In the Matter of
CERTAIN INK CARTRIDGES AND COMPONENTS THEREOF

Investigation No. 337-TA-565
Consolidated Enforcement Proceeding and Enforcement Proceeding II

COMMISSION OPINION

On April 17, 2009, the ALJ issued an Enforcement Initial Determination ("EID") in the above-referenced investigation, finding violations of the Commission’s cease and desist orders and a consent order issued in the underlying investigation on violation, Certain Ink Cartridges and Components Thereof, Inv. No. 337-TA-565. He recommended that the Commission impose the maximum statutory penalty on three groups of respondents for the violations of a consent order and cease and desist orders.

On April 29, 2009, three of the seven respondents found in violation, Ninestar Technology Co., Ltd., Ninestar Technology Company, Ltd., and Town Sky Inc. (the “Ninestar Respondents”), filed a petition for review of the EID. On May 7, 2009, complainants Epson Portland, Inc. of Oregon, Epson America, Inc. of California, and Seiko Epson Corporation of Japan (collectively, “Epson”) and the Commission investigative attorney (“IA”) filed responses to the petition for review.

The Commission determined not to review the ALJ’s finding of violations of the cease and desist orders applicable to the Ninestar Respondents and Mipo America Ltd. and Mipo International, Ltd. (the “Mipo Respondents”) or of the consent order applicable to Ribbon Tree
USA, Inc. (dba Cana-Pacific Ribbons) and Apex Distributing Inc. (the “Apex Respondents”).

The Commission then requested a separate round of briefing on the question of whether to adopt the ALJ’s remedy recommendations. Epson, the Ninestar Respondents, and the IA submitted briefs on the remedy issue. After a thorough consideration of the record and briefs of the parties on the issues, the Commission has determined to adopt the ALJ’s analysis and recommendations on penalties with respect to the Mipo Respondents and Apex Respondents but has determined to impose a lesser penalty on the Ninestar Respondents.

I. BACKGROUND

A. History of the Original Investigation


1 The Commission received no public comments.
PUBLIC VERSION

7,011,397 ("the ‘397 patent"). The complaint further alleged that an industry in the United States exists as required by subsection (a)(2) of section 337. Epson requested that the Commission issue a general exclusion order and cease and desist orders. The Commission named as respondents 24 companies located in China, Germany, Hong Kong, Korea, and the United States, including the companies at issue in the enforcement proceedings: Ninestar Technology Company, Ltd. ("Ninestar US"); Town Sky Inc. ("Town Sky"); Ninestar Technology Co., Ltd. ("Ninestar China"); the Apex Respondents and Mipo Respondents. Several respondents were terminated from the investigation on the basis of settlement agreements or consent orders or were found in default.

On October 19, 2007, after review of the ALJ’s final ID, the Commission made its final determination in the investigation, finding a violation of section 337. The Commission issued a general exclusion order and a limited exclusion order. The Commission also issued cease and desist orders directed to several domestic respondents: Ninestar US, Town Sky, MMC Consumables, Inc., and Dataproducts USA, LLC. The Commission further determined that the public interest factors enumerated in 19 U.S.C. § 1337(d), (f), and (g) did not preclude issuance of the aforementioned remedial orders, and that the bond during the Presidential period of review would be $13.60 per cartridge for covered ink cartridges. The Ninestar Respondents and Dataproducts USA, LLC appealed the Commission’s final determination to the United States Court of Appeals for the Federal Circuit. On January, 13, 2009, the Court affirmed the Commission’s final determination without opinion pursuant to Fed. Cir. R. 36. Ninestar Technology Co. et al. v. International Trade Commission, Appeal No. 2008-1201. The United
States Supreme Court denied the appellants’ petition for certiorari on June 1, 2009.

B. Parties in the Enforcement Phase of the Investigation

Complainant Epson Portland Inc. is an Oregon corporation with its principal place of business in Hillsboro, Oregon. Epson Portland has the exclusive right in the United States to manufacture ink cartridges covered by the asserted patents. Complainant Epson America, Inc. is a California corporation with a principal place of business in Long Beach, California. Epson America has the exclusive right in the United States to market and sell ink cartridges covered by the asserted patents. Complainant Seiko Epson Corporation is a Japanese corporation with a principal place of business in Nagano-Ken, Japan. EID 12-13. Epson participated in the enforcement phase of the investigation.

