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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of

**CERTAIN STRINGED MUSICAL
INSTRUMENTS AND COMPONENTS
THEREOF**

Investigation No. 337-TA-586

COMMISSION OPINION

On December 3, 2007, the presiding administrative law judge (“ALJ”) (Judge Bullock) issued a final initial determination (“final ID”) finding no violation of section 337 in the above-identified patent-based investigation. The patents at issue are directed toward stringed musical instruments designed for pitch tuning and harmonic tuning of stringed instruments (guitars). U.S. Patent No. 6,175,066 claims a stringed instrument (guitar) with strings that stretch between the neck (of the guitar) and the tailpiece/bridge, with a “fulcrum tremolo” mounted on the tailpiece/bridge to vary the tension and length of the strings between the critical attachment points on the neck and tailpiece/bridge. U.S. Patent No. 6,891,094 claims a similar apparatus which has a tuning adjustment device on the fulcrum tremolo for fine tuning. The ALJ did not reach the questions of infringement, validity, enforceability, standing, or the technical prong of domestic industry requirement,¹ but rather found no violation of section 337 of the Tariff Act of

¹ The Commission’s rules of practice and procedure provide that the initial determination of the ALJ shall include “...conclusions and the reasons or bases therefor necessary for the disposition of all material issues of fact, law, or discretion presented in the record....” 19 C.F.R. § 210.42(d). Thus, although the Commission may elect in a final determination of no violation not to take a position on other issues, *Beloit Corp. v. Valmet Oy*, 742F.2d 1421, 1423 (Fed. Cir. 1984), the Commission generally anticipates that the ALJs will adjudicate all issues presented in the record.

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1930 on the ground that the complainant's activities did not satisfy the economic prong of the domestic industry requirement. He also issued a recommended determination ("RD") on remedy and bonding.

Complainant Geoffrey McCabe ("McCabe") and the Commission investigative attorney ("IA") filed petitions for review of the ALJ's final ID. Upon consideration of the petitions and responses thereto, the Commission determined to review the subject ID in its entirety.

On review, the Commission has determined to terminate the investigation with a finding of no violation for failure to meet the domestic industry requirement of section 337(a)(2), (3).

The following opinion sets forth the reasons for the Commission's determination.

I. BACKGROUND

The Commission hereby adopts the administrative law judge's findings of fact set out in the final initial determination.

A. Procedural History

1. The Complaint and the Proceedings Before the ALJ

On November 3, 2006, the Commission instituted this investigation based upon a complaint filed October 3, 2006, and supplemented October 24, 2006, by Geoffrey McCabe (Los Angeles, California) ("McCabe"). 71 *Fed. Reg.* 64738 (Nov. 3, 2006). The complaint alleged violations of section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 ("section 337"), in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain stringed musical instruments and components thereof by reason of infringement of one or more of claims 1-6, 8, 9, and 11 of U.S. Patent No. 6,175,066 ("the '066 patent"); claims 1-6 of U.S. Patent No. 5,965,831; claims 1 and 14-22 of U.S. Patent

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No. 6,891,094 (“the ‘094 patent”); and claims 1-3, 6-10, 14, 15, 23, 27, 28, and 32 of U.S. Patent No. 5,986,191. The complaint named as respondents Floyd Rose Guitars (Redmond, Washington) (“Rose”), Ibanez, Inc. (Hoshino) US (Bensalem, Pennsylvania) (“Hoshino”), Vigier, Inc. (Grigny, France) (“Vigier”), and Schaller Electronic (Postbauer-Heng, Germany) (“Schaller”).

McCabe is both the inventor on the asserted patents and the complainant. Hoshino and Vigier have both settled with McCabe, and the investigation has been terminated with respect to these respondents. *See* Notice, June 6, 2007 and July 30, 2007. Both settlements involved license agreements. The only respondents remaining are Rose and Schaller. Rose and Schaller did not participate in the hearing and did not file post-hearing briefs. At the hearing, counsel for complainant represented that McCabe would only be asserting claims 8, 9, and 11 of the ‘066 patent and claims 1, and 14-22 of the ‘094 patent, but not the other patents asserted in the complaint. Tr. at 44-45.

2. The ALJ’s Final Initial Determination

On December 3, 2007, the administrative law judge (“ALJ”) issued a final initial determination (“ID”) finding no violation of section 337 for failure to meet the domestic industry requirement. The ALJ found that subject matter jurisdiction was established by the admission of Rose and Schaller that they imported the accused Speedloader products into the United States. ID at 7-8. The ALJ found personal jurisdiction was established by the respondents’ response to the complaint and participation in discovery and pre-hearing briefing. The ALJ denied McCabe’s motion to draw any adverse inferences against Rose under Commission Rule 210.17(d) for failure to appear at the hearing, stating that Rose had filed a pre-hearing brief, and

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that when Rose gave notice to the other parties that it would not participate in the hearing, McCabe had not objected at that time or made any representation that he would be prejudiced. ID at 4.²

On the merits, the ALJ found that the complainant had failed to show that his alleged research and development and licensing activities meet the economic prong of the domestic industry requirement as required by section 337(a)(2), (3)(C). The ALJ did not address the other issues raised in this case. With regard to research and development, the ALJ held that McCabe's \$8,500 expenditures on prototypes were significantly less than those of previous complainants for which the Commission found a domestic industry existed, and did not constitute a substantial investment. ID at 23-24. With regard to licensing, the ALJ held that the complainant must receive revenue from his licensing activities, ID at 11, and that even counting the licenses arising from settlement with two Commission respondents after the filing of the complaint (Hoshino and Vigier), McCabe's revenue was significantly less than the complainant in *Certain Digital Processors* who received "millions of dollars in royalties due to the successful licensing of its patent portfolio." ID at 24 (quoting *Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same* ("Certain Digital Processors"), Inv. No. 337-TA-559, Initial Determination at 94 (May 11, 2007)). The ALJ issued a recommended determination (RD) on remedy and bonding in the event that the Commission should find a violation, recommending a limited exclusion order, a cease and desist order against Rose, and a bond in the amount of \$3 per infringing article to permit temporary importation during the

² McCabe did not petition for review of the denial of his motion.

