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THE WHITE HOUSE

WASHINGTON

August 16, 1985

MEMORANDUM FOR DAVID L. CHEW
STAFF SECRETARY AND
DEPUTY ASSISTANT TO THE PRESIDENT

FROM: JOHN G. ROBERTS JGR
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: USITC Determination re
Certain Flexible Drill Shafts

Counsel's Office has reviewed the Memorandum for the President from Ambassador Yeutter on the above-referenced International Trade Commission decision, and finds no objection to it from a legal perspective. We have no objection to the recommendation that the President not disapprove this determination, rendering it effective on August 19, 1985.

ID # CU

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING
☐ H - INTERNAL
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Date Correspondence Received (YY/MM/DD) __ / __ / __

Name of Correspondent: Dave Chew

☐ **MI Mail Report** **User Codes: (A)** ____ **(B)** ____ **(C)** ____

Subject: USITC Determination re certain flexible drill shafts

ROUTE TO: ACTION DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CUHOLL	ORIGINATOR	85/08/16			/ /
Referral Note:					
CUAT18	R	85/08/16		S	85/08/16
Referral Note:					12N
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ACTION CODES:
- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

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Document No. 303136SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: 8/16/85 ACTION/CONCURRENCE/COMMENT DUE BY: NOON TODAY

SUBJECT: USITC DETERMINATION RE CERTAIN FLEXIBLE DRILL SHAFTS

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	LACY	☐	☐
REGAN	☐	☑	McFARLANE	☑	☐
WRIGHT	☐	☐	OGLESBY	☑	☐
BUCHANAN	☐	☐	ROLLINS	☐	☐
CHAVEZ	☐	☐	RYAN	☐	☐
CHEW	☐ P	☑ SS	SPEAKES	☐	☑
DANIELS	☐	☐	SPRINKEL	☐	☐
FIELDING	☑	☐	SVAHN	☑	☐
FRIEDERSDORF	☑	☐	THOMAS	☐	☐
HENKEL	☐	☐	TUTTLE	☐	☐
HICKEY	☐	☐	______	☐	☐
HICKS	☐	☐	______	☐	☐
KINGON	☑	☐	______	☐	☐

REMARKS:

Please provide any comments/recommendations by noon today, August 16th.

Thank you.

RESPONSE:

David L. Chew
Staff Secretary
Ext. 2702

Last Day for Action: August 18

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

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1985 AUG 16 AM 8 22

August 15, 1985

MEMORANDUM TO THE PRESIDENT

FROM: CLAYTON YEUTTER CY

SUBJECT: U.S. International Trade Commission Determination Regarding Certain Flexible Drill Shafts

By August 18, you must decide what action, if any, you will take regarding the U.S. International Trade Commission's determination in its investigation, under section 337 of the Tariff Act of 1930, regarding certain flexible drill shafts for installing electrical lines. The Commission determined that there was a violation of section 337 in the importation into, and sale in, the United States of the flexible drill shafts that infringe the claims of two U.S. patents, threatening to destroy or cause substantial injury to an efficient and economically operated domestic industry. The Commission ordered infringing drill shafts excluded from entry into the United States and ordered the respondents to cease and desist actions that contributed to the infringement of the process patent. I recommend that you take no action regarding the Commission's determination.

Under subsection 337(g)(2), you may disapprove the Commission's determination for policy reasons, leaving the determination, and any order issued under its authority, without force or effect. You also may approve a determination, making it final immediately. The determination and associated order become final automatically after the sixty day review period if you take no action.

The member agencies of the Trade Policy Committee (the Departments of Agriculture, Commerce, Justice, Labor, State, and Treasury, the Council of Economic Advisers, and the Office of Management and Budget) have approved unanimously the recommendation that you take no action in this case.

The product involved in this case is a flexible drill shaft with a coupler that is used to install electrical lines in otherwise inaccessible places. The product is used by electricians to install electric cable both in new construction and in existing structures. Other means of installing electric lines are available at reasonable prices. Installation of electrical cable using the flexible drill has not been shown in the Commission record to be safer or less costly than installation using other methods. No evidence was presented to the Commission indicating that the U.S. producer could not supply the expected demand for the product.

The determination and orders also are not inconsistent with our international obligations. No foreign government has made representations to the U.S. government regarding this case. There is no policy issue present, therefore, that would justify disapproval of the determination in this case.

OPTIONS	ACTION REQUIRED
Option 1 (recommended)	
Take no action.	None, the determination will become final automatically on August 19, 1985.
Option 2	
Disapprove the determination.	Inform the Commission of your disapproval. The determination and order will be without force or effect when the Commission receives notice.
Option 3	
Approve the determination.	Inform the Commission of your approval. The determination and order will become final when the Commission receives notice.

DECISION

OPTION 1: Take no action. ______________________

OPTION 2: Disapprove. ______________________

OPTION 3: Approve. ______________________

CHAIRWOMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

JUN 20 [illegible]5

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The U.S. International Trade Commission has determined, pursuant to section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337), that the appropriate relief for the violation of section 337 found as the result of Investigation No. 337-TA-196, Certain Apparatus for Installing Electrical Lines and Components Therefor, is a general exclusion order and cease and desist orders directed to respondents Emergency Products Corp. and Alarm Supply Co., Inc. The exclusion order prohibits entry into the United States of flexible drill shafts that infringe U.S. Letters Patent 3,697,188, except under license from or with the permission of complainant Scoggins Manufacturing, Inc. The Commission has also determined to issue two cease and desist orders prohibiting respondents Emergency Products Corp. and Alarm Supply Co., Inc., from false advertising, passing off, and contributory and induced infringement of U.S. Letters Patent 3,611,549. The Commission determined that the public interest factors enumerated in sections 337(d) and (f) do not preclude issuance of the aforementioned remedial orders. The articles directed to be excluded are entitled to entry under a bond of 420 percent of the entered value of the articles concerned during the Presidential review period.

Pursuant to subsection (g) of section 337, this letter transmits to you copies of the Commission's Action and Order, the Commission Opinion issued in connection therewith, and the record upon which our determinations and findings are based.

Sincerely,

Paula Stern
Chairwoman

Enclosures

cc: Honorable Michael B. Smith
Acting United States Trade Representative

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN APPARATUS FOR INSTALLING ELECTRICAL LINES AND COMPONENTS THEREFOR	Investigation No. 337-TA-196

COMMISSION ACTION AND ORDER

Background

A complaint was filed with the Commission on May 14, 1984, by Scoggins Manufacturing, Inc. (SMI), alleging unfair acts and methods of competition in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor. The Commission on June 20, 1984, instituted the above-captioned investigation to determine whether there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the importation of certain apparatus for installing electrical lines and components therefor into the United States, or in their sale, by reason of (1) direct, contributory, and induced infringement of the claims of U.S. Letters Patents Nos. 3,697,188 ('188 patent) and 3,611,549 ('549 patent); (2) infringement of complainant's common law trademark; (3) false advertising; and (4) passing off, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. 49 Fed. Reg. 25318.

On December 27, 1984, the presiding administrative law judge (ALJ) issued an initial determination (ID) that found two respondents in default and granted complainant's motion for summary determination of violation of section 337. The ALJ determined that there was a violation of section 337 in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor, on the basis of findings of (1) contributory infringement as to the coupling device of the '188 patent; (2) induced infringement as to the flexible drill shaft and the coupling device of the '188 and '549 patents; (3) the existence and infringement of a common law trademark; (4) passing off; and (5) false advertising. Complainant filed a petition for review. No other petitions for review or agency comments were received.

In February of 1985, the Commission determined to review certain issues raised by the ID, viz., direct infringement of '188 and '549 patents, contributory infringement of the '188 and '549 patents, and the existence and infringement of a common law trademark.

A notice requesting written comments on those issues and on the issues of remedy, the public interest, and bonding was published in the Federal Register on February 13, 1985 (50 Fed. Reg. 6072). The Commission received submissions from complainant SMI and the Commission investigative attorney. No other submissions or agency comments were received.

Action

Having reviewed the record in this investigation, including the ID and the aforementioned written submissions, the Commission has determined to reverse the findings in the ID of no direct infringement of the '188 patent and no contributory infringement of the '188 and '549 patents. The Commission has also determined to reverse the finding that there is a common law trademark in the appearance of complainant's flexible drill bit. Specifically, the Commission finds that complainant has not established a prima facie case of the existence of a common law trademark in the grooves on the flexible drill bit.