The Ninestar Respondents also participated in the enforcement phase. Respondent Ninestar China is a Chinese corporation which designs and manufactures ink cartridges which are marketed in the United States by its subsidiaries. One of its subsidiaries, respondent Ninestar US, is an American corporation headquartered in the Los Angeles area. Respondent Ninestar US was established to sell products manufactured by Ninestar Technology in the United States. Respondent Town Sky is a subsidiary of Ninestar Technology and sells Ninestar Technology’s products in the United States. EID 13. It was undisputed that the inventory and product offerings of Ninestar US and Town Sky are limited to products sold by Ninestar China. EID 17.

As noted, four additional respondents, the Mipo Respondents and the Apex Respondents were found in default during the enforcement phase. Mipo International is a private limited company organized under the laws of Hong Kong. It is a manufacturer and seller for importation
of aftermarket ink cartridges, including ink cartridges for use with Epson printers. Mipo International is affiliated with Enforcement Respondent Mipo America. EID 28

Respondent Mipo America Ltd. ("Mipo America") is a corporation organized under the laws of the State of Florida with its principal place of business located in Miami. The ALJ found that Mipo America imports into the United States and sells after importation aftermarket ink cartridges manufactured by Mipo International, including ink cartridges for use with Epson printers. EID 28.

Respondent Apex Distributing, Inc. ("Apex") is a corporation previously organized under the laws of the State of Washington, which dissolved in April 2008, after Epson filed and served its complaint on Apex’s registered agent. The ALJ found that Apex is now located in Canada with operations in Florida, through which it imports and sells after importation into the United States ink cartridges including cartridges for use with Epson printers. EID 27.

Respondent Ribbon Tree USA (“Ribbon Tree”) is a corporation previously organized under the laws of the State of Washington, which dissolved in April 2008 after Epson filed and served its complaint on Ribbon Tree USA’s registered agent. Ribbon Tree continues to have a place of business in Canada. The ALJ found that Ribbon Tree is affiliated with respondent Apex and is in the business of selling ink cartridges imported for sale into the United States, including cartridges for use with Epson printers. EID 27.

C. Products at Issue

The enforcement proceeding concerns aftermarket replacement ink jet cartridges manufactured and/or sold by respondents for use in ink jet printers manufactured by Epson.
There are two types of ink cartridges at issue: (1) compatible ink cartridges and (2) remanufactured ink cartridges. Epson and the Ninestar Respondents defined “compatible” ink cartridges as new ink cartridges that are not manufactured by Epson but are manufactured for use with Epson inkjet printers. EID 32. “Remanufactured” ink cartridges, on the other hand, are genuine Epson ink cartridges (i.e., originally manufactured by Epson) that have been used and are then refilled with ink by a remanufacturer. EID 32. Remanufactured or refilled ink cartridges were not at issue in the original investigation. In order for remanufactured cartridges to be permissibly repaired and not infringing, they must have first been sold in the United States, the “first sale” requirement. EID 68.

D. History of Enforcement Proceedings

On February 8, 2008, Epson filed two complaints for enforcement of the Commission's orders pursuant to Commission rule 210.75. Epson proposed that the Commission name five firms as enforcement respondents. On May 1, 2008, the Commission determined that the criteria for institution of enforcement proceedings were satisfied and instituted consolidated enforcement proceedings, naming the Ninestar Respondents and the Mipo Respondents.

On March 18, 2008, Epson filed a third enforcement complaint against the Apex Respondents. On June 23, 2008, the Commission determined that the criteria for institution of enforcement proceedings were satisfied and instituted another formal enforcement proceeding, naming the two firms as the enforcement respondents. On September 18, 2008, the ALJ issued Order No. 37 consolidating the two proceedings.