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Presidential review period.

3. Petitions for Review

McCabe and the Commission investigative attorney (“the IA”) filed petitions for review of the ALJ’s final ID. McCabe argued that the ALJ erred as a matter of law in comparing the investments made by McCabe to those of high technology companies, without considering the nature of the musical instrument marketplace. McCabe Petition for Review at 14-15. McCabe stated that the Commission has recently held that “there is no mathematical threshold test” for the economic prong of the domestic industry requirement, which is based instead on “an examination of the facts in each investigation, the articles of commerce, and the realities of the marketplace.” McCabe Petition for Review at 11-12 (citing *Certain Male Prophylactic Devices*, Inv. No. 337-TA-546, Commission Op. at 39 (June 22, 2007) (citing *Certain Double-Sided Floppy Disk Drives and Components Thereof* (TEO), Inv. No. 337-TA-215 (May 1986))).

McCabe pointed to the Commission’s statement that “small businesses in this country can become larger ones, and there is a public interest in protecting them against unfair theft of their property rights.” McCabe Petition for Review at 12 (citing *Certain Static Random Access Memories and Integrated Circuit Devices Containing Same, Processes for Making Same, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-325, Order No. 9 at 4 (May 14, 1991). He also referred to *Certain Audible Alarm Devices*, Inv. No. 337-TA-365, Initial Determination at 50 (Feb. 2, 1995), non-reviewed by Notice of Mar. 21, 1995 (“there is no requirement under Section 337 that an industry be a certain size”). In the context of licensing, McCabe explained that the unit price and sale volume of musical instruments is lower than that of the products at issue in *Digital Processors*, cited by the ALJ in the subject ID, making

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comparison to *Digital Processors* arbitrary and unfair. McCabe Petition for Review at 17 (discussing ID at 24). McCabe stated that the Commission has moved towards a simpler test to determine the existence of a domestic industry under section 337(a)(3)(C). McCabe Petition for Review at 13, 15 (citing *Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468, ID at 346 (Jan. 29, 2003)(noting that the Commission no longer compares what percent of an article is manufactured in the United States versus what percent of that article was manufactured abroad), as modified by Commission Notice (Mar. 17, 2003) (deciding not to review analysis in ID of section 337(a)(3)(C), but taking no position on analysis of section 337(a)(3)(A) and (B)).

McCabe argued that the licensing revenue he received from Hoshino and Vigier after the filing of the complaint should count toward satisfaction of the domestic industry requirement. McCabe Petition for Review at 13, 18 (citing *Certain Concealed Cabinet Hinges and Mounting Plates*, Inv. No. 337-TA-289, Commission Op. at 21 (Jan. 8, 1990) (declining to adopt the ALJ's finding that the date of the last supplement to the complaint was the critical date); *Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, Commission Op. at 15-18 (Nov. 1996) (Commission takes into account that complainant filed for bankruptcy after the filing of the complaint)).

The IA stated that there is no absolute threshold for "substantial investment" and agreed with McCabe that *Digital Processors* is the wrong benchmark because the musical instruments industry is a smaller industry than the parallel processing semiconductor industry. IA Petition for Review at 11. In addition, the IA pointed to McCabe's out of pocket costs, presentation of designs at trade shows, and incorporation of a now defunct company. *Id.* at 11-12.

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The IA agreed that McCabe's research and development activities and licensing activities should satisfy the economic prong of the domestic industry requirement under section 337(a)(3)(C). Moreover, the IA stated that the ALJ ignored McCabe's "sweat equity," pointing out that McCabe put in a substantial effort over many years to license his patents, noting his licensing to Hoshino and Vigier (which occurred after the filing of the complaint), and arguing that this activity meets the economic prong of the domestic industry requirement under section 337(a)(3)(C). IA Petition for Review at 11-14.

Rose responded that McCabe does not meet the criteria for the economic prong of domestic industry under research and development or licensing. Rose pointed to legislative history that the domestic industry requirement is supposed to serve a gatekeeping function. Rose Response at 4 (citing 132 Cong. Rec. H9965 (Oct. 14, 1996)). Rose stated that McCabe has never had facilities outside his personal residence, does not engage in the relied-on business full-time, and has no formal record keeping. *Id.* at 6. Rose stated that the ALJ was correct in finding that McCabe's research and development total \$8,500 rather than \$12,500, and that over 17 years this would amount to \$500 a year, which Rose argued is a *de minimis* investment and not the substantial exploitation of intellectual property required by section 337(a)(3)(C). *Id.* at 6-7. With respect to licensing, Rose argued that McCabe's activities are not substantial, that the license agreements agreed to as part of the settlement with various respondents did not include U.S. Patent No. 6,891,094, and that, in any case, it would be against public policy to allow complainants to meet the domestic industry requirement after the fact as a result of settlements by respondents who would otherwise be immune from suit from a complainant who did not meet the domestic industry requirement before settlement.

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4. Commission Review

On December 21, 2007, the Commission issued a notice extending the deadline for determining whether to review the subject ID by fifteen (15) days until February 1, 2008. On February 1, 2008, the Commission issued a notice extending the deadline for determining whether to review the ID to February 8, 2008, and extending the target date for completion of the investigation to April 10, 2008.

On February 7, 2008, the Commission determined to review the subject ID in its entirety, and issued a notice requesting briefing on the issues on review, including the following three groups of questions:

- (1) What type and level of research and development is necessary to satisfy the economic prong of the domestic industry requirement under section 337(a)(3)(C)? Should it differ depending upon the size of the relevant marketplace or whether the patent holder is an individual versus some other entity? What is the appropriate industry market in which we should examine the economic prong of the domestic industry requirement: the market for certain guitars, all guitars, certain musical instruments, or all musical instruments or some other industry market? How do these criteria apply in this case? How is your argument supported by the record in this case? Does research and development prior to the issuance of a patent count towards the domestic industry requirement?
- (2) What type and level of licensing activity is necessary to satisfy the economic prong of the domestic industry requirement under section 337(a)(3)(C)? Is the relevant time period for licensing activity before or after the filing of the complaint, or both? How do these criteria apply in this case? How is your argument supported by the record in this case? For the purposes of this question, consider whether licensing negotiations would qualify if they did not result in an actual license during a relevant period of time.
- (3) Is the relevant industry in this case “in the process of being established” pursuant to section 337(a)(2)? Was this issue properly raised before the ALJ and in the petitions for review? How is your argument supported by the record in this case? How do the criteria for an industry in the process of being established differ from the criteria for an industry that already exists?

