methods of competition and unfair acts have the "tendency . . . to substantially injure an industry" In our view consideration must be given to the small size of the industry and the likelihood that many of the traditional indicators of injury may not be present.

The loss of sales experienced by complainant is more than "conceivable." It is clear that complainant lost B. L. Makepeace to respondent, at least in 1978, and that Makepeace again became a customer of complainant. 1/ There is also testimony to the effect that 17 of respondent's top 20 customers were former surveying device customers of complainant. 2/ Complainant, the Commission investigative attorney, and the administrative law judge concluded from that testimony that these 17 customers were customers purchasing respondent's surveying devices. Respondent claims that the 20 are customers of respondent's products in general and not necessarily surveying devices. We think that the ALJ's finding on this point is correct and that the record (Tr. 602) shows the reference to be to respondent's customers for retractable reels (surveying devices).

1/ Finding of fact 97, R.D., at p. 60.

2/ Findings of fact 91, 103, 107, R.D., at pp. 59, 61.

Respondent's exports to the United States are more than insignificant. In 1978, the last full year for which data were available, respondent exported about 3400 units to the United States. 1/ Respondent's share of the U.S. market is also more than insignificant (about 5 percent in 1978 2/). Further, respondent has aggressively sought to expand its U.S. sales. Respondent maintains extensive contacts with U.S. surveying equipment dealers through advertising brochures and price lists, 3/ respondent recently (October 1979) obtained a new U.S. distributor for its surveying devices, 4/ and respondent has sought to acquire additional sales outlets and production facilities. 5/

This case is distinguishable from the Combination Locks case, 6/ in which the Commission made a finding of no violation based on a finding of no effect or tendency to destroy or substantially injure. In Combination Locks the Commission found, among other things, that the record did not show any loss of customers.

This case is also distinguishable from the Attache Cases decision in which the Commission similarly made a finding of no violation based on a finding of no effect or tendency to injure. 7/ In that case there was only one known shipment of infringing imported attache cases 2 years earlier, and

1/ Finding of fact 107, R.D., at p. 61.

2/ Findings of fact 100 and 107, R.D., at pp. 6-61. The 5 percent figure was deduced from information originally confidential, but complainant's counsel waived such confidentiality during the May 7, 1980, hearing (tr. 13).

3/ Finding of fact 105, R.D., at p. 61.

4/ Finding of fact 95, R.D., at p. 59.

5/ Finding of fact 112, R.D., at p. 62.

6/ Cited supra, fn. 1, p. 30.

7/ Certain Attache Cases: Investigation No. 337-TA-49, USITC Publication 955, March 1979.

complainant's counsel conceded the issue of present injury and argued a tendency to injure in the future. ^{1/}

Relief

Section 337(d) provides that the Commission, if it finds a violation, "shall" direct that the violating articles be excluded from entry into the United States unless, after considering certain enumerated public interest factors (discussed below), it determines that the articles should not be excluded. Section 337(f) provides that the Commission, in lieu of taking action under subsection (d), may issue and cause to be served on any person violating the section, an order directing the person to cease and desist from engaging in the unfair methods or acts unless, after considering the public interest factors, it determines that such an order should be issued.

The Commission has issued exclusion orders in all prior cases in which infringement of a U.S. patent was the subject of the violation and relief was provided. We are of the view that an exclusion order is the proper remedy in this case.

Public interest factors

Subsection (d) of section 337 provides that the Commission is to order relief "unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry." In determining whether the public interest precludes the granting of relief, the Commission has considered such factors as the domestic

^{1/} Id., at p. 8.

industry's ability to supply the market in the absence of imports, the availability of substitute products, previous anticompetitive behavior of the patent holder, and the industry's likely pricing behavior in the absence of imports. 1/

Complainant's counsel asserted that Mr. Gammon has the ability to double his production if necessary using the same workforce, and to triple production by adding an additional employee. 2/ He stated that Mr. Gammon would have no difficulty obtaining additional parts. 3/ He introduced as exhibit 1 at the May 7 hearing letters from customers indicating satisfaction with present servicing and affidavits indicating adequate extra production capacity. 4/ Complainant's attorney stated that Mr. Gammon would not raise his prices if an exclusion order were issued. 5/

Counsel for respondent asserted that relief would not be in the public interest on the ground that complainant is already operating at full capacity. 6/ No other persons and no Government agencies or departments, either orally or in writing, expressed an opinion on the public interest question.