On January 9, 2009, the ALJ issued an ID (Order No. 48) finding three respondents
(Mipo International Ltd., Ribbon Tree USA, Inc. (dba Cana-Pacific Ribbons) and Apex Distributing Inc.) in default pursuant to Commission rules 210.16 and 210.75 for failure to respond to the complaint and notice of investigation. EID 126. The Commission determined not to review the ID.

On January 13, 2009, the ALJ issued an ID (Order No. 51) finding Mipo America Ltd. in default pursuant to Commission rule 210.16(a)(2) for failure to cooperate in discovery. EID 126. The Commission determined not to review the ID.

The ALJ held an evidentiary hearing on January 14-16, 2009, in which Epson, the Ninestar Respondents and the IA participated.

On April 17, 2009, the ALJ issued an EID finding violations of certain cease and desist orders and a consent order issued during the underlying investigation. He also found the members of each of the three groups of respondents jointly and severally liable for the violations related to them. He recommended the maximum penalties under 19 U.S.C. § 1337(f): a penalty of $20,504,974 for the Ninestar Respondents, a $9,700,000 penalty for the Mipo Respondents, and a $700,000 penalty for the Apex Respondents. The Ninestar Respondents filed a petition for review which was opposed by Epson and the IA.

On June 19, 2009, the Commission determined not to review the ALJ’s findings of violation of the orders and the determination that the three groups of respondents should be jointly and severally liable for the violations. The Commission also determined not to review the ALJ’s determination that the Ninestar Respondents had not established defenses to their violations of the cease and desist orders. The Commission requested briefing concerning the
amount of the penalties that should be imposed for the violations and briefing was completed on July 13, 2009. Epson, the Ninestar Respondents and the IA all submitted briefs concerning the issue of civil penalties.

II. DISCUSSION

A. Violation of the Cease and Desist Orders and Consent Order

Epson’s complaints alleged violations of the cease and desist orders issued to Ninestar US, Town Sky, and Mipo America and a consent order issued to the two Apex Respondents. The cease and desist orders and consent order prohibit the sale or importation for sale of “covered products,” i.e. products that infringe the asserted claims. Because of the large number of claims asserted in the original investigation, Epson selected four of the 31 patent claims that were found valid and infringed in the violation phase and that are the subject of the cease and desist orders and the consent order. The four claims, claim 81 of the ’439 patent, claim 9 of the ’148 patent, claim 1 of the ’917 patent, and claim 1 of the ’053 patent. The cease and desist orders were not issued to Ribbon Tree USA, Inc. and Apex Distributing Inc. Instead, they agreed to the entry of a consent order during the course of the violation phase of the investigation. EID 29. The consent order includes all of the aforementioned claims.

2 The cease and desist orders issued to the Ninestar US and Town Sky define covered products as ink cartridges covered by claim 7 of the ’957 patent; claims 18, 81, 93, 149, and 164 of the ’439 patent; claims 83 and 84 of the ’377 patent; claims 19 and 20 of the ’148 patent; claim 1 of the ’401 patent; claims 1, 2, 3 and 9 of the ’917 patent; claims 1, 31 and 34 of the ’902 patent; claims 1, 10 and 14 of the ’422 patent; and claim 1 of the ’053 patent. The cease and desist order issued to Mipo America also includes claims 29, 31, 34 and 38 of the ’472 patent and claims 21, 45, 53, and 54 of the ’397 patent. Cease and desist orders were not issued to Ribbon Tree USA, Inc. and Apex Distributing Inc. Instead, they agreed to the entry of a consent order during the course of the violation phase of the investigation. EID 29. The consent order includes all of the aforementioned claims.

3 Each cease and desist order states that it “shall apply to Respondent and to any of its principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and majority-owned business entities, successors, and assigns, and to each of them, insofar as they are engaging in conduct prohibited by Section III, infra, for, with, or otherwise on behalf of Respondent.” The orders state that respondents, or other covered persons, may not: “(A) import or sell for importation into the United States
'917 patent, claim 1 of the '053 patent and claim 21 of the '397 patent (the “Enforcement Claims”) are also covered by the exclusion orders.