McCabe, Rose, and the IA submitted responses to the questions on review, and replies thereto.

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On April 10, 2008, the Commission issued a notice extending the target date to April 24, 2008.

B. The Complainant's Domestic Activities

1. Alleged Research and Development Activities

In 1988, McCabe had a prototype of his fulcrum tremolo tuning device manufactured at a cost of \$3,500. ID at 13. Then in 1990, McCabe had a second prototype developed at a cost of \$4,000. In 1998, McCabe developed a third prototype that could be used on a Fender Stratocaster style guitar. ID at 13. In 2000, McCabe developed a fourth prototype, and between 2002 and 2003 developed a fifth prototype as part of a collaboration with Sonic Sales. ID at 14.

2. Alleged Licensing Activities

McCabe attended the National Association of Music Merchants ("NAMM") shows and entered into talks with potential manufacturers. Drawings of McCabe's design were included in Kahler International Inc.'s catalog at the 2006 NAMM show which were compatible with the Fender standard. ID at 14-15.

McCabe did not consummate any licenses before the filing of the complaint. However, he negotiated with several companies, as discussed below. After the filing of the complaint, he did settle with and enter into licenses with Hoshino and Vigier. ID at 18-19.

McCabe asserts that in 2001 he received a licensing offer from Seymour Duncan Company. ID at 15. He states that the deal fell through because of a deteriorating business relationship. ID at 16. The ALJ found that McCabe did not receive an offer to license his product but rather that Seymour Duncan was assisting McCabe in licensing Rose's patent. ID at 23.

McCabe also asserts that he received a licensing offer from Kahler. This deal fell through

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due to concerns on Kahler's part. ID at 16. The ALJ found no evidence that there was an agreement between these parties at any time. ID at 23.

In 2002-2003, Sonic Sales and Jack Westheimer expressed interest in licensing and manufacturing McCabe's design. The companies decided not to manufacture McCabe's guitars for fear of infringing Rose's "Speedloader" patent. ID at 16-17. McCabe entered into talks with Rose at this time, including licensing discussions. McCabe also discussed licensing with respondent Hoshino, and after this investigation commenced, licensed respondents Hoshino and Vigier.

Later, Kahler again considered licensing from McCabe but told McCabe that he must eliminate the possibility that Rose might sue a manufacturer on the basis of its Speedloader patent. ID at 18.

C. The Patented Instruments

The invention relates to improved stringed instruments (guitars) which contain components which allow a musician to optimally tune the strings. Generally, when a musician tunes a stringed instrument, he or she turns a peg which tightens the strings. This not only increases the tension of the strings, but also changes the length of the strings. This is a problem because the pitch of the string depends on the tension but the harmonic properties depend on the length. '094 patent, col. 1, lines 50-60. Thus, the usual method of pitch tuning may affect the harmonic tuning of the instrument. The present invention allows the musician to do both pitch tuning and harmonic tuning without one disturbing the other.

U.S. Patent No. 6,175,066 (the '066 patent) issued on January 16, 2001. JX-1. The patent issued from an application no. 08/027,729, filed January 14, 1993, which was a divisional

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of application no. 07/607,458, filed October 31, 1990 (issued as non-asserted U.S. Patent No. 5,198,601). The '066 patent features a "fulcrum tremolo" which sits between the strings' critical attachment points on the neck and the tailpiece/bridge and allows the musician to adjust the length and tension of the strings. Claims 8, 9, and 11 are asserted. Independent claim 8 recites:

8. A stringed musical instrument comprising an elongated neck and a body attached to one end of said neck, a bridge-tailpiece assembly mounted on said body, a plurality of elongated strings, means on said neck for supporting and forming a first critical point for each of said strings, said bridge-tailpiece having a plurality of bridge elements, said plurality of bridge elements each having a surface forming a second critical point for each of said strings, said bridge-tailpiece assembly comprising a fulcrum tremolo having a fulcrum axis, said bridge elements being pivotably displaceable by an essentially constant radius about said fulcrum axis, wherein at least one of said bridge elements has an enlarged curved surface and said enlarged curved surface extending generally in the direction of said strings, said second critical point travels a critical distance along the surface of said enlarged curved surface and displaces the second critical point from said essentially constant radius during the pivoting of said fulcrum tremolo about said fulcrum axis.

U.S. Patent No. 6,891,094 (the '094 patent) issued on May 10, 2005. JX-3. The patent is a continuation of application no. 08/027,729, filed January 14, 1993 (issued as the '066 patent), which itself is a divisional of the application that issued as non-asserted U.S. Patent No. 5,198,601. *Id.* The '094 patent teaches a fulcrum tremolo with a tuning adjustment device for fine tuning. Claims 1, and 14-22 are asserted. Independent claim 1 recites:

1. A stringed musical instrument comprising: a body, a neck extending outwardly from said body, a head located opposite said body on said neck, at least one string extending from said body to said head, said at least one string having a first end and a second end, a first mechanism on said head for supporting and forming a first critical point for said at least one string, a second mechanism on said body for supporting and forming a second critical point for said at least one string, said first end secured to said head and said second end secured to said body, and a tuning adjustment device comprising: a first portion to tension said at least one string to playing pitch from an untensioned condition to at least one pitch tuning quickly, and a second portion to further tension said at least one string at playing pitch,

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wherein said second portion is in close proximity to said first portion, wherein said tuning adjustment device is located on said body, and said tuning adjustment device further comprising: at least one anchor connected with said second end, and at least one third portion for pivoting said at least one anchor about an axis that is transverse to the axis of said at least one string in a first direction to tension said at least one string to said at least one pitch tuning.