The Commission has determined to issue a general exclusion order prohibiting importation of flexible drill shafts that infringe claim 1 of Scoggins Manufacturing, Inc.'s '188 patent, except under license from or permission of complainant SMI. The Commission has also determined to issue two cease and desist orders prohibiting respondents Emergency Products Corp. and Alarm Supply Co., Inc., from false advertising and passing off. The cease and desist orders also prohibit selling from inventory on the basis of contributory and induced infringement of the '549 patent. The Commission also has determined that the public interest factors enumerated in sections 337(d) and (f) (19 U.S.C. § 1337(d) and (f)) do not preclude issuance of the aforementioned orders and that the bond during the Presidential review period should be in the amount of 420 percent of the entered value of the imported articles.

Order

Accordingly, it is hereby ORDERED THAT--

1. Flexible drill shafts that infringe claim 1 of U.S. Letters Patent 3,697,188 are excluded from entry into the United States, except (1) as provided in paragraph 4 of this order or (2) under license from or with the permission of the patent owner;

2. Emergency Products Corp. cease and desist from false advertising, passing off, and contributing to or inducing the infringement of claim 1 of U.S. Letters Patent 3,611,549, as provided in the attached cease and desist order;

3. Alarm Supply Co. Inc. cease and desist from false advertising, passing off, and contributing to or inducing the infringement of claim 1 of U.S. Letters Patent 3,611,549, as provided in the attached cease and desist order;

4. The flexible drill shafts ordered to be excluded are entitled to entry into the United States under bond in the amount of 420 percent of the entered value of the subject articles, from the day after this order is received by the President pursuant to subsection (g) of section 337 of the Tariff Act of 1930, until such time as the President notifies the Commission that he approves or disapproves this action, but, in any event, no later than 60 days after the date of such receipt;

5. Notice of this Action and Order shall be published in the <u>Federal Register</u>;

6. A copy of this Action and Order and the Commission Opinion issued in connection therewith shall be served 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 Secretary of Treasury; and

7. The Commission may amend this Order in accordance with the procedure described in 19 C.F.R. § 211.57.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: June 20, 1985

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN APPARATUS FOR INSTALLING ELECTRICAL LINES AND COMPONENTS THEREFOR	Investigation No. 337-TA-196

COMMISSION OPINION

Introduction

On December 27, 1984, the presiding administrative law judge (ALJ) issued an ID (Order No. 5), finding two respondents, Emergency Products Corp. (EPC) and Alarm Supply Co., Inc. (ASC), in default and granting the motion of complainant Scoggins Manufacturing, Inc. (SMI) for summary determination of violation of section 337. 1/ The ALJ found violations of section 337 in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor on the basis of induced infringement of U.S. Letters Patents Nos. 3,697,188 (the '188 patent) and 3,611,549 (the '549 patent), contributory infringement of the '188 patent solely by sales of the coupling device, infringement of complainant's alleged common law trademark, passing off, and false advertising. Complainant SMI subsequently filed a petition for review. No other petitions for review or agency comments were received.

1/ The ALJ found that respondent Ming Chang Carpenter Auger Bit Co., Ltd. (Ming Chang) was not in violation of section 337 because there was no evidence of imports by Ming Chang. Subsequently, SMI withdrew its complaint as to Ming Chang and Ming Chang was dismissed from this investigation. 50 Fed. Reg. 7970 (Feb. 27, 1985).

On February 5, 1985, the Commission determined to review the following issues raised by the ID:

> 1. Whether there is a violation of section 337 by reason of direct infringement of U.S. Letters Patent Nos. 3,697,188 and/or 3,611,549. In addition to the points raised in the petition for review, the Commission requests written submissions on whether in the absence of direct infringement, there can be contributory or induced infringement. The Commission also requests written submissions on the question of whether the drill apparatus is being imported separate and apart from the coupling device and, if so, what effect this fact should have on the Commission's determination regarding violation of section 337.
>
> 2. Whether there is contributory infringement of the flexible drill of U.S. Letters Patent 3,697,188.
>
> 3. Whether there is contributory infringement of the process patent, U.S. Letters Patent 3,611,549.
>
> On its own motion, the Commission has determined to review the issue of the existence and infringement of a common law trademark. The Commission will specifically examine whether in light of the recent decision of the Court of Appeals for the Federal Circuit in Textron, Inc. v. U.S. International Trade Commission, Appeal No. 84-1261 (January 24, 1985), complainant SMI has established *prima facie* evidence of secondary meaning of a common law trademark. If secondary meaning has not been established, the Commission wishes to be advised whether complainant desires a remand to the ALJ in order to submit further evidence on this issue.

The Commission decided not to review the ALJ's findings of induced infringement of the '188 and '549 patents, passing off, and false advertising, and requested submissions on remedy, the public interest, and bonding. Complainant and the Commission investigative attorney (IA) submitted written comments. No other comments were received.

After reviewing the ID and the written comments of complainant and the IA, we have determined to reverse the ALJ's findings of (1) no direct infringement of the '188 patent, (2) no contributory infringement of the '188 and '549 patents by the imported flexible drill shafts, and (3) the existence of a common law trademark. We have also determined to issue a general exclusion order and two cease and desist orders directed to respondents EPC and ASC, and to set a bond of 420 percent of the entered value of the articles concerned during the Presidential review period.

Background

On May 14, 1984, SMI filed a complaint alleging unfair methods of competition and unfair acts in the importation and sale of certain apparatus for installing electrical lines by reason of alleged: (1) direct, contributory, and induced infringement of the claims of the '188 and '549 patents; (2) infringement of complainant's common law trademark; and (3) false advertising. 2/ The complaint named as respondents (1) Canadian Flexi Drill (CFD) of Ontario, Canada, (2) EPC of New Jersey, and (3) ASC of Michigan. Subsequently, Ming Chang Carpenter Auger Bit Co., Ltd. of Taiwan (Ming Chang) was named as a respondent. Notice of the investigation was published in the Federal Register on June 20, 1984 (49 Fed. Reg. 25318).

On November 30, 1984, the ALJ issued an ID terminating respondent CFD on the basis of a consent order, and that ID was not reviewed by the Commission. On November 21, 1984, SMI filed a motion for summary determination on all issues in the investigation (Motion No. 196-5). The motion was supported in part by the IA. It was unopposed by respondents. In response, the ALJ issued the ID under review granting complainant's motion for summary determination of violation of section 337.

2/ The complaint also contained an unfair competition count which, after consultation with complainant, was included in the notice of investigation as "passing off."

Subsequently, on January 8, 1985, complainant SMI filed a motion (Motion No. 196-6) to withdraw its complaint as to respondent Ming Chang and on January 16, 1985, the ALJ issued an ID (Order No. 6) granting the motion and terminating the investigation. Upon review of the ID, the Commission determined to terminate respondent Ming Chang, but not the investigation.

Unfair Methods of Competition

I. Patent infringement

There are two patents at issue in this investigation. The '188 patent covers the apparatus for installing electrical lines, i.e., the flexible drill shaft and the coupling means. The '549 patent is a method patent covering the method by which the apparatus is used to drill holes in inaccessible locations.

A. The initial determination

The ALJ found that the two patents in controversy are valid and that complainant is practicing both patents. The patented invention is a long, straight, flexible spring shaft which is attached to the end of a drill. This long, flexible shaft allows one to drill holes in inaccessible locations. Once the drill shaft has reached an accessible opening, an electrical line is attached to the drill through a hole in the bit. This can be accomplished either by tying a pull line or the electrical line to the tip of the shaft or by means of a detachable coupling device (sometimes referred to as a "wire grip"). The ALJ found the coupling device to be a necessary element of both claims 1 and 2 of the '188 patent and a necessary element of claim 1 of the '549 patent. 3/

3/ ID at 9.

The ALJ found induced infringement and contributory infringement of the '188 and '549 patents with respect to sales of the coupling device, 4/ but no direct infringement because the inventor in an affidavit failed to conclude that respondents' drills required the use of a separate coupling device (which, as noted, the ALJ found to be a required element in the first two claims of the '188 patent and in the '549 patent) and because the several affidavits filed by complainant from wholesalers and consumers did not show that respondents' drills were sold with separate coupling devices. 5/ With respect to contributory infringement of the two patents at issue, the ALJ found such infringement only as to the coupling device, but not as to the flexible drill shaft because, in accordance with the '188 patent and the '549 patent, the drill shaft could be used without a coupling device and this was a "substantial noninfringing use" within the meaning of 35 U.S.C. § 271(c). 6/

B. Infringement of the '188 patent

Claims 1 and 2 of the '188 patent state:

> 1. Apparatus for facilitating drilling of holes in wooden structural members oftentimes located in inaccessible areas and for installing electrical conductor lines in such members; said apparatus comprising a drill including a relatively short helical drill bit having a tapered portion on its trailing end, and a spring steel readily flexible straight shaft of much greater length than and of smaller cross-section than said drill bit and having one end fixedly secured to the tapered end of said drill bit, and coupling means detachably connected to one end of said drill and adapted for connecting an electrical conductor line thereto to be pulled through the drilled holes upon passing the drill through the holes in a direction away from said coupling means.