1. Ninestar Respondents

The ALJ found that the Ninestar Respondents stipulated that their compatible and remanufactured cartridges are covered by the Enforcement Claims. EID 38; Order No. 50. Order No. 50 identifies the specific Enforcement Claims infringed by specific models of the Ninestar Respondents’ compatible and remanufactured cartridges. EID 38. The ALJ also found that the Ninestar Respondents did not dispute importing and selling the accused products. However, he further noted that, although the Ninestar Respondents did not dispute the specifics of the sales and importations, they raised permissible repair and a due process argument as defenses. EID 105, 113, 121, n.26-29.

As to specific acts of violation, the ALJ found that the Ninestar Respondents did not dispute that Ninestar US imported covered products on 6 days on or between October 25, 2007

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covered products; (B) market, distribute, offer for sale, sell, or otherwise transfer (except for exportation), in the United States imported covered products; (C) advertise imported covered products; (D) solicit U.S. agents or distributors for imported covered products; or (E) aid or abet other entities in the importation, sale for importation, sale after importation, transfer, or distribution of covered products.”

4 The consent order states that “[r]espondents shall not sell for importation, import into the United States or sell in the United States after importation, or knowingly aid, abet, encourage, participate in, or induce the sale for importation, importation into the United States or sale in the United States after importation of ink cartridges that are the subject of this investigation or ink cartridges that infringe . . . .” The consent order also states that it is “applicable to and binding upon Respondents, their officers, directors, agents, servants, employees, and all persons, firms, or corporations acting or claiming to act on their behalf or under their direction or authority, or any of their affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns.”
and December 12, 2007. EID 121. The ALJ further found that Ninestar US sold covered products on 109 days on or between October 23, 2007 and May 5, 2008. EID 121. Similarly, he found undisputed that Town Sky imported covered products on 9 days on or between October 23, 2007 and May 5, 2008, and that Town Sky sold covered products on 78 days on or between October 23, 2007 through March 7, 2008. EID 121-122.

2. Mipo Respondents

The Mipo Respondents defaulted in the enforcement phase after responding to the complaint. EID 26, 30. The complaint against the Mipo Respondents alleged that the Mipo-brand cartridges that Epson obtained directly from Mipo America following the entry of the remedial orders infringe Epson’s patents in violation of the general exclusion order, limited exclusion order and the cease and desist order. Epson/Mipo Enforcement Complaint at 7-9.

The ALJ found that because the Mipo Respondents had been found in default, the allegations of the complaint, including the infringement allegations, were deemed admitted against them. EID 50. Moreover, the ALJ found undisputed that Epson established that the Mipo-brand compatible cartridges obtained by Epson’s investigator after the entry of the remedial orders are covered by at least enforcement claim 9 of the ‘917 patent.

Epson’s expert Murch also reviewed and analyzed the four Mipo compatible cartridges that complainants’ investigator Seitz purchased from Mipo America’s website, www.hqinkjets.com, following the entry of the remedial orders. Murch selected a cartridge, which he found to be representative of all four Mipo cartridges, and presented his infringement analysis during the evidentiary hearing with respect to this cartridge. EID 50. The ALJ found
that it met the preamble and limitations of enforcement claim 9 of the '917 patent literally. Because it was representative of the other three Mipo cartridges, the ALJ found that the infringement analysis presented by Murch was equally applicable to those cartridges. The ALJ further found that his independent analysis of the other three Mipo cartridges established that those cartridges are covered by enforcement claim 9 of the '917 patent. EID 50.

In addition, the ALJ found undisputed that documents from online retailer *** showed that Mipo America sold remanufactured cartridges after the date of the remedial orders. Because genuine Epson cartridges practice at least one Enforcement Claim, the ALJ found that a Mipo-brand remanufactured Epson cartridge must also infringe the same Enforcement Claim as the compatible cartridges. Accordingly, the ALJ found that the remanufactured cartridges sold and/or imported by the Mipo Respondents, through ***, also infringe at least one Enforcement Claim and are therefore covered products. The ALJ concluded that the evidence was unrebutted that the Mipo Respondents had imported covered products on two days, and had sold covered products on 95 separate days. EID 126

3. Apex Respondents

The Apex Respondents also defaulted in the enforcement phase. In the complaint against them, Epson alleged that original Epson remanufactured cartridges that Epson investigators obtained from the Apex Respondents are covered by the claims that are the subject of the consent order entered into by the Apex Respondents. EID 51. Epson further alleged that the remanufactured cartridges sold by the Apex Respondents were first sold abroad. The ALJ found that their default is sufficient to deem the allegations of the complaint, including the infringement
allegations, admitted. EID 51.