II. ANALYSIS

A. Standard of Review

Under the Administrative Procedure Act, upon review of the initial determination of the ALJ, “the agency has all of the powers which it would have in making the initial decision except as it may limit the issues on notice or by rule.” 5 U.S.C. § 557(b) (*quoted in Certain Acid-Washed Garments and Accessories*, Inv. No. 337-TA-324 (U.S.I.T.C. Aug. 6, 1992)); 19 C.F.R. § 210.45(c). In other words, once the Commission decides to review the decision of the ALJ, the Commission may conduct a review of the findings of fact and conclusions of law presented by the record under a *de novo* standard.

B. The Domestic Industry Requirement

1. *Section 337(a)(2) and (a)(3)*

The domestic industry requirement of section 337 is set out at section 337(a)(2) and (a)(3).

Section 337(a)(2) provides:

(2) Subparagraphs (B), (C), (D), and (E) of paragraph (1) apply only if an industry in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work, or design concerned, exists or is in the process of being established.

Section 337(a)(3) provides:

(3) [A]n industry in the United States shall be considered to exist if there is in

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the United States, with respect to articles protected by the patent . . . concerned

—

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) substantial investment in its exploitation, including engineering, research and development, or licensing.

The Commission has divided the domestic industry requirement into an economic prong (which requires certain activities) and a technical prong (which requires that these activities relate to the intellectual property being protected), such that an industry must exist or be in the process of being established. Section 337(a)(2), (a)(3); *see, e.g., Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376 (“Wind Turbines”), USITC Pub. 3003 (Nov. 1996), Comm’n Op. at 14-17. Under the definitions of section 337(a), an industry exists if there is “significant investment in plant and equipment,” “significant employment of labor or capital,” or “substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing.” Section 337(a)(3)(A),(B),(C). An industry is “in the process of being established” if the patent owner “can demonstrate that he is taking the necessary tangible steps to establish such an industry in the United States,” S. Rep. 100-71 at 130, and there is a “significant likelihood that the industry requirement will be satisfied in the future.” H. Rep. 100-40 at 157.

With respect to section 337(a)(3)(A) and (B), the technical prong is the requirement that the investments in plant or equipment and employment in labor or capital are actually related to “articles protected by” the intellectual property right which forms the basis of the complaint.

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Section 337(a)(3); *see Wind Turbines* at 14-17. With respect to section 337(a)(3)(C), the technical prong is the requirement that the activities of engineering, research and development, and licensing are actually related to the asserted intellectual property right.

Section 337(a)(2) and (a)(3) were added to section 337 in the Omnibus Trade and Competitiveness Act of 1988, 102 Stat. 1107, Pub. L. 100-418 (August 23, 1988) (“OTCA”).³ Here, complainant McCabe relies on section 337(a)(3)(C), specifically its provisions relating to research and development and licensing. He also relies on that part of section 337(a)(2) which refers to an industry “in the process of being established.”

Whether an investment in domestic industry is “substantial” is a fact-dependent inquiry for which the complainant bears the burden of proof.

2. The Legislative History

The legislative history of section 337(a)(3)(C) states that:

an industry exists in the United States with respect to a particular article involving an intellectual property right if there is, in the United States,--

1. significant investment in plant and equipment;
2. significant employment of labor or capital; or
3. substantial investment in the exploitation of the intellectual property right including engineering, research and development or licensing.

The first two factors in this definition have been relied on in some Commission decisions finding that an industry does exist in the United States. The third factor, however, goes beyond ITC’s recent decisions in this area. The definition does not require actual production of the article in the United States if it can be demonstrated that significant investment and activities of the type enumerated are taking place in the United States. Marketing and sales in the

³ The OTCA also eliminated the requirement that a domestic industry be “economically and efficiently operated” as well as the requirement of proving injury to a domestic industry where unfair competition based on violation of federal statutory rights is alleged, *e.g.*, patent, trademark, and copyright infringement, as opposed to unfair competition based on violation of common law rights, *e.g.*, trade dress infringement.

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United States alone would not, however, be sufficient to meet this test. The definition could, however, encompass universities and other intellectual property owners who engage in extensive licensing of their rights to manufacturers.

H. Rep. 100-40 at 157 (1987). Legislative debates in the previous Congress also contain the following remarks by Representative Kastenmeier⁴:

For those who make substantial investments in research, there should be a remedy. For those who make substantial investments in the creation of intellectual property and then license creations, there should be a remedy. Let me give one example, there's a start-up biotech firm in my state. Its product is its patents. It hasn't reached the stage of manufacture. It doesn't have the money. But it will reach that point, by licensing its patents to others. Should we deny that firm the right to exclude the work of pirates? Our legislation would say no. A party could get relief if it has made significant investment in R & D, engineering, or licensing.

132 Cong. R. H1782 (Apr. 10, 1986).

The legislative process seems to have begun in response to the Commission's investigation in the *Gremlins* case, in which Warner Brothers alleged injury to its business in merchandise bearing registered Gremlins copyrights. *Certain Products with Gremlin Character Descriptions*, Inv. No. 337-TA-201. In the *Gremlins* case, the Commission, *inter alia*, reversed that part of the ALJ's final ID that Warner Brothers, Inc.'s licensing division constituted a domestic industry, because at that time licensing could not constitute a domestic industry. *See* Commission Opinion at 9-11.⁵ Warner Brother's licensing division, the Licensing Company of America, included market research, sales, sales promotion, graphics services, financial control,

⁴ Then-Chairman of the Subcommittee on Courts, Civil Liberties, and the Administration of Justice, House Committee on the Judiciary.

⁵ In the *Gremlins* case, there was a domestic industry based on domestic manufacture by Warner Brothers' licensees, but Warner Brothers could not meet the then-existing injury requirement. Commission Opinion at 11-21.