4/ In its review brief, complainant SMI states that, contrary to the ALJ's finding, it does not assert infringement, contributory or otherwise, in respondents' sale of the coupling device alone. "To the best of complainant's knowledge, coupling devices are not imported . . . ." SMI Brief at 5.

5/ ID at 10.

6/ See discussion at pp. 7-8 of this opinion.

> 2. An apparatus according to claim 1, wherein said drill bit is provided with a transverse aperture therethrough adjacent its leading end, said coupling means comprising an attaching member extending through said aperture for attachment to said drill bit, a braided tubular member adapted for releasably and grippingly receiving an end portion of the electrical conductor line within one end thereof, and a swivel means interconnecting proximal ends of said members whereby said drill may be rotated relative to said braided tubular member without twisting an electrical conductor line grippingly received in the braided tubular member during rotation of the drill.

(Emphasis added.)

The ALJ determined that the coupling device was a required element in claim 1 because she construed the term "coupling means" in claim 1 to include only the coupling device. SMI argues that, contrary to the ALJ's finding, the coupling device is not a necessary element in claim 1 of the '188 patent because "a piece of ordinary wire or a pull line connecting the drill to an electrical line also would constitute coupling means." Therefore, SMI argues that sale of the flexible drill shaft alone is sufficient to prove direct infringement.

Although claim 1 does not limit "coupling means" to the specific coupling device, it does describe the "coupling means" as "detachably connected to one end of said drill and adapted for connecting an electrical conductor line . . . ." The specification of the '188 patent refers to only one "coupling means" that is detachable and adapted for connecting an electrical conductor line, i.e., the specific coupling device. Therefore, the ALJ is correct that the coupling device is a necessary element in the claims of the '188 patent.

More significantly, however, the ALJ stated in the ID that if there was evidence on the record showing that the drill shafts were sold with the wire grips, the imported drill shafts would directly infringe the '188 patent. 7/ Contrary to the ALJ's finding, there is evidence that the drill and coupling device (wire grip) have been sold together. As complainant notes in its petition for review and in its review brief, Emmett Riggs, the owner of Marketex Security, stated in paragraph 5 of his affidavit that he bought the drill shaft and the coupling devices (referred to as the small and large wire grips in the affidavit and respondents' promotional material) together from respondent ASC. Since the Riggs affidavit establishes that the drill shaft and the coupling means have been sold together, there is direct infringement.

With regard to induced infringement of the '188 patent, 35 U.S.C. § 271(b) states "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The ALJ found that respondents EPC and ASC had actively induced their customers to infringe the '188 patent by their sale and promotion of the "Snakebit" drill and by providing instructions for its use with the coupling device. The Commission determined not to review that issue.

With regard to contributory infringement of the '188 patent, 35 U.S.C. § 271(c) states:

> 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.

As complainant has noted and contrary to the ALJ's finding, the flexible drill shaft "necessarily is a material component, if not the material

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7/ The evidence on the record supporting the motion for summary determination were the answers of EPC and ASC to complainant's interrogatories and nine affidavits.

component, of the invention claimed in the '188 patent." Further, "[t]he flexible drill is not a staple article of commerce nor is there any suggestion that it has a non-infringing use." 8/ Use of the drill without the coupling means is not a "substantial" non-infringing use, especially when respondents' promotional material states that, to use the drill, a coupling means (wire grip) should be attached to the drill tip. 9/ We therefore determine that the ALJ's finding of no contributory infringement as to the drill shaft is clearly erroneous and must be reversed.

C. Infringement of the '549 patent

Claim 1 of the '549 patent states:

> 1. A method of installing a pliable line from an area outside of the confines of a hollow wall in and through the wall and at least one structural obstruction therein; said method comprising moving a drill having a springlike shaft with a drill bit secured to the leading end thereof through an access opening in one face of the wall while bowing the shaft to direct the drill bit along a path corresponding to the desired run of the pliable line, rotating the drill while applying a longitudinal force thereto to cause the drill bit to drill a hole through the structural wall obstruction in its path, ceasing rotation of the drill after the drill bit has reached an accessible area, connecting a pliable line to one end of the drill, and passing the drill through the drilled hole in a direction away from the pliable line to an area outside of the confines of the hollow wall to remove the drill from the wall while pulling the pliable line therewith to position a length of the pliable line extending through the hollow wall.

The '549 patent is a method patent covering the method by which the apparatus is used to drill holes in inaccessible locations. Because the '549 patent covers a method which is practiced by the ultimate consumer,

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8/ SMI Brief at 14.
9/ See SMI Exhibit 13.

complainant does not assert that any respondent wholesaler directly infringes the '549 patent. 10/ Direct infringement of the patented process, however, can be inferred by the sale of the flexible drill shafts and respondents' advertising which illustrates how to use the patented method. See Certain Personal Computers, Inv. No. 337-TA-140, 244 U.S.P.Q. 270 at 283 n.140. See also Shumaker v. Gem Mfg. Co., 311 F.2d 273 (7th Cir. 1962); Bergstrom v. Sears, Roebuck and Co., 496 F. Supp. 476, 493 (D. Minn. 1980); Spee-Flo Mfg. Corp. v. Gray Co., Inc., 255 F. Supp. 618, 620 (S.D. Tex. 1964), aff'd, Gray Co., Inc. v. Spee-Flo Mfg. Corp., 361 F.2d 489 (5th Cir. 1966).

In contrast to the situation with respect to the '188 patent, purchasers of the flexible drill shaft can infringe the '549 patent without using a coupling device because claim 1 of the '549 patent does not refer to "coupling means" as does the '188, patent, but instead to "connecting a pliable line to one end of the drill," including a pull line. The coupling device is not a necessary element in the '549 patent. The flexible drill shaft is also a material part of the patented process and not a staple article of commerce suitable for substantial noninfringing use.

10/ In its notice of review, the Commission requested briefing on the issue of whether in the absence of direct infringement there can be contributory or induced infringement. In response to this request, complainant has argued that as a matter of law there can be contributory or induced infringement, absent direct infringement, if direct infringement by consumers is legally cognizable under the patent law. Thus, in Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964), the Supreme Court determined that where consumers, i.e., purchasers, of replacement automobile convertible tops were not direct infringers because they had an implied license, the sellers of the convertible tops were not guilty of contributory or induced infringement. In this case, however, since direct infringement by consumers of the patented method for installing electrical lines is a legally cognizable wrong, the sellers of the apparatus for use in the patented process can be guilty of contributory or induced infringement. See Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972); Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176 (1980).

Thus, we determine that, contrary to the ALJ's findings, respondents' sales of the patented flexible drill shafts constitute contributory infringement of the '549 patent under 35 U.S.C. § 271(c).

II. Common law trademark infringement

We determined to review the issue of whether complainant has established secondary meaning (to prove the existence of a common law trademark) in light of the recent CAFC decision, Textron, Inc. v. U.S. International Trade Commission, 753 F.2d 1019 (1985). Both complainant and the IA argue that a prima facie showing of secondary meaning has been made.

In the ID the ALJ found that the grooves on the flexible drill bit are a common law trademark because the grooves are not functional and have acquired secondary meaning. The ALJ also determined that the imported products infringed complainant's common law trademark.

To establish secondary meaning, complainant SMI must establish that a substantial number of the buyer group associate the mark with a single source. 11/ The evidence supporting secondary meaning is that complainant has sold drills with grooves on the bits since 1979 and has had a significant sales volume. The product also has been advertised, but the ALJ found that "it is not clear how many advertisements showed the grooves on the bit." 12/ The primary evidence relied on by the ALJ to establish a prima facie case on secondary meaning is five affidavits. The ALJ concluded: "[T]here is information that the mark, although not distinctive (arbitrary or fanciful),

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11/ McCarthy, Trademarks and Unfair Competition at § 15:11.; see Restatement, Torts § 727, Comment C (1938); Aloe Creme Laboratories Inc. v. Milsan, Inc., 423 F.2d 845, 850 (5th Cir. 1970); Food Fair Stores, Inc. v. Lakeland Grocery Corp., 301 F.2d 156 (4th Cir. 1962). See also Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118 (1938).
12/ ID at 16.

has acquired a secondary meaning associated with complainant, at least among some of the purchasers of such a drill." 13/ The U.S. Court of Customs and Patent Appeals (one of the predecessor courts of the U.S. Court of Appeals for the Federal Circuit) (per Judge Rich), however, has held that adequate proof of secondary meaning means more than evidence of a "relatively small number of people" who associate the mark with one source. 14/

In the Textron case, the CAFC held that Textron had not established secondary meaning because, although it had conducted a survey (which was not conducted in this case), the survey did not establish that a substantial number of the survey respondents identified certain aspects of the vertical milling machine with a single source. 15/

In this case the relevant buyer group is composed of electricians who install electrical lines in buildings, including lines for telephone systems, burglary alarm systems, fire alarm systems, and related security alarm systems. Of the five affidavits submitted to establish secondary meaning, two are from the presidents of wholesale companies. One prominent authority has stated: "The conclusory testimony of dealers and wholesalers as to consumer recognition is often characterized as of 'little value,' since it may be biased and does not necessarily reflect the views of the consumer class." 16/

The other three affidavits are from an employee of a tool company, an expert in the security/alarm installation business, and an installer of alarm

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13/ ID at 17 (emphasis added).