The ALJ also found that Epson established, and it was undisputed, that every remanufactured cartridge which Epson’s investigators obtained from the Apex Respondents after the entry of the remedial orders infringe all of the Enforcement Claims. He also noted that Epson uncovered, through third-party discovery, remanufactured cartridges that were sold and/or imported by the Apex Respondents and also form the basis of the violations of the remedial orders. EID 52. The ALJ concluded that the evidence was unrebutted that Apex and Ribbon Tree USA had sold covered cartridges on three separate days and imported covered cartridges on four separate days. EID 129

4. Analysis

The evidence was undisputed that the seven enforcement respondents violated the consent order and cease and desist orders. Although they were active in the enforcement proceedings, the Ninestar Respondents did not challenge any of the ALJ’s findings concerning their importation and sale of covered products. We determined not to review the ALJ’s conclusions with respect to the violations of the orders, and we hereby adopt his analysis and reasoning. Notice of Commission Determination Not to Review an Enforcement Initial Determination, 74 Fed. Reg. 30320 (June 25, 2009).

B. The Ninestar Respondents’ Defenses to Violation

As noted above, the Ninestar Respondents do not dispute that the accused products are covered by the Enforcement Claims. However, with respect to one of the two classes of products, the remanufactured cartridges, they raised non-infringement by reason of permissible
They also argued that they should not be held liable because the orders did not give them notice that remanufactured cartridges would be covered by the orders, and thus violated their Fifth Amendment right to due process.

1. Permissible Repair

The affirmative defense of permissible repair is related to the concept of patent exhaustion. An alleged infringer must prove two elements to establish a permissible repair defense: (1) that the repair did not amount to a reconstruction of the patented article; and (2) that the patented article underwent a patent-exhausting first sale in the United States. Fuji Photo Film Co. v. ITC, 474 F.3d 1281, 1293 (Fed. Cir. 2007); Jazz Photo Corp. v. ITC, 264 F.3d 1094, (Fed. Cir. 2001). Patent exhaustion, and permissible repair, must be proven on an article-by-article basis. Because permissible repair is an affirmative defense, the Ninestar Respondents shouldered the burden of proving permissible repair by a preponderance of the evidence for each cartridge they sold or imported in violation of the orders. Jazz Photo, 264 F.3d at 1102.

a. ALJ’s Determination

The ALJ found that the Ninestar Respondents waived their affirmative defense of permissible repair. EID 59. He noted that they did not raise it in their prehearing statement, in response to interrogatories, in their posthearing brief, reply brief, or at the hearing. Further, the ALJ found that the Ninestar Respondents did not dispute that they did not provide any evidence to support this affirmative defense at the evidentiary hearing. EID 59. He, therefore, found the defense waived. EID 59-60.

The ALJ also found that they had failed to establish the defense, to the extent they had
raised it. He found that the Ninestar Respondents failed to meet their burden of proving permissible repair by a preponderance of the evidence as they did not establish from whom or where the cartridges at issue had originated. Rather, he found that the record establishes that there was no way to tell whether the Ninestar Respondents’ cartridges were first sold in the United States, as required for the permissible repair defense. EID 60.

b. Analysis

We agree with the ALJ that the Ninestar Respondents waived the defense of permissible repair because they failed to raise it in their prehearing statement, response to the complainants’ interrogatories, posthearing brief or reply brief or at the hearing. See EID 59. Furthermore, we agree with the ALJ that, even if the defense had not been waived, the Ninestar Respondents nevertheless failed to meet their burden to show permissible repair by a preponderence of the evidence for each cartridge sold or imported in violation of the cease and desist orders based upon the reasoning set forth by the ALJ.