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and business affairs departments. Shortly after the *Gremlins* investigation, Representative Kastenmeier called for amendment to section 337 to “avoid unfortunate results which have occurred in some recent cases, such as *Gremlins*.” 132 Cong. R. H1782 (Apr. 10, 1986) (discussed in *Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-559, Initial Determination at 89 (May 11, 2007), *nonreviewed in relevant part* by Commission Notice (August 6, 2007)); *Trade Reform Legislation, Hearings Before the Subcommittee on Trade of the Committee on Ways and Means*, Part II., 99th Cong. 8 (1986) (testimony of Rep. Robert W. Kastenmeier, Chairman, Subcommittee on Courts, Civil Liberties and the Administration of Justice). The 1988 amendments to section 337 avoided such an outcome with respect to licensing by adding section 337(a)(3)(C), allowing licensing and other non-manufacturing activities, such as research and development, to qualify as a domestic industry. The legislative history of the OTCA also indicates that “[m]arketing and sales in the United States alone would not, however, be sufficient to meet this test.” S. Rep. 100-71 at 129 (1987).

As for the legislative history of section 337(a)(2), an industry would be considered “in the process of being established” if the patent owner “can demonstrate that he is taking the necessary tangible steps to establish such an industry in the United States.” S. Rep. 100-71 at 130. “The owner of the intellectual property right must be actively engaged in steps leading to the exploitation of the intellectual property, including application engineering, design work, or other such activities. The Commission should determine whether the steps being taken indicate a significant likelihood that the industry requirement will be satisfied in the future.” H. Rep. 100-40 at 157. Moreover, “the mere ownership of a patent or other form of intellectual property

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rights would not be sufficient to satisfy this test.” S. Rep. 100-71 at 129.

**C. WHETHER A DOMESTIC INDUSTRY EXISTS ON THE BASIS OF
SUBSTANTIAL INVESTMENT IN THE EXPLOITATION OF THE
PATENT THROUGH RESEARCH AND DEVELOPMENT OR
LICENSING**

1. Submissions of the Parties Regarding Section 337(a)(3)(C)

In responding to the Commission’s notice of review, McCabe states that section 337(a)(3)(C) covers “activities genuinely designed to exploit their intellectual property” as opposed to those merely standing on ownership of a U.S. patent. McCabe Submission at 18 (citing S. Rep. 100-71 at 130 (1987)). McCabe elaborates that qualifying non-manufacturing activities include initial research and development, engineering, initial designs, creating a prototype, testing, final design, marketing, distribution, sales, and licensing. McCabe Submission at 18-19 (citing *Certain Dynamic Random Access Memories, Components Thereof, and Products Containing Same (“DRAMs”)*, Inv. No. 337-TA-242, U.S.I.T.C. Pub. No. 2034 at 62 (“distribution, research, development, and sales”)). McCabe points to a determination that non-manufacturing activities may take the form of the development and marketing of articles practicing the patents. McCabe Submission at 19 (citing *Certain Microcomputer Memory Controllers*, Inv. No. 337-TA-331, Initial Determination (Order No. 6) at 6-7, 1992 WL 811299 (January 8, 1992), *unreviewed by Commission Notice*, 57 Fed. Reg. 5170 (February 12, 1992) (research leading to the issuance of a patent, developing, and marketing created genuine issue of material fact regarding existence of domestic industry). In *Diltiazem*, the Commission acknowledged research and development consisting of developing dosage units and seeking FDA approval, whereas in *Integrated Circuits*, the ALJ noted the collaboration between complainant’s

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engineers and prospective customers. McCabe Submission at 19 (citing *Certain Diltiazem Hydrochloride and Diltiazem Preparations*, Inv. No. 337-TA-349, USITC Pub. No. 2902, Initial Determination at 141-45 (June 1995), unreviewed by Commission Notice (March 30, 1995) and *Certain Integrated Circuits, Processes for Making Same, and Products Containing Same*, Inv. No. 337-TA-450, USITC Pub. No. 3624, Initial Determination at 153 (August 2003), unreviewed by Commission Notice (June 21, 2002)). McCabe states that “the level of research and development should differ depending on the “realities of the marketplace” which may differ among different industries. McCabe Submission at 19-20 (citing *Certain Male Prophylactic Devices*, Inv. No. 337-TA-546 (August 1, 2007) at 39). McCabe states that the relevant industry is the guitar hardware manufacturing industry, which uses simple metal parts and has a low cost for developing prototypes. McCabe Submission at 21. Moreover, McCabe argues that the Commission should give weight to the time and “sweat equity” of small business and individuals, because small businesses and individuals are more likely to invest their own time, use free resources, and work under strict budgetary restraints even within a given industry. McCabe Submission at 20-21. McCabe argues that research and development before the issuance of a patent should count towards the domestic industry requirement because a patent only issues after the patentee has already refined the invention to the point where the invention may be practiced without “undue experimentation.” McCabe Submission at 24 (referring to the standard for enablement understood by the courts to be required by 35 U.S.C. § 112).

McCabe argues that, as with research and development, one cannot compare licensing royalties across industries. McCabe Submission at 25-26. Moreover, McCabe states that licensing patents takes time to accomplish and that the amount of royalties earned will increase

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over time, and argues on this basis that it is not appropriate to create an “arbitrary” standard for the domestic industry requirement. McCabe Submission at 26. McCabe states that in cases where the Commission has relied solely on licensing activity to satisfy the domestic industry requirement, it has simply required that the licensing agreements have produced revenue. McCabe Submission at 26 (citing discussion of requirements in *Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-559, Initial Determination at 96 (May 11, 2007), *nonreviewed in relevant part* by Commission Notice (August 6, 2007)). However, McCabe argues based on the language of section 337(a)(3)(C) and its legislative history that licensing negotiations need not result in an actual license where part of the patentee’s activity is “designed to exploit their intellectual property.” McCabe Submission at 28 (quoting S. Rep. 100-71 at 130). McCabe states that while the Commission has often used the filing of the complaint as the cut-off point for satisfaction of the domestic industry requirement that it has used the end of the discovery period as the cut-off point. McCabe Submission at 26 (citing *Certain Concealed Cabinet Hinges*, 337-TA-289, Commission Opinion at 21). McCabe also argues that the relevant time for licensing activity is both before and after filing of the complaint, relying on *Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, at Commission Opinion at 22-26, for the proposition that the Commission may even take into account events occurring after the target date for whether domestic industry exists. McCabe Submission at 26. In that investigation, McCabe stated the Commission noted that the complainant continued to exploit the patents at issue.