14/ Roselux Chemical Co. v. Parson Ammonia Co., 299 F.2d 855, 862 (C.C.P.A. 1962); McCarthy, Trademarks and Unfair Competition at § 15:14.

15/ 753 F.2d at 1027.

16/ McCarthy, supra, at § 15:13; see Application of Meyer & Wenthe, Inc., 267 F.2d 945 (C.C.P.A. 1959); Gimix, Inc. v. JS & A Group, Inc., 699 F.2d 901 (7th Cir. 1983); Application of Duvernoy & Sons, Inc., 212 F.2d 202, 203 (C.C.P.A. 1954).

systems. Three affidavits from three possible members of two buyer subgroups do not establish a prima facie case that a substantial number of the buyer group associate the grooves on the drill bits with a single source. This is especially true where complainant has made well over 10,000 sales annually in the last three years.

With regard to advertising, the CAFC stated:

> Although Textron has pictured the silhouette of the Bridgeport machine in its operator's manuals and certain promotional activities, it has not proffered evidence showing that these promotions focused buyers' attentions on the shape of the machine or that the design of the column and ram was featured in any way. 17/

The only SMI advertising placed in evidence was a photocopy of one printed advertisement. That photocopy does not even picture the drill shaft. Thus, there is no evidence that there has been substantial advertising showing the grooves on the drill bit or that the advertising focused buyers' attention on the grooves on the flexible drill shaft. 18/

In the primary case relied on by SMI, In re Industrial Working Machine Corp., 201 U.S.P.Q. 953 (PTO TTAB 1979), 20 letters from consumers in the relevant buying group had been entered into evidence to prove that the word "INDUSTRIAL" had achieved secondary meaning. More significantly, however, the advertising had featured the word "INDUSTRIAL" in block letters and had placed the letters TM next to the "INDUSTRIAL" mark. In this case, there are only five affidavits, three of which are from the relevant consumer group, and no evidence that the advertising emphasizes the mark.

17/ 753 F.2d at 1027.

18/ The IA's argument that secondary meaning has been established is based on the five affidavits, not the advertising. The IA admits: "While the record contains evidence regarding advertising expenditures, there is no evidence in the record as to the manner and extent of advertising of the mark." IA Brief at 14.

In light of the above discussion, we have determined to reverse the ALJ and find that there is no common law trademark because complainant has failed to provide prima facie evidence of secondary meaning. 19/

Remedy

Complainant requests (1) the issuance of a general exclusion order prohibiting the importation of flexible drill shafts which contributorily infringe the '188 and/or the '549 patents and (2) the issuance of cease and desist orders against respondents EPC and ASC prohibiting them from directly infringing the '188 patent, inducing infringement of the '188 and/or '549 patents, false advertising, passing off, and common law trademark infringement. 20/

With regard to the general exclusion order, the criteria in Certain Airless Paint Spray Pumps and Components Thereof, Inv. No. 337-TA-90, USITC Pub. 1199 (1981), are met. A widespread pattern of unauthorized use and unauthorized importations from two foreign sources has been established. 21/ Further, although there is no evidence that respondent Ming Chang, a third foreign source, has exported the infringing drill to the United States, it has advertised the drills for sale in this country. More significantly, evidence has been established of business conditions from which one might reasonably infer that foreign manufacturers other than respondents may attempt

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19/ In response to the question of whether complainant desires a remand to prove secondary meaning, SMI stated: "Since any additional evidence on the existence of secondary meaning would be cumulative of the evidence already of record, complainant believes remand for the purpose of taking such additional evidence is unnecessary . . . ." SMI Brief at 32.

20/ The IA recommends a general exclusion order but not cease and desist orders.

21/ See SMI Brief at 33.

to enter the U.S. market with infringing articles. Scoggins exh. C, pp. 2, 4, 8-9, SMI exh. A (exh. 15-16) to Scoggins motion for summary determination. The cost of production of the flexible drill for foreign manufacturers is low. As SMI stated in its brief:

> Virtually any machine shop having a drill grinder and induction welding equipment can produce the product (Scoggins Affidavit, ¶ 46). The manufacturing cost is only about 10% of the sales price and raw material cost about 15%.

There is an established demand for the flexible drill shafts in the United States. As evidenced by the activities of respondents EPC and ASC, marketing and distribution networks are readily available for potential foreign manufacturers.

SMI, however, has asked for issuance of an exclusion order and cease and desist orders. The Commission has issued an exclusion order and cease and desist orders in Certain Airtight Cast-Iron Stoves, Inv. No. 337-TA-69, USITC Pub. 1126 (1981); Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation, Inv. No. 337-TA-99, USITC Pub. 1246 (1982); and Certain Plastic Food Storage Containers, Inv. No. 337-TA-152, USITC Pub. 1563 (1984). These were investigations where the Commission found more than one unfair act.

In this case, SMI requests a general exclusion order covering contributory infringement of the '188 and '549 patents and cease and desist orders issued to respondents EPC and ASC prohibiting direct infringement of the '188 patent, induced infringement of the '188 and '549 patents, false advertising, and passing off. SMI argues that the cease and desist orders should extend not only to unfair advertising, passing off, and induced infringement, but should also prohibit respondents EPC and ASC from selling any imported flexible drills in their inventory. SMI argues that, if respondents are allowed to "sell off" this inventory, it would cause lost sales to SMI of "about $62,000" at current retail prices.

The IA recommends that cease and desist orders should not be issued in this case because the record is devoid of any evidence that respondents imported infringing drill bits after institution of the investigation, and because the present inventory of imported drill bits is believed to be quite small. Based on answers to interrogatories, respondents EPC and ASC had 3,013 drill bits in inventory as of June, 1984. The IA goes on to state: "This figure is much less than what respondents used to purchase from complainant on a monthly basis (more than 3,000 per month from 1980 through 1983). 22/ Scoggins Exh. A. par. 37." The IA also based his recommendation on informal oral representations made by respondents. 23/

SMI replies that the 3,000 per month figure sold by complainant to respondents represented dollar sales, not unit sales. Using the IA's figure of $19.54 as the average price per drill bit, SMI states that the 3,013 units would represent gross sales of $58,874 and enough inventory to last well into 1986. Further, respondents have refused to provide current and precise information on their inventory and possible importations made during the course of this investigation. Finally, SMI argues that, since respondents EPC and ASC have defaulted, the burden of demonstrating the absence of such inventory and the cessation of importation rests on them.

We agree with SMI and find that there is evidence on the record that respondents have a substantial inventory of infringing drill shafts. Furthermore, the fact that respondents have defaulted and refused to provide

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22/ IA Brief on remedy, bonding, and the public interest at 3.
23/ *Id*.

any further evidence on their inventory should not prevent the issuance of cease and desist orders in this case.

On the basis of the evidence in the record, we have determined to issue a general exclusion order based on direct, contributory and induced infringement of the '188 patent, and cease and desist orders prohibiting respondents EPC and ASC from passing off and false advertising. 24/ The cease and desist orders also prohibit selling from inventory based on contributory and induced infringement of the '549 patent.

Public Interest

We have determined that an exclusion order and cease and desist orders described above will not have an adverse impact on the public interest. 25/ There are alternative ways of installing electrical lines, although perhaps less convenient, and complainant has sufficient production capacity to meet domestic demand for its product.