2. Fifth Amendment Argument

a. ALJ’s Determination

The ALJ rejected the Ninestar Respondents’ arguments that due process prohibits the imposition of penalties. He found that the remanufactured cartridges are essentially the same as the cartridges found to practice the claims in the original investigation for purposes of a domestic industry analysis, and thus, the Ninestar Respondents were on notice that the remedial orders did include refilled cartridges as excluded products, unless they were subject to a permissible repair defense. He indicated that no respondent should be surprised when a finding of a violation by
the ALJ results in an exclusion order prohibiting importation of “any ‘infringing’ products” as this is longstanding Commission practice. EID 46.

Moreover, the ALJ found that the actions of the Ninestar Respondents after issuance of the exclusion order demonstrate their awareness of this fact, as they attempted to identify which refilled cartridges were purchased in the United States and which were not. He noted that Mr. Lu, of Ninestar China, as early as Spring of 2007, admitted to understanding that whether a remanufactured Epson cartridge was first sold in the United States would in part determine whether it was covered by the remedial orders. He also pointed out that the Ninestar Respondents’ first purchases of empty Epson cartridges for refilling/remanufacturing were all from United States firms. EID 45-46.

The ALJ also rejected the Ninestar Respondents’ contention that the imposition of penalties under these circumstances inhibit legitimate “design-around” attempts, finding the argument misplaced as the Ninestar Respondents have not argued that any of the products at issue are “design around” products that do not infringe. Indeed, he noted that the Ninestar Respondents have admitted that all of their cartridges at issue, including their refilled cartridges, are literally covered by the claims. EID 48.

b. Ninestar Respondents’ Petition for Review and the Responses

The Ninestar Respondents claimed that the ALJ ignored their due process argument, arguing that he never addressed the issue of whether there was adequate notice concerning the refilled cartridges. Petition at 8. They contended that their argument concerning “design-arounds” is relevant here because the law is “murky” concerning the contours of the permissible
repair defense. \textit{Id.} at 9. They also cited district court cases that they argue suggest that the first-sale doctrine may apply to sales abroad rather than just sales in the United States, thus expanding the scope of the permissible repair doctrine. \textit{Id.} at 9.

Epson and the IA support the ALJ’s rejection of the Fifth Amendment defense. Epson Response at 39-42; IA Response at 11-12. They note that the Ninestar Respondents concede that their cartridges are covered by the claims and that the Ninestar Respondents do not challenge the ALJ’s findings that they had notice that their cartridges are covered products because they were actually aware that their cartridges are within the claims and subject to the orders.

c. Analysis

We agree with the ALJ’s finding that the Ninestar Respondents had adequate notice of what is prohibited by the orders, and in fact, that they actually knew that their refilled cartridges that were first sold abroad are covered products. \textit{EID} 48-49. Furthermore, as the ALJ noted, the Ninestar Respondents’ argument that it is unfair to impose penalties on “design-around” products is irrelevant under these circumstances because their products were not “design-arounds” and the Ninestar Respondents knew their products were covered by the claims.

The Ninestar Respondents’ argument that the law concerning the contours of permissible repair is murky overlooks the fact that Federal Circuit law is clear despite what district courts have said on the subject.\footnote{In \textit{Jazz Photo Corp. v. ITC}, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the Federal Circuit indicated that the permissible repair defense to a claim of infringement of a U.S. patent only applies following a patent-exhausting sale in the United States.} Further, notwithstanding the two district court cases, the Ninestar Respondents’ waived their permissible repair defense and conceded that any competent counsel

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\textit{PUBLIC VERSION}
would know that Ninestar’s refilled cartridges are covered products. “Admittedly, a patent attorney would and should know that refurbishing and reselling of spent cartridges, which were not first sold in the United States, would be patent infringement.” Ninestar Respondents’ Prehearing Statement at 5. While there may be instances where it is unclear whether certain conduct is prohibited, this is not one of those cases as the Ninestar Respondents knew that their conduct was prohibited.