1/ See Doxycycline, supra, at pp. 19-21; Thermometer Sheath Packages, Investigation No. 337-TA-56, USTC Publication 992, July 1979, at pp. 28-29; and Certain Automatic Crankpin Grinders: Investigation No. 337-TA-60, USITC Publication 1022, December 1979, at pp. 17-21. In the Crankpin Grinders case, the Commission determined that the public interest precluded the imposition of a remedy because it found that the domestic industry cannot supply the demand for new orders within a commercially reasonable length of time. The devices are used in smaller, more energy efficient automobiles. See pp. 18-19.

2/ Transcript of May 7, 1980, hearing, at p. 160.

3/ Id., at p. 161.

4/ Id., at p. 161-162.

5/ Id., at pp. 165-166.

6/ Id., at p. 168.

It is our view, in light of the above, that the public interest does not preclude the issuance of an exclusion order. Complainant appears to have adequate capacity to supply the market even in the absence of respondent's devices. Respondent has not shown why the issuance of an order would be against the public interest. This case is distinguishable from the Commission's findings in the Crankpin Grinders case (cited and discussed in footnote 1) on the basis that complainant here has sufficient capacity to meet customer demand.

Bonding

If an exclusion order is to be issued, the Commission must then, pursuant to section 337(g)(3), set a bond for such infringing articles entered during the period the Commission's determination is pending before the President. The Commission's rules provide that the Commission is to determine a bond "taking into consideration . . . the amount which would offset any competitive advantage resulting from" the violation (19 CFR 210.14(a)(3)). The Commission generally has set a bond equal to the difference between the selling prices of the domestic and imported articles. 1/

Complainant proposed a bond of 45 percent, based on the price difference of 30 percent between the domestic and imported articles (\$2.97 for the

1/ See, for example, Certain Roller Units, supra, at p. 12. But compare Doxycycline: Investigation No. 337-TA-3, USITC Publication 964, April 1979, at p. 21 (concurring opinion of Commissioner Alberger), and Certain Thermometer Sheath Packages: Investigation No. 337-TA-56, USITC Publication 992, July 1979, at p. 30, where a bond of 10 percent representing a reasonable royalty was found appropriate. (In the latter case, the price of the imported article was found to be higher than the price of the domestic article.)

domestic, \$2.25 for the imported article), plus an additional 15 percent. 1/ Complainant did not give a reason for the additional 15 percent.

The Commission investigative attorney proposed a bond of 50 percent, calculated on the basis of a 32 percent price differential plus 18 percent "to ensure offsetting the competitive advantage of the foreign company." 2/ (The Commission investigative attorney's 32 percent calculation is based on the same price information used by complainant; 32 percent is the correct calculation.)

It is our view that a bond of 32 percent would offset any competitive advantage enjoyed by respondent. Complainant appears to have advantages in market share, marketing, and a well known product. Respondent's only present advantage seems to be price. We think that a bond equalizing prices would more than overcome any advantage respondent now has.

1/ Transcript of May 7, 1980, hearing, at pp. 163-65.

2/ Id., at p. 172.

Dissenting Opinion of Chairman Bill Alberger
and Commissioner Paula Stern

We concur with our fellow Commissioners' finding that the patent in question in this investigation is both valid and infringed. We also concur with their findings and reasons on trademark infringement, false designation of origin, misappropriation of trade dress, and passing off. The majority opinion on these matters has essentially adopted the ALJ's recommended findings of fact and conclusions of law, and we do likewise. However, we differ with their conclusion that imports which infringe complainant's patent have the effect or tendency to substantially injure the domestic industry, and for that reason we determine there is no violation of Section 337.

The basis for the majority's findings and determination on injury is essentially that complainant has "lost" some 17 customers to the infringing imports, and that complainant's annual sales have been increasing at a diminishing rate since respondent's goods entered the market. There was also evidence of one instance of price suppression by complainant resulting from attempts to regain a lost customer. But against this scant evidence of present injury there are numerous indications that complainant (which comprises the total domestic industry) is a healthy and growing business operation. Since 1977, when the infringing imports began, domestic sales, production and receipts have all increased steadily.

