MILLER CANFIELD

GLOBAL AUTOMOTIVE NEWSLETTER

The Law Firm for the Industry's **Next Generation Vehicles**

JUNE 2012

The International Trade Commission: A Powerful Alternative for Patent Holders

What does a patent holder do when component parts that infringe one or more of its patents are imported into the United States? Traditionally, the answer has been to send the manufacturer or importer a cease-and-desist letter and seek an injunction in court. Increasingly, however, patent holders have turned to the International Trade Commission (ITC) pursuant to section 337 of the Tariff Act as an alternative forum for broad and expedient relief.

SECTION 337 PROCEEDINGS AND REQUIREMENTS

Section 337 empowers the ITC to investigate and put a stop to unfair practices — most often infringement of intellectual property rights — with respect to imported products. The ITC's investigatory procedure is initiated when an aggrieved party files a proper complaint with the ITC, and is carried out through an administrative process outlined in section 337 and the ITC's regulations. A proper complaint in a patent case must allege and support four basic elements: (1) ownership of a valid and enforceable patent; (2) importation of articles; (3) that infringe one or more claims of the patent; and (4) the existence of an industry in the U.S. related to articles protected by the patent. With few exceptions, the ITC applies federal patent law and employs procedures similar to those in the Federal Rules of Civil Procedure.

To be clear, section 337 is a trade statute, not an international patent statute; hence, the necessity of showing an affected domestic industry. A domestic industry generally exists for purposes of section 337 if the patent holder has made a significant investment in plant and equipment, significant employment of labor or capital, or substantial investment in the exploitation of a patent, including engineering, research and development or licensing. In addition, section 337 requires that the domestic industry be related to the articles protected by the patent. To meet this requirement, the patent holder must actually practice its patent in the U.S.

BROAD AND SPEEDY RELIEF

One of the primary advantages of section 337 is the broad relief available. Though the ITC is not authorized to award money damages, it has the power to prevent the importation of infringing articles altogether through general or limited exclusionary orders.

A general exclusionary order excludes all imported articles of a certain type, regardless of manufacturer. In other words, the general exclusionary order prevents the importation of infringing goods from anywhere in the world whether or not the importers were parties to the ITC proceeding.

Given the harsh nature of general exclusionary orders, limited exclusionary orders are far more common. Limited exclusionary orders exclude article manufactured by named respondents. Normally, limited exclusionary orders cover more than just the specific model of article that was found to infringe. What is more, under certain circumstances, limited exclusionary orders may also bar the importation of "downstream products" that incorporate the infringing article.

The ITC may also issue cease-and-desist orders in addition to or in lieu of exclusionary orders. These orders typically direct persons in the U.S. to stop selling and return or destroy all infringing articles that are present in the U.S. The ITC's orders are generally enforced by U.S. Customs and Border Protection.

Another key advantage of section 337 proceedings is the speed with which relief can be obtained. The actual investigation begins when the ITC publishes a notice of investigation in the Federal Register. The ITC will make a decision on whether to institute an investigation within

30 days of receiving the complaint. Once an investigation is instituted, the ITC assigns an Administrative Law Judge (ALJ) to preside over the proceedings and to render an initial decision as to whether section 337 has been violated. The ALJ sets the discovery period, during which the parties may take depositions, issue interrogatories, exchange documents, and request admissions. The normal period for discovery is approximately five months. And ALJ's generally set a target date of 12 months for completion of the investigation and evidentiary hearing. After the hearing, the ITC has an opportunity to review the ALJ's determination and make a final determination. When all is said and done, the ITC usually issues a final determination within 14 to 16 months of publication in the Federal Register (compared to 30 or more months for federal court cases).

ADVANTAGES AND DISADVANTAGES

Aside from the speed of ITC proceedings and the broad relief available, there are other advantages to section 337 proceedings.

- Subject matter jurisdiction is based on the imported articles. So all of the accused parties must appear and defend in Washington, D.C., regardless of personal jurisdiction and where their facilities, products, personnel, or U.S. customers are located. This eliminates fights over venue and allows all necessary parties to be added to the proceeding.
- Discovery is efficient and broad. The ITC can issue subpoenas nationwide and has ability to force foreign discovery against parties.
- Parallel proceedings for money damages may be brought in federal court. These, however, are ordinarily stayed pending resolution of the ITC proceeding.