C. Civil Penalties for the Violations of the Orders

Civil penalties are mandatory for violations of the Commissions’ cease and desist and consent orders issued under section 337. Subsection (f)(2) of section 337, 19 U.S.C. § 1337(f)(2), states that:

any person who violates an order issued by the Commission under paragraph (1) [i.e., a cease and desist or consent order] after it has become final shall forfeit and pay to the United States a civil penalty for each day on which the importation of articles, or their sale, occurs in violation of the order of not more than the greater of $100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order.

The statute thus provides for the imposition of a per diem monetary penalty in the event of violation of a cease and desist order and sets two alternate ceilings (whichever is greater under the circumstances) on the magnitude of such penalty.

In determining whether civil penalties are warranted and for assessing the appropriate amount for any such penalty, the Commission applies a six-factor test. The test entails balancing

6 Respondents subject to a Commission cease and desist order “have an affirmative duty to take energetic steps to do everything in their power to assure compliance, and this duty not only means not to cross the line of infringement, but to stay several healthy steps away.” Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406, Comm’n Op. on Enforcement, at 20 (2003).
the following: (1) the good or bad faith of the respondent; (2) the injury to the public; (3) the respondent’s ability to pay; (4) the extent to which respondent has benefitted from its violations; (5) the need to vindicate the authority of the Commission; and (6) the public interest. The Commission’s review of the ALJ’s remedy recommendations is _de novo_. Every issue of fact and law in connection with those recommendations is open for Commission determination. We first discuss the civil penalties for the Ninestar Respondents and review the ALJ’s findings and the parties’ arguments with respect to each of the six factors and we discuss our conclusions with respect to each factor. We then explain our decision to reduce the civil penalties to be imposed on the Ninestar Respondents despite our general agreement with the ALJ’s analysis. Finally, we discuss our decision to impose the maximum penalties on the defaulting respondents.

**D. Analysis of Penalties for the Ninestar Respondents**

1. _Good or Bad Faith of Respondents_

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8 _See San Huan New Material High Tech, Inc. v. Int’l Trade Comm’n, 161 F.3d 1347, 1362 (Fed. Cir. 1998) (San Huan), 161 F.3d at 1364-65. The Federal Circuit noted there that such a test takes into account the three overarching considerations enumerated by Congress in the legislative history of section 337(f)(2) – the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest. San Huan, 161 F.3d at 1362._
a. The EID

The ALJ utilized a five-prong test and found that all five prongs supported finding bad faith on the part of the Ninestar Respondents. The test, developed in Tractors, considers whether the respondent: (1) had a reasonable basis to believe that the violating product was not within the scope of the Commission’s order, (2) requested an advisory opinion or clarification from the Commission, (3) provided any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation, (4) decided which products were subject to the order based on the decisions of management and technical personnel, without legal advice, and (5) satisfied its reporting requirements under the relevant Commission order. EID 64-65.

With respect to whether the Ninestar Respondents reasonably believed their remanufactured cartridges were non-infringing, the ALJ found that they explored the possibility of selling remanufactured cartridges because they were aware of the risk that they would no longer be permitted to sell compatible cartridges. EID 68. He found that they placed a premium on collecting cartridges used in the United States because they appreciated that the first sale doctrine meant that only U.S. cartridges could be permissibly repaired and be non-infringing. EID 68. See Jazz Photo Corp. v. Int’l Trade Comm., 264 F.3d 1094 (Fed. Cir. 2001).

In short, the ALJ found that the Ninestar Respondents were fully aware of the legal issues regarding their remanufactured cartridge. EID 70-71. He was able to point to specific evidence of their understanding of the issue. He noted that a customer of Ninestar US requested assurances in January 2008 that Ninestar US’ remanufactured cartridges had been first sold in the United States, and that Ninestar US’ email response indicated that it understood this requirement.
EID 71-73. He concluded that the Ninestar Respondents chose profit over legality and ** even though they knew the steps they needed to take to legally sell remanufactured cartridges but ignored these steps in favor of expedience and profit. EID 74. He further found that **. EID 74. He concluded that the Ninestar Respondents did not have a reasonable basis to believe that the violating product was not within the scope of the Commission’s orders, and therefore, prong one weighed heavily in favor of a finding of bad faith. EID 75.