24/ Vice Chairman Liebeler notes that the use of cease and desist orders to prohibit a purely domestic activity raises important policy and jurisdictional issues. Under section 337, the Commission is charged with remedying "unfair acts in the importation of articles . . . or in their sale . . . ." Since the addition of the cease and desist order to its arsenal of remedies, the Commission has decided cases involving such unfair acts as false advertising and passing off, performed solely by a domestic importer. These unfair acts begin and end completely within the borders of the United States. The only connection to international trade is that the product is imported. Apparently there is no need that the unfair act be connected to the importation at all. It could follow from this false advertising or unfair competition by a foreign dealer in Detroit could be the subject of a section 337 investigation. The Commission may have concurrent jurisdiction with the Federal Trade Commission, federal district courts and state courts over unfair competition. On the other hand, it may be that the Commission should refuse to adjudicate such questions, either on policy or jurisdictional grounds. I reserve judgment on this matter and encourage parties to address this question in an appropriate future case.

25/ Section 337(d), 19 U.S.C. § 1337(d).

Bonding

We have determined to set a bond of 420 percent of the entered value of the imported articles in order to offset any competitive advantage arising from respondents' unfair method of competition. The figure is based on a comparison of the prices at which EPC and ASC obtained infringing products from Taiwan with Scoggins' wholesale prices.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

July 23, 1985

MEMORANDUM

TO: Members of the Section 337 Committee

FROM: Alice Zalik

SUBJECT: Investigation No. 337-TA-196, Certain Apparatus for Installing Electrical Lines and Components Therefor

Attached is a revised draft TPSC paper on Commission Investigation No. 337-TA-196. Copies of the Commission Action and Order and the Views of the Commission also are attached. Please provide your comments and clearance to me (395-3432) by cob Tuesday, July 30.

Should anyone wish the Committee to meet to discuss this case, please call Crystal Coombs (395-3432) so that she can make the necessary arrangements.

Attachment

ISSUE

On June 20, 1985, the United States International Trade Commission referred to the President for review its determination in Investigation No. 337-TA-196, Certain Apparatus for Installing Electrical Lines and Components Therefor. The Commission determined that there was a violation of section 337 in the importation into, and sale in, the United States of certain apparatus for installing electrical lines and components therefor that infringe, or contribute to the infringement, of the claims of three U.S.-patents, threatening to destroy or cause substantial injury to an efficient and economically operated domestic industry. The Commission ordered the Customs Service to deny entry to the flexible drill shafts that infringe the claims of the patent and ordered the respondents in the case to cease and desist from false advertising, passing off, and contributing to the infringement of the claims of the process patent involved.

Under section 337(g), the President may disapprove a Commission determination for policy reasons leaving the determination, and any related order, without force or effect. The determination and any related order become final automatically following the sixty day period provided for review if the President has taken no action. The President also may approve a determination, making it, and any related order, final for purposes of appeal on the day on which the Commission receives notice.

RECOMMENDATION

The Trade Representative should recommend that the President take no action to disapprove the Commission determination in this case. The Commission's determination and the exclusion order and cease and desist orders will become final automatically on August 19, 1985, if the President takes no action.

RATIONALE

The legislative history of section 341 of the Trade Act of 1974, which amended section 337, directs the President, in reviewing a determination under section 337, to consider the effect the relief provided by the Commission will have on the public health and welfare, competitive conditions in the United States, the production of like or directly competitive articles in the United States and United States consumers. The President also considers the foreign policy implications of the determination and the relief granted.

The product involved in this case is a flexible drill shaft with a coupler that is used to install electrical lines in otherwise inaccessible locations. The product is used by electricians to install electric cable both in new construction and in existing structures. The Commission determined that the imported flexible drill shaft and the coupler infringe the claims of two U.S.-patents. Evidence before the Commission showed that the respondents advertised the "Snakebit" drill in a way that induced purchasers to use the product in a manner that infringed the claims of the process patent.

Other means of installing electric lines are available at reasonable prices. Installation of electrical cable using the flexible drill has not been shown in the Commission record to be safer or less costly than installation using other methods. The U.S. Customs Service has not indicated that the exclusion order will be difficult to enforce. No evidence was presented to the Commission indicating that the U.S. producer could not supply the expected demand for the product.

The determination and orders also are not inconsistent with our international obligations. No foreign government has made representations to the U.S. government regarding this case. There is no policy issue present, therefore, that would justify a recommendation of disapproval.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The U.S. International Trade Commission has determined, pursuant to section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337), that the appropriate relief for the violation of section 337 found as the result of Investigation No. 337-TA-196, Certain Apparatus for Installing Electrical Lines and Components Therefor, is a general exclusion order and cease and desist orders directed to respondents Emergency Products Corp. and Alarm Supply Co., Inc. The exclusion order prohibits entry into the United States of flexible drill shafts that infringe U.S. Letters Patent 3,697,188, except under license from or with the permission of complainant Scoggins Manufacturing, Inc. The Commission has also determined to issue two cease and desist orders prohibiting respondents Emergency Products Corp. and Alarm Supply Co., Inc., from false advertising, passing off, and contributory and induced infringement of U.S. Letters Patent 3,611,549. The Commission determined that the public interest factors enumerated in sections 337(d) and (f) do not preclude issuance of the aforementioned remedial orders. The articles directed to be excluded are entitled to entry under a bond of 420 percent of the entered value of the articles concerned during the Presidential review period.

Pursuant to subsection (g) of section 337, this letter transmits to you copies of the Commission's Action and Order, the Commission Opinion issued in connection therewith, and the record upon which our determinations and findings are based.

Sincerely,

Paula Stern
Chairwoman

Enclosures

cc: Honorable Michael B. Smith
Acting United States Trade Representative

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN APPARATUS FOR INSTALLING ELECTRICAL LINES AND COMPONENTS THEREFOR	Investigation No. 337-TA-196

COMMISSION ACTION AND ORDER

Background

A complaint was filed with the Commission on May 14, 1984, by Scoggins Manufacturing, Inc. (SMI), alleging unfair acts and methods of competition in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor. The Commission on June 20, 1984, instituted the above-captioned investigation to determine whether there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the importation of certain apparatus for installing electrical lines and components therefor into the United States, or in their sale, by reason of (1) direct, contributory, and induced infringement of the claims of U.S. Letters Patents Nos. 3,697,188 ('188 patent) and 3,611,549 ('549 patent); (2) infringement of complainant's common law trademark; (3) false advertising; and (4) passing off, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. 49 Fed. Reg. 25318.

On December 27, 1984, the presiding administrative law judge (ALJ) issued an initial determination (ID) that found two respondents in default and granted complainant's motion for summary determination of violation of section 337. The ALJ determined that there was a violation of section 337 in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor, on the basis of findings of (1) contributory infringement as to the coupling device of the '188 patent; (2) induced infringement as to the flexible drill shaft and the coupling device of the '188 and '549 patents; (3) the existence and infringement of a common law trademark; (4) passing off; and (5) false advertising. Complainant filed a petition for review. No other petitions for review or agency comments were received.

In February of 1985, the Commission determined to review certain issues raised by the ID, viz., direct infringement of '188 and '549 patents, contributory infringement of the '188 and '549 patents, and the existence and infringement of a common law trademark.

A notice requesting written comments on those issues and on the issues of remedy, the public interest, and bonding was published in the Federal Register on February 13, 1985 (50 Fed. Reg. 6072). The Commission received submissions from complainant SMI and the Commission investigative attorney. No other submissions or agency comments were received.

Action

Having reviewed the record in this investigation, including the ID and the aforementioned written submissions, the Commission has determined to reverse the findings in the ID of no direct infringement of the '188 patent and no contributory infringement of the '188 and '549 patents. The Commission has also determined to reverse the finding that there is a common law trademark in the appearance of complainant's flexible drill bit. Specifically, the Commission finds that complainant has not established a prima facie case of the existence of a common law trademark in the grooves on the flexible drill bit.

The Commission has determined to issue a general exclusion order prohibiting importation of flexible drill shafts that infringe claim 1 of Scoggins Manufacturing, Inc.'s '188 patent, except under license from or permission of complainant SMI. The Commission has also determined to issue two cease and desist orders prohibiting respondents Emergency Products Corp. and Alarm Supply Co., Inc., from false advertising and passing off. The cease and desist orders also prohibit selling from inventory on the basis of contributory and induced infringement of the '549 patent. The Commission also has determined that the public interest factors enumerated in sections 337(d) and (f) (19 U.S.C. § 1337(d) and (f)) do not preclude issuance of the aforementioned orders and that the bond during the Presidential review period should be in the amount of 420 percent of the entered value of the imported articles.