Yet as with all things, section 337 proceedings have their disadvantages.

- Section 337 complaints demand significantly more detail and supporting material than those in federal court, including claim charts showing infringement and evidence of a domestic industry. Consequently, preparing and filing a complaint before the ITC requires a substantial commitment of time and money.
- Money damages are not available, necessitating a parallel proceeding in federal court.
- As a trade statute, section 337 requires the ITC to consider the public interest when granting or denying relief. To this end, an ITC attorney is made a party to all ITC cases in order to represent the public interest.

IS THE ITC THE FORUM FOR YOU?

Clearly, section 337 provides a powerful alternative to federal court for patent holders trying to protect their intellectual property. In the end, deciding whether to seek relief in federal court or before the ITC requires careful consideration of the costs, benefits, and disadvantages of each forum, and should be discussed thoroughly with counsel. Contact us if you'd like to learn more.

■ **Michael C. Simoni** +1.313.496.7583

Internal Revenue Service Compliance Assurance Process

Last fall, the IRS made permanent a new process, the Compliance Assurance Process (CAP), to assure compliance with federal tax laws. It is an elective process. A taxpayer applies to the IRS for admission into CAP. If accepted, the taxpayer advises IRS agents during the taxable year of material transactions in which the taxpayer is engaging. Further, the taxpayer advises the IRS of the reporting positions for these transactions that the taxpayer intends to take when it files its tax return.

If the IRS agrees with the taxpayer's proposed reporting positions, or if the IRS and the taxpayer resolve differences

of opinion about the reporting positions, then the IRS will not audit the transactions in the tax return after it is filed. CAP thus is a real-time review of tax positions that a taxpayer proposes to take. CAP is an alternative to post-filing audits that the IRS conducts of tax returns after the end — sometimes long after the end — of the taxable year.

The objective of CAP is an agreement between the IRS and the taxpayer of intended return positions that the IRS deems worthy of review. If a CAP review is successful, it completely eliminates a need for a post-filing audit of a tax return. It also obviates the need for financial statement tax reserves and disclosures of uncertain tax positions for the obvious reason that CAP has resolved all the tax uncertainties before the taxpayer files its tax return. The essential element for CAP to work successfully is the taxpayer's disclosure of its transactions and candor concerning tax positions. Similarly, the IRS must be willing to work collaboratively with the taxpayer to resolve issues.

CAP is in stark contrast to the IRS's traditional post-filing audits of federal tax returns because CAP requires a taxpayer to volunteer disclosures of transactions to the IRS. Although volunteerism in the context of an interaction with the IRS might seem unusual to many taxpayers, currently mandated disclosures in tax returns substantially diminish any perceived advantage gained from a reactive approach in a post-filing audit.

CAP clearly is not for every taxpayer. Some taxpayers find that despite good intentions, some issues are so intractable that their resolution in CAP is unlikely. Also, some taxpayers want additional time following the filing of a tax return to analyze an issue so that they can formulate the optimal rationale to support a return position if challenged. The speed with which the IRS and a taxpayer have to deal with an issue during the taxable year in CAP deprives a taxpayer of this additional analytical time.

CAP currently has 160 participants, all of which are large corporations and many of which are automotive original equipment manufacturers and suppliers. Those who have participated find, for the most part, that the benefit of an early determination of federal tax liabilities outweighs the burden of a sometimes interminable dispute associated with traditional post-filing audits.

■ **Loren M. Opper** +1.313.496.7858

Seller's Guide for Environmental Due Diligence

As a follow-up to the article that appeared in our February 2012 Global Automotive Newsletter, "Purchaser's Guide for Conducting Environmental Due Diligence," this Seller's Guide will discuss several due diligence tips that will help a seller conduct environmental due diligence and negotiate environmental matters.