Rose submits that the domestic industry requirement could differ depending on the

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relevant marketplace, but is not affected by whether the patent holder is an individual or a business entity. Rose Submission at 5. Rose agrees that investments in research and development may be made prior to the issuance of a patent. Rose Response at 5.

Rose cites legislative history for the proposition that licensing must be “extensive” and that “marketing and sales alone” are not sufficient. Rose Submission at 9 (citing 132 Cong. R. H9965). Rose states that the Federal Circuit has determined that the cut-off for determining the existence of an “industry” entitled to protection under section 337 is “the date on which the complaint was filed rather than the date on which the Commission rendered its determination.” Rose Submission at 10 (citing *Bally/Midway Mfg. Co. v. USITC*, 714 F.2d 1117, 1121 (Fed. Cir. 1983)). Rose suggests that such a bright-line rule would prevent complainants who do not already have a legitimate domestic industry from using the Commission to create a domestic industry which would not otherwise exist, by extracting settlements from respondents after the filing of an (unworthy) complaint. Rose Submission at 10. With regard to these settlements from litigation, Rose notes that respondents may choose to take licenses because of a business decision that it is cheaper to settle than to defend infringement suits. Rose Submission at 13 (citing *EWP Corp. v. Reliance Universal, Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985)). Rose argues that the lowest level of licensing activity which the Commission has found substantial was in *Digital Satellite* in which there were four licenses (all executed before the filing of the complaint) and the complainant also had five employees employed in connection with a licensing system and incurred legal fees in litigation unconnected to the ITC complaint. Rose Submission at 11 (discussing *Certain Digital Satellite System Receivers and Components Thereof*, 337-TA-392, Initial Determination at 10-12, for which the Commission took no position on this issue by

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Commission Notice (December 4, 1997)).

The IA submits that it would be contrary to Commission precedent to attempt to quantify a baseline level of research and development that every complainant must meet regardless of the circumstances. IA Submission at 2-3 (citing *DRAMs* at 61-62; *Certain Double-Sided Floppy Disk Drives and Components Thereof* (temporary relief), Inv. No. 337-TA-215, 227 USPQ 982, 989 (USITC 1986) (Commission Opinion)). The IA states that research and development does not have to result in a completed product that is offered for sale in order to count towards the domestic industry requirement. IA Submission at 3 (citing *Certain Dynamic Sequential Gradient Compression Devices and Components Thereof*, Inv. No. 337-TA-335, Initial Determination at 64 (May 18, 1992) (temporary relief), *nonreviewed in relevant part* by Commission Notice (June 15, 1992)). Moreover, the IA agrees that past research and development may count towards the domestic industry requirement, even if performed before the issuance of the patent. IA Submission at 3-4 (citing *Certain Video Graphic Display Controllers and Products Containing Same*, Inv. No. 337-TA-412, Initial Determination at 12-13 (April 30, 1999), *nonreviewed in relevant part* by Commission Notice (July 19, 1999)); IA Submission at 5 (citing *Certain Battery-Powered Ride-On Toy Vehicles and Components Thereof*, Inv. No. 337-TA-314, Order No. 6 at 20, *unreviewed in relevant part* by Commission Notice (January 4, 1991); *Certain Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, Initial Determination at 85 (December 3, 1991) (research from 1976-1990 was considered in regarding a patent filed in 1973 and issued in 1977)).

The IA submits that activities may count towards the domestic industry requirement even if a complainant cannot reduce all of its domestic activities to dollar amounts. IA Submission at

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4 (citing *Male Prophylactic Devices* at 46 (“PTI is a small player in this market but its size relative to the dominant firms does not operate to preclude requested relief”); IA Reply Submission at 4 (citing *Certain Strip Lights*, Inv. No. 337-TA-287, Initial Determination at 30 (June 27, 1989, *nonreviewed in relevant part by* Commission Notice (August 17, 1989). The IA states that Rose may not make any comparison to *Certain Motor and Transmission Systems* because the Commission chose not to take a position on the issue of the economic prong of domestic industry in that case. IA Reply Submission at 3. The IA states that the examination of the “realities of the marketplace” as part of the domestic industry analysis should focus on “broad brush” factors. IA Submission at 6. The IA states that “there is no need to undergo the complex analysis of defining the relevant market for the domestic goods in question as may be required in analyzing an antitrust cause of action...or to assess the interchangeability or level of competition between or among certain types of guitars or other musical instruments.” IA Submission at 6.

The IA notes that the Commission has considered licenses concluded after the filing of the complaint in *Certain Strip Lights*, Inv. No. 337-TA-287, Initial Determination at 49 (June 27, 1989), *nonreviewed in relevant part by* Commission Notice (August 17, 1989) (one of the licenses was entered into after the filing of the complaint). The IA suggests that there are policy considerations that may favor so doing, *e.g.*, respondents may not take a license from a small business or individual unless and until the respondents believe that the small business or individual has the resources to bring suit; on this basis, the IA argues that the existence of a domestic industry should not depend on whether a respondent refuses to take a license before being sued. IA Submission at 7-8 (relying on *Certain Digital Processors and Digital Processing Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-559 at 96 (May

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11, 2007), *nonreviewed in relevant part* by Commission Notice (August 6, 2007) (licenses taken as part of settlement). The IA makes the statutory argument that “substantial investment in [the patent’s] exploitation, including...licensing” does not require that a license exist, and that investment expenditures themselves count towards satisfaction of the requirement. IA Submission at 8 (interpreting section 337(a)(3)(C)). However, the IA concedes that there has not yet been a case in which the Commission relied on licensing for satisfaction of the domestic industry requirement in which no license has been executed. IA Submission at 9.