Order

Accordingly, it is hereby ORDERED THAT--

1. Flexible drill shafts that infringe claim 1 of U.S. Letters Patent 3,697,188 are excluded from entry into the United States, except (1) as provided in paragraph 4 of this order or (2) under license from or with the permission of the patent owner;

2. Emergency Products Corp. cease and desist from false advertising, passing off, and contributing to or inducing the infringement of claim 1 of U.S. Letters Patent 3,611,549, as provided in the attached cease and desist order;

3. Alarm Supply Co. Inc. cease and desist from false advertising, passing off, and contributing to or inducing the infringement of claim 1 of U.S. Letters Patent 3,611,549, as provided in the attached cease and desist order;

4. The flexible drill shafts ordered to be excluded are entitled to entry into the United States under bond in the amount of 420 percent of the entered value of the subject articles, from the day after this order is received by the President pursuant to subsection (g) of section 337 of the Tariff Act of 1930, until such time as the President notifies the Commission that he approves or disapproves this action, but, in any event, no later than 60 days after the date of such receipt;

5. Notice of this Action and Order shall be published in the <u>Federal Register</u>;

6. A copy of this Action and Order and the Commission Opinion issued in connection therewith shall be served 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 Secretary of Treasury; and

7. The Commission may amend this Order in accordance with the procedure described in 19 C.F.R. § 211.57.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: June [illegible], 1985

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN APPARATUS FOR INSTALLING ELECTRICAL LINES AND COMPONENTS THEREFOR	Investigation No. 337-TA-196

COMMISSION OPINION

Introduction

On December 27, 1984, the presiding administrative law judge (ALJ) issued an ID (Order No. 5), finding two respondents, Emergency Products Corp. (EPC) and Alarm Supply Co., Inc. (ASC), in default and granting the motion of complainant Scoggins Manufacturing, Inc. (SMI) for summary determination of violation of section 337. 1/ The ALJ found violations of section 337 in the unauthorized importation and sale of certain apparatus for installing electrical lines and components therefor on the basis of induced infringement of U.S. Letters Patents Nos. 3,697,188 (the '188 patent) and 3,611,549 (the '549 patent), contributory infringement of the '188 patent solely by sales of the coupling device, infringement of complainant's alleged common law trademark, passing off, and false advertising. Complainant SMI subsequently filed a petition for review. No other petitions for review or agency comments were received.

1/ The ALJ found that respondent Ming Chang Carpenter Auger Bit Co., Ltd. (Ming Chang) was not in violation of section 337 because there was no evidence of imports by Ming Chang. Subsequently, SMI withdrew its complaint as to Ming Chang and Ming Chang was dismissed from this investigation. 50 Fed. Reg. 7970 (Feb. 27, 1985).

On February 5, 1985, the Commission determined to review the following issues raised by the ID:

> 1. Whether there is a violation of section 337 by reason of direct infringement of U.S. Letters Patent Nos. 3,697,188 and/or 3,611,549. In addition to the points raised in the petition for review, the Commission requests written submissions on whether in the absence of direct infringement, there can be contributory or induced infringement. The Commission also requests written submissions on the question of whether the drill apparatus is being imported separate and apart from the coupling device and, if so, what effect this fact should have on the Commission's determination regarding violation of section 337.
>
> 2. Whether there is contributory infringement of the flexible drill of U.S. Letters Patent 3,697,188.
>
> 3. Whether there is contributory infringement of the process patent, U.S. Letters Patent 3,611,549.
>
> On its own motion, the Commission has determined to review the issue of the existence and infringement of a common law trademark. The Commission will specifically examine whether in light of the recent decision of the Court of Appeals for the Federal Circuit in Textron, Inc. v. U.S. International Trade Commission, Appeal No. 84-1261 (January 24, 1985), complainant SMI has established prima facie evidence of secondary meaning of a common law trademark. If secondary meaning has not been established, the Commission wishes to be advised whether complainant desires a remand to the ALJ in order to submit further evidence on this issue.

The Commission decided not to review the ALJ's findings of induced infringement of the '188 and '549 patents, passing off, and false advertising, and requested submissions on remedy, the public interest, and bonding. Complainant and the Commission investigative attorney (IA) submitted written comments. No other comments were received.

After reviewing the ID and the written comments of complainant and the IA, we have determined to reverse the ALJ's findings of (1) no direct infringement of the '188 patent, (2) no contributory infringement of the '188 and '549 patents by the imported flexible drill shafts, and (3) the existence of a common law trademark. We have also determined to issue a general exclusion order and two cease and desist orders directed to respondents EPC and ASC, and to set a bond of 420 percent of the entered value of the articles concerned during the Presidential review period.

Background

On May 14, 1984, SMI filed a complaint alleging unfair methods of competition and unfair acts in the importation and sale of certain apparatus for installing electrical lines by reason of alleged: (1) direct, contributory, and induced infringement of the claims of the '188 and '549 patents; (2) infringement of complainant's common law trademark; and (3) false advertising. 2/ The complaint named as respondents (1) Canadian Flexi Drill (CFD) of Ontario, Canada, (2) EPC of New Jersey, and (3) ASC of Michigan. Subsequently, Ming Chang Carpenter Auger Bit Co., Ltd. of Taiwan (Ming Chang) was named as a respondent. Notice of the investigation was published in the Federal Register on June 20, 1984 (49 Fed. Reg. 25318).

On November 30, 1984, the ALJ issued an ID terminating respondent CFD on the basis of a consent order, and that ID was not reviewed by the Commission. On November 21, 1984, SMI filed a motion for summary determination on all issues in the investigation (Motion No. 196-5). The motion was supported in part by the IA. It was unopposed by respondents. In response, the ALJ issued the ID under review granting complainant's motion for summary determination of violation of section 337.

2/ The complaint also contained an unfair competition count which, after consultation with complainant, was included in the notice of investigation as "passing off."

Subsequently, on January 8, 1985, complainant SMI filed a motion (Motion No. 196-6) to withdraw its complaint as to respondent Ming Chang and on January 16, 1985, the ALJ issued an ID (Order No. 6) granting the motion and terminating the investigation. Upon review of the ID, the Commission determined to terminate respondent Ming Chang, but not the investigation.

Unfair Methods of Competition

I. Patent infringement

There are two patents at issue in this investigation. The '188 patent covers the apparatus for installing electrical lines, i.e., the flexible drill shaft and the coupling means. The '549 patent is a method patent covering the method by which the apparatus is used to drill holes in inaccessible locations.

A. The initial determination

The ALJ found that the two patents in controversy are valid and that complainant is practicing both patents. The patented invention is a long, straight, flexible spring shaft which is attached to the end of a drill. This long, flexible shaft allows one to drill holes in inaccessible locations. Once the drill shaft has reached an accessible opening, an electrical line is attached to the drill through a hole in the bit. This can be accomplished either by tying a pull line or the electrical line to the tip of the shaft or by means of a detachable coupling device (sometimes referred to as a "wire grip"). The ALJ found the coupling device to be a necessary element of both claims 1 and 2 of the '188 patent and a necessary element of claim 1 of the '549 patent. 3/

3/ ID at 9.

The ALJ found induced infringement and contributory infringement of the '188 and '549 patents with respect to sales of the coupling device, 4/ but no direct infringement because the inventor in an affidavit failed to conclude that respondents' drills required the use of a separate coupling device (which, as noted, the ALJ found to be a required element in the first two claims of the '188 patent and in the '549 patent) and because the several affidavits filed by complainant from wholesalers and consumers did not show that respondents' drills were sold with separate coupling devices. 5/ With respect to contributory infringement of the two patents at issue, the ALJ found such infringement only as to the coupling device, but not as to the flexible drill shaft because, in accordance with the '188 patent and the '549 patent, the drill shaft could be used without a coupling device and this was a "substantial noninfringing use" within the meaning of 35 U.S.C. § 271(c). 6/

B. Infringement of the '188 patent

Claims 1 and 2 of the '188 patent state:

> 1. Apparatus for facilitating drilling of holes in wooden structural members oftentimes located in inaccessible areas and for installing electrical conductor lines in such members; said apparatus comprising a drill including a relatively short helical drill bit having a tapered portion on its trailing end, and a spring steel readily flexible straight shaft of much greater length than and of smaller cross-section than said drill bit and having one end fixedly secured to the tapered end of said drill bit, and coupling means detachably connected to one end of said drill and adapted for connecting an electrical conductor line thereto to be pulled through the drilled holes upon passing the drill through the holes in a direction away from said coupling means.

4/ In its review brief, complainant SMI states that, contrary to the ALJ's finding, it does not assert infringement, contributory or otherwise, in respondents' sale of the coupling device alone. "To the best of complainant's knowledge, coupling devices are not imported . . . ." SMI Brief at 5.

5/ ID at 10.

6/ See discussion at pp. 7-8 of this opinion.

> 2. An apparatus according to claim 1, wherein said drill bit is provided with a transverse aperture therethrough adjacent its leading end, said coupling means comprising an attaching member extending through said aperture for attachment to said drill bit, a braided tubular member adapted for releasably and grippingly receiving an end portion of the electrical conductor line within one end thereof, and a swivel means interconnecting proximal ends of said members whereby said drill may be rotated relative to said braided tubular member without twisting an electrical conductor line grippingly received in the braided tubular member during rotation of the drill.