COMPILE AND REVIEW KEY ENVIRONMENTAL DOCUMENTS

Ideally, the seller should gather and review key environmental documents, such as:

» existing Phase I and Phase II Environmental Site Assessments (ESAs)

» environmental permits

» monitoring records

» regulatory records and reports

» description of response actions or remediation projects

» description of claims by any government authority or third party contingent liabilities

» the company's environmental reserves

before commencing the transaction and should review all environmental documents before providing them to a purchaser. Compiling and reviewing key environmental documents before beginning a transaction will allow the seller to:

- Provide a purchaser with the most relevant and up-to-date information about the environmental compliance of the company and environmental condition of each facility.
- Correct inaccurate information, update outdated information and reports, and close open issues such as violations and regulatory or third party audit findings; thereby increasing the efficiency of the transaction and reducing costs.
- Consider the allocation of environmental liabilities associated with previous transfers of the company. Assess whether past owners can still cover their responsibilities and costs related to environmental indemnities.
- Identify and quantify the environmental liabilities so negotiations do not get hung-up on minor issues.
- Understand its environmental liabilities and risks and consider available strategies to deal with these liabilities before entering into negotiations with a purchaser.

CONSIDER CONDUCTING ENVIRONMENTAL DUE DILIGENCE BEFORE COMMENCING THE TRANSACTION

In a corporate transaction where real property is involved, environmental due diligence may include a Phase I ESA. A Phase I ESA is an initial assessment of the property to identify environmental conditions that denote existing contamination or potential contamination. A Phase I ESA does not include soil or groundwater testing. If the Phase I ESA identifies environmental conditions at the property, then a Phase II ESA, including soil and groundwater testing may be appropriate. An environmental compliance audit is a review of the conditions and practices at the facility in light of applicable environmental laws and requirements.

There are several reasons for the seller to perform a Phase I and if necessary, a Phase II ESA and an environmental compliance audit prior to commencing the transaction.

- The seller may be able to address environmental conditions and/or environmental compliance issues thereby preserving the desired purchase price.
- The seller's ESAs and environmental compliance audit can provide clarity and certainty to a purchaser and purchaser's potential lenders regarding environmental compliance and the environmental condition of the company and each facility.
- The seller will be in a better position to draft indemnities, determine appropriate environmental escrow amounts, and negotiate the pricing for the transaction.
- With up-to-date information the seller will be better equipped to make accurate representations and warranties and in so doing can decrease the risk of a breach.
- The seller may be able to limit its liabilities related to environmental issues and benefit financially if it can quantify the environmental risks for the purchaser.
- The seller can conduct additional investigation, remediation, and if applicable, obtain closure or a "no further action" letter to make the purchaser comfortable with the transaction.
- The seller may be able to negotiate terms and conditions that will allow them to conduct remediation activities, which will enable the seller to control costs and limit extended liabilities.
- The seller can use the information to market the company by highlighting certain facilities or property that have already been determined by the seller to be eligible for federal or state Brownfield assistance. This type of assistance may require significant lead time and therefore may appeal to a purchaser who is looking for these incentives, but also wants to complete the transaction quickly.

Note that, if the seller completes ESAs and environmental compliance audits prior to commencing the transaction, the environmental consultant should be retained by an attorney in their rendering of legal advice so that the opinions and conclusions in the consultant's reports may be protected by the attorney-client and work product privileges.

NEGOTIATE A CONFIDENTIALITY AGREEMENT

A confidentiality agreement is an effective way for a seller to establish the scope, process, and limitations of the due diligence review before documents are exchanged and site visits are scheduled. A confidentiality agreement should:

- Protect the information provided by the seller to the purchaser and should also be agreed to by all of the purchaser's representatives and contractors, including environmental counsel and consultants.
- Discuss a process for the return or destruction of all due diligence documents and reports if the transaction is not completed.
- Establish the procedure for reporting adverse environmental conditions at the property and/or environmental compliance violations that are discovered during the due diligence review so as to best position the parties with respect to governmental disclosures.

DESIGNATE AN ENVIRONMENTAL INFORMATION MANAGER AND IDENTIFY KEY EMPLOYEES WITH ENVIRONMENTAL KNOWLEDGE

Select one employee who will be responsible for managing the environmental documents and information during the transaction. This person can be an executive, the corporate environmental health and safety manager, or another individual with sufficient knowledge of all of the company's environmental documents and requirements. The designated employee should have the following responsibilities during the transaction:

- Compile and review all environmental documents and information before providing it to the purchaser for review.
- Assess, quantify and report all environmental liabilities to executives and seller's counsel who are negotiating the transaction.
- Distribute environmental documents and respond to requests for information and questions from purchaser.
- Participate in conference calls both with company executives and seller's counsel regarding environmental issues and liabilities.
- Oversee all environmental due diligence performed by seller and attend site visits with purchaser's environmental representatives and counsel.
- Work with facility managers and key employees at each facility to obtain environmental documents and information.
- Notify facility managers and key employees regarding the transaction, confidentiality, time commitments and any other significant information.
- Identify key employees with environmental knowledge and information to insure their availability during purchaser's site visits and environmental reviews. Discuss the need for confidentiality and cooperation with the purchaser.