2. Did McCabe Demonstrate Substantial Investment in the Exploitation of McCabe’s Patents Through Research and Development or Licensing?

McCabe argues that he has genuinely exploited his patents and completed all activities to ready the product for market. McCabe Submission at 23. He states he has completed all the necessary non-manufacturing steps for at least one product related to his patents. McCabe Submission at 25. McCabe contends that in addition to the five prototypes (which McCabe states he made for \$12,500),⁶ he also possesses drawings, schematics, data sheets, building diagrams, business plans, spread sheets, cost analysis, and a database of models, part numbers, and costs, raw type I and type II base plates with formal details, computer-generated three-dimensional diagrams, formalized drawings, and folder groupings. McCabe Submission at 22; McCabe Reply Submission at 5 (citing CX-23, -13, -7, -58, and -6).

McCabe argues that he has not only received revenue from his licensing agreements with Hoshino and Vigier (resulting from settlements of this investigation) but that he has also “shown

⁶As discussed above, the ALJ found the investment to have been \$8,500.

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activities designed to exploit his intellectual properties which led to these licensing agreements.”

McCabe Submission at 28 (relying on CX-3, -32,- 44,- 50,- 52,- 53, -54, -66, -97.) McCabe asserts that the settlement agreements with Hoshino and Vigier cover both the ‘066 and the ‘094 patent. McCabe Reply Submission at 7-8 (citing Orders No. 9 and 11).

Rose states that McCabe’s activities are *de minimis*, as he has never had employees, has no formal business plan, was unable to provide necessary assurances to prospective licensees, and has incurred no legal fees in connection with licensing prior to initiation of the complaint. Rose Submission at 11. Moreover, Rose argues that McCabe’s pre-complaint attempts to license are unrelated to the settlement agreements with Hoshino and Vigier, that McCabe admits that Hoshino and Vigier were previously uninterested in licensing, and that e-mails and meetings at trade shows should not qualify as investment in licensing. Rose Submission at 12. Rose argues that, because the [[

]], the licenses do not constitute exploitation of the asserted patent, and that, in any event, U.S. Patent No. 6,891,094 is not the subject of a license. Rose concludes that the fact of a license agreement itself cannot be considered in isolation from the activity which produced it.

Rose argues that the \$8,500 which McCabe invested in developing prototypes does not satisfy the domestic industry requirement, citing *Certain Motor and Transmission Systems and Devices Used Therein, and Products Containing Same*, Inv. No. 337-TA-561, where the Commission took no position on this issue. Rose Submission at 5-6. Rose states that McCabe had no formal record keeping,⁷ that none of McCabe’s schematics had been formalized, and that

⁷ McCabe and the IA note that Rose’s basis for this assertion was a confidential memorandum in support of summary determination by respondent Schaller which is not in evidence. McCabe Reply

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the \$8,500 investment in prototypes over 17 years amounts to \$500 per year. Rose Submission at 7. Rose argues that McCabe has failed to meet his burden of proof, as there is no record proof of the “sweat equity” which the IA alleges to exist and there is no proof that any “steadfast activities” would be a substantial investment in the relevant marketplace. Rose Submission at 8. Rose submits that these activities are consistent with the desires of patent holders to develop successful businesses but that McCabe’s activity is *de minimis*. Rose Submission at 9.

The IA argues that McCabe’s prototypes constitute a domestic industry, especially given his size in the market and the unquantified effort which McCabe has contributed to his work but which is not included in the \$8,500 value of the prototypes. IA Submission at 4. The IA cites, *inter alia*, 1989 manufacturing/licensing discussions with Gary Kahler and Gibson Guitar Company, 1998 and 2000 discussions with the Seymour Duncan Company, and 2000 and 2004 discussions with Rose, RKS Guitars, and Hoshino, and the ultimate settlement licensing agreements with Hoshino and Vigier, and intervening discussions along the way. IA Submission at 10-17. The IA states that there is no evidence that the settlement agreements were some sort of sham or that the asserted products of the licensed parties are not covered by the asserted patents. IA Reply Submission at 6.

Discussion

McCabe relies on section 337(a)(3)(C). We emphasize that there is no minimum monetary expenditure that a complainant must demonstrate to qualify as a domestic industry under the “substantial investment” requirement of this section. We agree with the parties that the

Submission at 4; IA Reply Submission at 2.

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requirement for showing the existence of a domestic industry will depend on the industry in question, and the complainant's relative size. Moreover, we agree with the parties that there is no need to define or quantify the industry itself in absolute mathematical terms.

McCabe had five prototypes manufactured: (1) McCabe had a first prototype manufactured in 1988 for \$3,500, (2) a second prototype manufactured in 1990 for \$4,000, (3) a third prototype after the 1988 NAMM show, (4) a fourth prototype in 2002-2003 presented at the 2003 NAMM show, and (5) a fifth prototype presented at the 2005 NAMM show. ID at 13-14. McCabe argues that his total expenditures were \$12,500 and the ALJ found that the total expenditures were \$8,500.

McCabe refers to various other activities, *e.g.*, alleged "sweat equity." We acknowledge that McCabe has expended such non-monetary resources in addition to the above expenditures found by the ALJ. While we do not discount the concept of sweat equity, documentation thereof in this case lacked sufficient detail. A precise accounting is not necessary, as most people do not document their daily affairs in contemplation of possible litigation. Nevertheless, evidence or testimony would have to demonstrate a sufficiently focused and concentrated effort to lend support to a finding of a "substantial investment."

With respect to licensing, we do not find that McCabe's pre-complaint efforts to obtain licenses constitute a substantial investment. McCabe attended trade shows and engaged in discussions with various manufacturers. However, his only consummated licenses were acquired as the product of settlements with respondents to this investigation, after the filing of the complaint. While a consummated license achieved prior to filing a complaint is not a prerequisite for us to give weight to pre-complaint efforts to license a patent, the absence of any actual

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licenses prior to a complaint is a factor we consider. Moreover, we find that McCabe's unsuccessful pre-complaint licensing activities in this instance were not substantial under the evidence before us.