(Emphasis added.)

The ALJ determined that the coupling device was a required element in claim 1 because she construed the term "coupling means" in claim 1 to include only the coupling device. SMI argues that, contrary to the ALJ's finding, the coupling device is not a necessary element in claim 1 of the '188 patent because "a piece of ordinary wire or a pull line connecting the drill to an electrical line also would constitute coupling means." Therefore, SMI argues that sale of the flexible drill shaft alone is sufficient to prove direct infringement.

Although claim 1 does not limit "coupling means" to the specific coupling device, it does describe the "coupling means" as "detachably connected to one end of said drill and adapted for connecting an electrical conductor line . . . ." The specification of the '188 patent refers to only one "coupling means" that is detachable and adapted for connecting an electrical conductor line, i.e., the specific coupling device. Therefore, the ALJ is correct that the coupling device is a necessary element in the claims of the '188 patent.

More significantly, however, the ALJ stated in the ID that if there was evidence on the record showing that the drill shafts were sold with the wire grips, the imported drill shafts would directly infringe the '188 patent. 7/ Contrary to the ALJ's finding, there is evidence that the drill and coupling device (wire grip) have been sold together. As complainant notes in its petition for review and in its review brief, Emmett Riggs, the owner of Marketex Security, stated in paragraph 5 of his affidavit that he bought the drill shaft and the coupling devices (referred to as the small and large wire grips in the affidavit and respondents' promotional material) together from respondent ASC. Since the Riggs affidavit establishes that the drill shaft and the coupling means have been sold together, there is direct infringement.

With regard to induced infringement of the '188 patent, 35 U.S.C. § 271(b) states "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The ALJ found that respondents EPC and ASC had actively induced their customers to infringe the '188 patent by their sale and promotion of the "Snakebit" drill and by providing instructions for its use with the coupling device. The Commission determined not to review that issue.

With regard to contributory infringement of the '188 patent, 35 U.S.C. § 271(c) states:

> 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.

As complainant has noted and contrary to the ALJ's finding, the flexible drill shaft "necessarily is a material component, if not the material

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7/ The evidence on the record supporting the motion for summary determination were the answers of EPC and ASC to complainant's interrogatories and nine affidavits.

component, of the invention claimed in the '188 patent." Further, "[t]he flexible drill is not a staple article of commerce nor is there any suggestion that it has a non-infringing use." 8/ Use of the drill without the coupling means is not a "substantial" non-infringing use, especially when respondents' promotional material states that, to use the drill, a coupling means (wire grip) should be attached to the drill tip. 9/ We therefore determine that the ALJ's finding of no contributory infringement as to the drill shaft is clearly erroneous and must be reversed.

C. Infringement of the '549 patent

Claim 1 of the '549 patent states:

> 1. A method of installing a pliable line from an area outside of the confines of a hollow wall in and through the wall and at least one structural obstruction therein; said method comprising moving a drill having a springlike shaft with a drill bit secured to the leading end thereof through an access opening in one face of the wall while bowing the shaft to direct the drill bit along a path corresponding to the desired run of the pliable line, rotating the drill while applying a longitudinal force thereto to cause the drill bit to drill a hole through the structural wall obstruction in its path, ceasing rotation of the drill after the drill bit has reached an accessible area, connecting a pliable line to one end of the drill, and passing the drill through the drilled hole in a direction away from the pliable line to an area outside of the confines of the hollow wall to remove the drill from the wall while pulling the pliable line therewith to position a length of the pliable line extending through the hollow wall.

The '549 patent is a method patent covering the method by which the apparatus is used to drill holes in inaccessible locations. Because the '549 patent covers a method which is practiced by the ultimate consumer,

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8/ SMI Brief at 14.
9/ See SMI Exhibit 13.

complainant does not assert that any respondent wholesaler directly infringes the '549 patent. 10/ Direct infringement of the patented process, however, can be inferred by the sale of the flexible drill shafts and respondents' advertising which illustrates how to use the patented method. See Certain Personal Computers, Inv. No. 337-TA-140, 244 U.S.P.Q. 270 at 283 n.140. See also Shumaker v. Gem Mfg. Co., 311 F.2d 273 (7th Cir. 1962); Bergstrom v. Sears, Roebuck and Co., 496 F. Supp. 476, 493 (D. Minn. 1980); Spee-Flo Mfg. Corp. v. Gray Co., Inc., 255 F. Supp. 618, 620 (S.D. Tex. 1964), aff'd, Gray Co., Inc. v. Spee-Flo Mfg. Corp., 361 F.2d 489 (5th Cir. 1966).

In contrast to the situation with respect to the '188 patent, purchasers of the flexible drill shaft can infringe the '549 patent without using a coupling device because claim 1 of the '549 patent does not refer to "coupling means" as does the '188, patent, but instead to "connecting a pliable line to one end of the drill," including a pull line. The coupling device is not a necessary element in the '549 patent. The flexible drill shaft is also a material part of the patented process and not a staple article of commerce suitable for substantial noninfringing use.

10/ In its notice of review, the Commission requested briefing on the issue of whether in the absence of direct infringement there can be contributory or induced infringement. In response to this request, complainant has argued that as a matter of law there can be contributory or induced infringement, absent direct infringement, if direct infringement by consumers is legally cognizable under the patent law. Thus, in Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964), the Supreme Court determined that where consumers, i.e., purchasers, of replacement automobile convertible tops were not direct infringers because they had an implied license, the sellers of the convertible tops were not guilty of contributory or induced infringement. In this case, however, since direct infringement by consumers of the patented method for installing electrical lines is a legally cognizable wrong, the sellers of the apparatus for use in the patented process can be guilty of contributory or induced infringement. See Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972); Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176 (1980).

Thus, we determine that, contrary to the ALJ's findings, respondents' sales of the patented flexible drill shafts constitute contributory infringement of the '549 patent under 35 U.S.C. § 271(c).

II. Common law trademark infringement

We determined to review the issue of whether complainant has established secondary meaning (to prove the existence of a common law trademark) in light of the recent CAFC decision, Textron, Inc. v. U.S. International Trade Commission, 753 F.2d 1019 (1985). Both complainant and the IA argue that a *prima facie* showing of secondary meaning has been made.

In the ID the ALJ found that the grooves on the flexible drill bit are a common law trademark because the grooves are not functional and have acquired secondary meaning. The ALJ also determined that the imported products infringed complainant's common law trademark.

To establish secondary meaning, complainant SMI must establish that a substantial number of the buyer group associate the mark with a single source. 11/ The evidence supporting secondary meaning is that complainant has sold drills with grooves on the bits since 1979 and has had a significant sales volume. The product also has been advertised, but the ALJ found that "it is not clear how many advertisements showed the grooves on the bit." 12/ The primary evidence relied on by the ALJ to establish a *prima facie* case on secondary meaning is five affidavits. The ALJ concluded: "[T]here is information that the mark, although not distinctive (arbitrary or fanciful),

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11/ McCarthy, Trademarks and Unfair Competition at § 15:11.; see Restatement, Torts § 727, Comment C (1938); Aloe Creme Laboratories Inc. v. Milsan, Inc., 423 F.2d 845, 850 (5th Cir. 1970); Food Fair Stores, Inc. v. Lakeland Grocery Corp., 301 F.2d 156 (4th Cir. 1962). See also Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118 (1938).

12/ ID at 16.

has acquired a secondary meaning associated with complainant, at least among some of the purchasers of such a drill." 13/ The U.S. Court of Customs and Patent Appeals (one of the predecessor courts of the U.S. Court of Appeals for the Federal Circuit) (per Judge Rich), however, has held that adequate proof of secondary meaning means more than evidence of a "relatively small number of people" who associate the mark with one source. 14/

In the Textron case, the CAFC held that Textron had not established secondary meaning because, although it had conducted a survey (which was not conducted in this case), the survey did not establish that a substantial number of the survey respondents identified certain aspects of the vertical milling machine with a single source. 15/

In this case the relevant buyer group is composed of electricians who install electrical lines in buildings, including lines for telephone systems, burglary alarm systems, fire alarm systems, and related security alarm systems. Of the five affidavits submitted to establish secondary meaning, two are from the presidents of wholesale companies. One prominent authority has stated: "The conclusory testimony of dealers and wholesalers as to consumer recognition is often characterized as of 'little value,' since it may be biased and does not necessarily reflect the views of the consumer class." 16/

The other three affidavits are from an employee of a tool company, an expert in the security/alarm installation business, and an installer of alarm

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13/ ID at 17 (emphasis added).