PREPARE TO TRANSFER ENVIRONMENTAL PERMITS

The seller should identify all environmental permits, determine if the permits are transferrable, and identify the requirements to transfer the permits to the purchaser.

- Review legal requirements to determine when environmental permits must be transferred (e.g., an asset sale usually requires the transfer of permits to the purchaser; whereas a stock sale may only require a notification letter to the applicable regulatory authority, or may require no action).
- Review legal requirements to determine if the permits are transferrable. In some cases the purchaser must obtain a new permit.

» Review legal requirements regarding the procedure to transfer environmental permits. The procedure to transfer environmental permits varies by jurisdiction and regulatory authority. Environmental permit transfers often require the seller to submit a written request to the applicable regulatory authority and a written acknowledgement by the purchaser. In addition, some environmental permits are transferrable, but only within certain time limits before or after closing (e.g., notice must be given to the regulatory authority 30 days prior to the transfer of the permit).

» If environmental permits are not transferred, the seller may remain liable for violations and environmental damages related to a permit.

NEGOTIATE A SITE ACCESS AGREEMENT

Once the purchaser has completed its initial document review and if the seller has not already performed ESAs and environmental compliance audits, then the purchaser may request that it be allowed to perform these reviews and a site visit will likely be necessary. In this case, the parties should negotiate a site access agreement.

» The site access agreement should establish the purchaser's reason for accessing the property and should inform the seller about the scope of work and the schedule for completing the work.

» The seller should require that the purchaser's consultant have adequate insurance to cover any mishaps during site access and should include related provisions in the access agreement.

» The site access agreement should require the purchaser to return the property and facility to the same condition that it was in before the purchaser's site visit.

» The site access agreement should make the purchaser responsible for locating all underground utilities.

CONSIDER HOW THE ENVIRONMENTAL DUE DILIGENCE CAN INFLUENCE THE TRANSACTION

The results of the environmental due diligence can influence the structure of the transaction (e.g., stock vs asset purchase).

» As previously mentioned, appropriate environmental due diligence will help a seller draft environmental indemnities and other key environmental provisions such as a termination clause in the event an adverse condition is discovered during the due diligence.

» The environmental due diligence can also help the seller decide if an environmental escrow should be established or if environmental insurance is necessary, and determine if further investigation or remediation is necessary.

» The results of the environmental due diligence may also cause the seller to terminate the transaction so that it can maintain control of the property and facility, if and until, all environmental issues are resolved.

» The results of the environmental due diligence can guide the seller regarding time limits for indemnification for environmental issues, clean-up standards, and limitations on future use to be included in the purchase agreement.

» The seller should consider how long it wants to continue to be responsible for environmental conditions. Does the seller want to be overseeing and conducting environmental remediation ten years after the transaction?

CONSIDER HOW THE REGULATORY AND COMPLIANCE INFORMATION SHOULD BE FACTORED INTO THE TRANSACTION

» Subject to federal and state audit policy requirements, if environmental violations are discovered during pre-acquisition due diligence, then the seller may have the opportunity to voluntarily report the violations and obtain a mitigated penalty and/or reduction of fines.

» Further, the environmental due diligence information can be used to assess Securities and Exchange Commission (SEC) disclosure obligations.

As we noted in our previous article, no two transactions are the same and the seller needs to understand its environmental liabilities and how those liabilities fit in with the seller's objectives and goals for the transaction. Using these tips will help the seller prepare for the environmental due diligence process in the transaction and conduct environmental due diligence that is appropriate to effectively negotiate environmental matters.

■ **Kelly M. Martorano** +1.248.267.3346
■ **Anna M. Maiuri** +1.248.267.3260