While it is true that the rate of increase in complainant's sales has been declining somewhat, this is partially accounted for by the fact that production capacity has been limited. During the year of highest import

penetration, domestic sales went up 18 percent, 1/ a more than acceptable rate of growth. There has been no decrease in employment, 2/ and complainant's small, solely owned business is apparently operating at maximum capacity. 3/ In fact, one could surmise that complainant might actually increase output by one-third if it added just one person to its work force. Over the three years of importation by respondents, the domestic industry's annual gross receipts have increased more than 100 percent.

Even with respect to the issue of lost sales, on which the majority relies so heavily, the record is less than convincing. The 17 lost sales came to the ALJ's attention because respondent was asked in the hearing to list its top 20 U.S. customers. When it had done so, complainant's witness (Mrs. Gammon) testified that most of them were former customers. The only evidence cited by the ALJ for the conclusion that 17 of these 20 firms once bought from complainant was the testimony of complainant's witness, which went as follows:

Q Now, over and above the sales from Makepeace, of your personal knowledge, do you know of any other sales you have lost to Mr. Woods?

A There is a lot of customers that haven't been ordering from us for awhile but I couldn't find out from them who they are buying from?

Q You couldn't tell us who they are right now?

A No. I don't have any book with me.

Q Of your own knowledge, do you know if we have any evidence in the record of lost sales, other than Makepeace?

1/ Recommended Finding of Fact, 108.

2/ Recommended Finding of Fact, 111.

3/ Recommended Findings of Fact, 100, 102.

A When Mr. Woods was on the stand awhile ago he named several companies of the 20--of the 20, there is only three or four of them that were not our customer, but all the other ones were our customers before.

Q So you are testifying that 17 out of those 20 top customers were your customers?

A Yes, Sir.

Q And you are testifying that you lost sales to 17 out of those 20 customers?

A Anything he sold to them, we lost it.

Q Were those 17 your customers before he sold?

A Yes, Sir. There were also customers that were supplied by the Curta Company.

Q Did you ask any of these customers, or are you aware that you or anybody--your husband or your attorney--asked specifically these 17 customers whether they are now buying from Mr. Woods and they quit buying from you?

A We asked, but--my lawyer has asked--but there was a lot of them that never answered.

Q Do you know how many answered?

A I don't know. You would have to ask my lawyer. I didn't have the names until Mr. Wood said. 4/

The witness acknowledged in the above testimony that she had no records with her showing which of the 20 firms were former customers. Her assertion was vague at best, as evidenced by the statement "There (were) only 3 or 4 of them who were not our customers." As to the quantity of lost orders, she simply said "Anything he sold to them, we lost it." Further complainant never

4/ Transcript of January 25, 1980, Hearing before Judge Duvall, pp. 636-38. This testimony was part of the in camera portion of the transcript, but it was substantially divulged by counsel for complainant in testimony before the Commission, and therefore contains no confidential information. See, Transcript of May 7, 1980, hearing pp. 33-40.

produced records to indicate the number or size of lost orders. It is our view that this record falls far short of establishing verified lost sales. The testimony merely established that there were 16 or 17 customers on respondent's list to whom complainant might have sold some surveying devices in the past.

Another factor mitigating against treating the 17 lost customers as actual lost sales is the lack of any adverse consequences to complainant. It appears that complainant's sales equalled or exceeded production capacity during much of the time it was supposedly losing sales. Perhaps this explains why complainant's witness was unaware of the so-called lost customers until respondent testified. There is no evidence that any of the respondent's sales to complainant's former customers had any direct effects on complainant's profits, production or future production plans. This makes it difficult to consider these 17 examples "lost sales" in the sense that the Commission ordinarily uses that term.

We also disagree with the majority's contention that the record supports a finding of a tendency toward future injury. The import penetration ratio has been exceedingly low, and is actually declining. 5/ Respondent's maximum capacity is a small fraction of complainant's production, 6/ and there is little evidence that complainant seeks to increase its U.S. market substantially through the solicitation of additional orders. In these circumstances, we do not believe that the principle of "conceivable lost sales" enunciated in In Re Von Clemm 7/ dictates a finding of "tendency" to

5/ Recommended finding of Fact 108.