14/ Roselux Chemical Co. v. Parson Ammonia Co., 299 F.2d 855, 862 (C.C.P.A. 1962); McCarthy, Trademarks and Unfair Competition at § 15:14.

15/ 753 F.2d at 1027.

16/ McCarthy, supra, at § 15:13; see Application of Meyer & Wenthe, Inc., 267 F.2d 945 (C.C.P.A. 1959); Gimix, Inc. v. JS & A Group, Inc., 699 F.2d 901 (7th Cir. 1983); Application of Duvernoy & Sons, Inc., 212 F.2d 202, 203 (C.C.P.A. 1954).

systems. Three affidavits from three possible members of two buyer subgroups do not establish a prima facie case that a substantial number of the buyer group associate the grooves on the drill bits with a single source. This is especially true where complainant has made well over 10,000 sales annually in the last three years.

With regard to advertising, the CAFC stated:

> Although Textron has pictured the silhouette of the Bridgeport machine in its operator's manuals and certain promotional activities, it has not proffered evidence showing that these promotions focused buyers' attentions on the shape of the machine or that the design of the column and ram was featured in any way. 17/

The only SMI advertising placed in evidence was a photocopy of one printed advertisement. That photocopy does not even picture the drill shaft. Thus, there is no evidence that there has been substantial advertising showing the grooves on the drill bit or that the advertising focused buyers' attention on the grooves on the flexible drill shaft. 18/

In the primary case relied on by SMI, In re Industrial Working Machine Corp., 201 U.S.P.Q. 953 (PTO TTAB 1979), 20 letters from consumers in the relevant buying group had been entered into evidence to prove that the word "INDUSTRIAL" had achieved secondary meaning. More significantly, however, the advertising had featured the word "INDUSTRIAL" in block letters and had placed the letters TM next to the "INDUSTRIAL" mark. In this case, there are only five affidavits, three of which are from the relevant consumer group, and no evidence that the advertising emphasizes the mark.

17/ 753 F.2d at 1027.

18/ The IA's argument that secondary meaning has been established is based on the five affidavits, not the advertising. The IA admits: "While the record contains evidence regarding advertising expenditures, there is no evidence in the record as to the manner and extent of advertising of the mark." IA Brief at 14.

In light of the above discussion, we have determined to reverse the ALJ and find that there is no common law trademark because complainant has failed to provide prima facie evidence of secondary meaning. 19/

Remedy

Complainant requests (1) the issuance of a general exclusion order prohibiting the importation of flexible drill shafts which contributorily infringe the '188 and/or the '549 patents and (2) the issuance of cease and desist orders against respondents EPC and ASC prohibiting them from directly infringing the '188 patent, inducing infringement of the '188 and/or '549 patents, false advertising, passing off, and common law trademark infringement. 20/

With regard to the general exclusion order, the criteria in Certain Airless Paint Spray Pumps and Components Thereof, Inv. No. 337-TA-90, USITC Pub. 1199 (1981), are met. A widespread pattern of unauthorized use and unauthorized importations from two foreign sources has been established. 21/ Further, although there is no evidence that respondent Ming Chang, a third foreign source, has exported the infringing drill to the United States, it has advertised the drills for sale in this country. More significantly, evidence has been established of business conditions from which one might reasonably infer that foreign manufacturers other than respondents may attempt

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19/ In response to the question of whether complainant desires a remand to prove secondary meaning, SMI stated: "Since any additional evidence on the existence of secondary meaning would be cumulative of the evidence already of record, complainant believes remand for the purpose of taking such additional evidence is unnecessary . . . ." SMI Brief at 32.

20/ The IA recommends a general exclusion order but not cease and desist orders.

21/ See SMI Brief at 33.

to enter the U.S. market with infringing articles. Scoggins exh. C, pp. 2, 4, 8-9, SMI exh. A (exh. 15-16) to Scoggins motion for summary determination. The cost of production of the flexible drill for foreign manufacturers is low. As SMI stated in its brief:

> Virtually any machine shop having a drill grinder and induction welding equipment can produce the product (Scoggins Affidavit, ¶ 46). The manufacturing cost is only about 10% of the sales price and raw material cost about 15%.

There is an established demand for the flexible drill shafts in the United States. As evidenced by the activities of respondents EPC and ASC, marketing and distribution networks are readily available for potential foreign manufacturers.

SMI, however, has asked for issuance of an exclusion order <u>and</u> cease and desist orders. The Commission has issued an exclusion order and cease and desist orders in <u>Certain Airtight Cast-Iron Stoves</u>, Inv. No. 337-TA-69, USITC Pub. 1126 (1981); <u>Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation</u>, Inv. No. 337-TA-99, USITC Pub. 1246 (1982); and <u>Certain Plastic Food Storage Containers</u>, Inv. No. 337-TA-152, USITC Pub. 1563 (1984). These were investigations where the Commission found more than one unfair act.

In this case, SMI requests a general exclusion order covering contributory infringement of the '188 and '549 patents and cease and desist orders issued to respondents EPC and ASC prohibiting direct infringement of the '188 patent, induced infringement of the '188 and '549 patents, false advertising, and passing off. SMI argues that the cease and desist orders should extend not only to unfair advertising, passing off, and induced infringement, but should also prohibit respondents EPC and ASC from selling any imported flexible drills in their inventory. SMI argues that, if respondents are allowed to "sell off" this inventory, it would cause lost sales to SMI of "about $62,000" at current retail prices.

The IA recommends that cease and desist orders should not be issued in this case because the record is devoid of any evidence that respondents imported infringing drill bits after institution of the investigation, and because the present inventory of imported drill bits is believed to be quite small. Based on answers to interrogatories, respondents EPC and ASC had 3,013 drill bits in inventory as of June, 1984. The IA goes on to state: "This figure is much less than what respondents used to purchase from complainant on a monthly basis (more than 3,000 per month from 1980 through 1983). 22/ Scoggins Exh. A. par. 37." The IA also based his recommendation on informal oral representations made by respondents. 23/

SMI replies that the 3,000 per month figure sold by complainant to respondents represented dollar sales, not unit sales. Using the IA's figure of $19.54 as the average price per drill bit, SMI states that the 3,013 units would represent gross sales of $58,874 and enough inventory to last well into 1986. Further, respondents have refused to provide current and precise information on their inventory and possible importations made during the course of this investigation. Finally, SMI argues that, since respondents EPC and ASC have defaulted, the burden of demonstrating the absence of such inventory and the cessation of importation rests on them.

We agree with SMI and find that there is evidence on the record that respondents have a substantial inventory of infringing drill shafts. Furthermore, the fact that respondents have defaulted and refused to provide

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22/ IA Brief on remedy, bonding, and the public interest at 3.
23/ Id.

any further evidence on their inventory should not prevent the issuance of cease and desist orders in this case.

On the basis of the evidence in the record, we have determined to issue a general exclusion order based on direct, contributory and induced infringement of the '188 patent, and cease and desist orders prohibiting respondents EPC and ASC from passing off and false advertising. 24/ The cease and desist orders also prohibit selling from inventory based on contributory and induced infringement of the '549 patent.

Public Interest

We have determined that an exclusion order and cease and desist orders described above will not have an adverse impact on the public interest. 25/ There are alternative ways of installing electrical lines, although perhaps less convenient, and complainant has sufficient production capacity to meet domestic demand for its product.

24/ Vice Chairman Liebeler notes that the use of cease and desist orders to prohibit a purely domestic activity raises important policy and jurisdictional issues. Under section 337, the Commission is charged with remedying "unfair acts in the importation of articles . . . or in their sale . . . ." Since the addition of the cease and desist order to its arsenal of remedies, the Commission has decided cases involving such unfair acts as false advertising and passing off, performed solely by a domestic importer. These unfair acts begin and end completely within the borders of the United States. The only connection to international trade is that the product is imported. Apparently there is no need that the unfair act be connected to the importation at all. It could follow from this false advertising or unfair competition by a foreign dealer in Detroit could be the subject of a section 337 investigation. The Commission may have concurrent jurisdiction with the Federal Trade Commission, federal district courts and state courts over unfair competition. On the other hand, it may be that the Commission should refuse to adjudicate such questions, either on policy or jurisdictional grounds. I reserve judgment on this matter and encourage parties to address this question in an appropriate future case.

25/ Section 337(d), 19 U.S.C. § 1337(d).

Bonding

We have determined to set a bond of 420 percent of the entered value of the imported articles in order to offset any competitive advantage arising from respondents' unfair method of competition. The figure is based on a comparison of the prices at which EPC and ASC obtained infringing products from Taiwan with Scoggins' wholesale prices.