The legislative history of the current domestic industry requirement sets forth the examples of bio-tech startups, universities, and the *Gremlins* investigation which provide guidance as to when a domestic industry in research and development, licensing, or both might exist. Even taking into account that McCabe is an individual and that the market for guitar parts, however defined, is relatively small, we determine that McCabe has failed to provide the Commission with sufficient evidence that his efforts fall within the ambit prescribed in the legislative history. In sum, before he filed his complaint, McCabe's efforts were directed mainly at developing prototypes and, unsuccessfully, at finding a firm that would license or begin to make his product. We are mindful that access to section 337 should not be foreclosed to individual inventors simply because their operations or activities are not on the scale of many corporations or universities. Nevertheless, we find that McCabe has not provided sufficient evidence of substantial investment of the type described in section 337(a)(3)(C) to show that an industry in the United States exists.

D. IS THERE A DOMESTIC INDUSTRY “IN THE PROCESS OF BEING ESTABLISHED”?

McCabe asserts that there is an existing domestic industry for the asserted patents, but that in the alternative there is at least a domestic industry in the process of being established. McCabe Submission at 29. Both Rose and the IA argue that the issue of whether a domestic industry is in the process of being established was waived.

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McCabe states that this issue was preserved because the relevant evidence was presented to the ALJ, and the issue was included in the discussion of applicable law in section III.D. of McCabe's post-hearing brief and the discussion of the relevant law of domestic industry in section IV of McCabe's petition for review of the subject ID. McCabe Submission at 30.

Rose states that the issue of whether domestic industry is in the process of being established was waived, as it did not surface at the hearing or in the petitions for review.⁸ Rose Submission at 15-16. In this connection, Rose contends that it did not have adequate notice of this issue or a full and fair opportunity to litigate this issue. Rose Submission at 16 (citing 19 C.F.R. § 210.36(d); *Trident Seafoods, Inc. v. NLRB*, 101 F.3d 111, 116 (D.C. Cir. 1996)).

Under the IA's understanding of the course of the investigation, the issue of whether domestic industry is in the process of being established has been waived, as it was not raised in the post-hearing briefs or the petitions for review. IA Submission at 17.

We agree with Rose and the IA that McCabe waived any argument that he has an industry in the process of being established. In his post-hearing brief and petition for review, McCabe merely mentions this provision in his discussion of the law, rather than making an argument that he satisfies this provision, and the issue was not discussed in the ID. See ALJ Order No. 10 at 29 ("The post-trial brief shall discuss the issues and evidence tried within the framework of the general issues determined by the Commission's Notice of Investigation, the general outline of the briefs as set forth in Appendix B, and those issues that are included in the pretrial brief and any permitted amendments thereto. All other issues shall be deemed waived."); 19 C.F.R. §

⁸We note that Rose did not attend the hearing or participate in post-hearing briefing.

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210.43(b)(2) (“Any issue not raised in a petition for review will be deemed to have been abandoned by the petitioning party and may be disregarded by the Commission in reviewing the initial determination (unless the Commission chooses to review the issue on its own initiative under § 210.44)”).

III. CONCLUSION

For the above reasons, the Commission determines that McCabe has failed to show that he meets the domestic industry requirement under the economic prong. The investigation is terminated with a finding of no violation of section 337.

By order of the Commission.



Marilyn R. Abbott
Secretary to the Commission

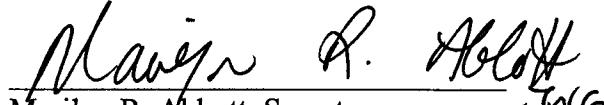
Issued: **MAY 16 2008**

**CERTAIN STRINGED MUSICAL INSTRUMENTS AND
COMPONENTS THEREOF**

337-TA-586

PUBLIC CERTIFICATE OF SERVICE

I, Marilyn R. Abbott, hereby certify that the attached **COMMISSION OPINION** has been served by hand upon the Commission Investigative Attorney, Rett Snotherly, Esq., and the following parties as indicated, on May 16, 2008.


Marilyn R. Abbott, Secretary
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

**ON BEHALF OF COMPLAINANT GEOFFREY
MCCABE:**

Robert M. Hansen, Esq. Via Hand Delivery
Stephen D. Huang, Esq. Via Overnight Mail
Reza Ghafoorian, Esq. Via First Class Mail
**HANSEN HUANG TECHNOLOGY LAW GROUP,
LLP**
1725 Eye Street, NW, Suite 300
Washington, DC 20006
P-202-465-3294
F-202-349-3915
 Other: _____

**ON BEHALF OF RESPONDENT SCHALLER
ELECTRONIC:**

Marina F. Cunningham, Esq. Via Hand Delivery
Wm. Tucker Griffith, Esq. Via Overnight Mail
Jeanne M. Tanner, Esq. Via First Class Mail
MCCORMICK, PAULDING & HUBER LLP
City Place II
185 Asylum Street
Hartford, CT 06103-3410
P-860-549-5290
 Other: _____

**ON BEHALF OF RESPONDENT FLOYD ROSE
MARKETING:**

Joseph S. Littenberg, Esq.
William L. Mentlik, Esq.
Roy H. Wepner, Esq.
**LERNER, DAVID, LITTENBERG,
KRUMHOLZ & MENTLIK, LLP**
600 South Avenue West
Westfield, NJ 07090
P-908-654-5000
F-908-654-7866

Via Hand Delivery
 Via Overnight Mail
 Via First Class Mail
 Other: _____

Sherry Robinson
LEXIS-NEXIS
8891 Gander Creek Drive
Miamiburg, OH 45342

Via Hand Delivery
 Via Overnight Mail
 Via First Class Mail
 Other: _____

Ronnita Green
West Group
901 Fifteenth Street, NW
Suite 230
Washington, DC 20005

Via Hand Delivery
 Via Overnight Mail
 Via First Class Mail
 Other: _____