6/ Recommended finding of Fact 104, 106.

7/ 229 F.2d 441 (CCPA 1955). See, Majority Opinion at page .

substantially injure. Although legislative history suggests a low threshold with respect to the "tendency" language of section 337, the draftsmen never meant to permit findings based on purely hypothetical injury. There must be some positive evidence that the unfair acts, if allowed to continue, will cause substantial injury in the foreseeable future. Here, the majority relies on facts which, in our view, do not point toward such an eventuality. They argue that respondent has aggressively sought to expand its U.S. sales, as evidenced by its extensive contact with U.S. dealers and its recent attempts to acquire additional sales outlets. 8/ But, it is not clear that any of these efforts will result in the kind of increase in imports which would be needed to cut into complainant's market share. The clearer fact is that respondent's role in the U.S. market is insignificant and declining. If we were to find a "tendency" in this case, the Commission would be forced to render affirmative determinations each time there was a handful of lost sales and a hypothetical possibility of imports increasing, even if all other relevant criteria the Commission normally examines pointed away from a showing of injury.

We recognize that patentees have argued to the Commission for a low injury threshold in patent based 337 actions on the theory that each infringing import is a potential lost sale to the domestic industry. However, when there is such strong evidence that a complainant is profitable and growing, we believe it would be inconsistent with the purpose of section 337 to impose a remedy simply because a patentee's monopoly share has been diluted

8/ See, Recommended Findings of fact 105, 112.

by a miniscule amount. Section 337 is not merely a patent-based jurisdiction for the remedying of private rights. The Commission's historical role has been to gauge the effect of unfair acts on the domestic industry as a whole, and to determine the needs to protect otherwise efficient U.S. industries from substantial harm. We accept the fact that the threshold of injury under section 337 may be lower than that under other trade laws, but it would be regrettable if we adopted a meaningless standard in patent cases on the theory that each infringing import is a lost sale to the domestic producers. Such a per se injury test is unjustified under any interpretation of the statute. It would essentially read the injury requirement out of the statute.

Our position in this case is not contrary to recent Commission determinations on the injury question. In Certain Automatic Crankpin Grinders, 9/ for example, we based our affirmative finding primarily on a showing of lost sales, even where profitability and domestic sales had not suffered markedly; but in that case the import penetration ratio was significantly higher, the patented devices had a high unit cost, and the evidence suggested that the loss of even one order adversely affected production economics, capital expenditures and complainant's ability to adjust to cyclical sales patterns. In other cases where the Commission has found in the affirmative with respect to patent-based violations, it has relied heavily on evidence of high import penetration, 10/ declining production or sales by

9/
10/ See e.g., Certain Roller Units, Inv. 337-TA-44, U.S.I.T.C. Pub. 944 (Feb. 1979); Certain Multicellular Plastic Film, Inv. 337-TA-54, U.S.I.T.C. Pub. 987 (June 1979); Certain Thermometer Sheath Packages, Inv. 337-TA-56, U.S.I.T.C. Pub. 992 (July 1979).

the domestic patentee, 11/ declining profitability, 12/ significant price depression, 13/ and substantial foreign capacity. 14/ While all factors need not be present in each case, it is unusual for the Commission to render an affirmative decision when, as it appears here, none are present.

Ironically, the Commission recently found injury to be lacking in a case with facts analogous to the present case. In Certain Combination Locks 15/ the import ratio was about the same as in this case, but all other factors suggested that the domestic industry was healthy. This case differs only with respect to the information on lost customers, which, as we have noted is neither conclusive nor persuasive. We feel that the standard articulated in Combination Locks requires a finding of no violation here. We therefore dissent.

11/ See, e.g., Certain Roller Units, U.S.I.T.C. Pub. 944.

12/ See, e.g., Certain Multicellular Plastic Film, U.S.I.T.C. Pub. 987;
Certain Thermometer Sheath Packages, U.S.I.T.C. Pub. 992.

13/ See e.g., Certain Roller Units, U.S.I.T.C. Pub. 944.

14/ See e.g., Certain Multicellular Plastic Film, U.S.I.T.C. Pub. 987.

15/ Inv. 337-TA-45, U.S.I.T.C. Pub. 945 (Feb. 1979).