Regarding prong two (requesting an advisory opinion or clarification from the Commission), the ALJ found that the Ninestar Respondents did not request an advisory opinion from the Commission even though Ninestar China’s witness at the hearing testified that the orders were vague. He found this fact also weighed in favor of a finding of bad faith. EID 77-78.

With respect to obtaining opinion of counsel, the ALJ found that since at least 2001 it has been well-known that permissible repair and patent exhaustion apply only to articles first sold in the United States. EID 79. He noted that the Ninestar respondents admitted in their pre-hearing statement that “a patent attorney would and should know that refurbishing of spent cartridges, which were not first sold in the United States, would be patent infringement.” EID 79 (quoting Prehearing Statement at 5). Hence, he found that the Ninestar Respondents should have known that it was necessary to seek advice of legal counsel prior to selling the remanufactured cartridges and that their failure to do so weighs in favor of finding bad faith. EID 79.

As to prong four, deciding which products were subject to the orders based on decisions of management and technical personnel without legal advice, the ALJ found that the Ninestar
Respondents' management decided which cartridges were subject to the orders without seeking legal advice. EID 80-81. Ninestar US and Town Sky submitted compliance reports with the Commission indicating that they believed that “substantially all” of their remanufactured cartridges were of U.S. origin. EID 80. At the hearing however, the officer of Ninestar US who signed the compliance statement admitted that ***. EID 80. Thus, the ALJ found the Ninestar Respondents’ management decided which products were subject to the Commission’s orders based on expedience without legal advice. EID 80-81.

With respect to prong five, satisfying the reporting requirements under the Commission orders, the ALJ found that the Ninestar Respondents who prepared statements of compliance did not know the origin of the remanufactured cartridges. EID 82. Thus, the ALJ found that prong five also weighed in favor of a finding of bad faith by the Ninestar Respondents.

Based on the foregoing, the ALJ found that an analysis of the five prongs compelled the conclusion that the Ninestar respondents violated the Commission’s remedial orders in bad faith. EID 82.

b. Arguments of the Parties

Epson argues that the ALJ correctly found that every prong of the analysis supports a finding of bad faith because the Ninestar Respondents’ violations of the Commission's Orders were conscious and intentional. Epson Main Brief on Penalties (“Epson Penalty Br.”) at 17. Epson asserts that Ninestar Respondents make no attempt to explain why, if Ninestar found the orders confusing, it did not seek clarification from the Commission, or obtain an advisory opinion or the advice of counsel. Epson Reply on Penalties (“Epson Penalty Reply”) at 21.
Epson notes that the Ninestar Respondents appear to argue that they believed the importation and sale of all remanufactured cartridges was permissible because they were unaware that the permissible repair defense applies only to articles first sold in the United States. Epson asserts, however, that the overwhelming evidence conclusively proves that Ninestar fully appreciated the first sale requirement by as early as Spring of 2007. Epson Penalty Reply at 21.

Epson argues that the Ninestar Respondents make no attempt to explain why, even though they were clearly aware that there were legal issues with their remanufactured cartridges when U.S. Customs and Border Protection began refusing entry in December 2007, they continued selling remanufactured cartridges until June 2008. Epson Penalty Reply at 22.

The Ninestar Respondents acknowledge that the ALJ considered the correct factors in assessing the penalties to be imposed, but they argue that he incorrectly applied the test. Ninestar Respondents Brief on Penalties at 3 ("Ninestar Penalty Br."). They do not dispute selling remanufactured cartridges but claim no compatible cartridges were sold. Ninestar Penalty Br. at 3-4 n.4.

They admit importing *** remanufactured cartridges after the Commission issued the remedial orders, but they claim they had a “reasonable belief” that they could sell remanufactured (refilled) cartridges as this practice is customary in the marketplace. Ninestar Penalty Br. at 10. They note the orders do not refer to remanufactured cartridges and that the testimony of Mr. Dai indicated that Epson had permitted the sale of remanufactured cartridges. Ninestar Penalty Br. at 10 (citing Tr. at 852-53 (Dai)). Finally, they contend that the fact that there were numerous returns of their cartridges because they were viewed as potentially in violation of the orders,
indicates that the Ninestar Respondents operated in good faith and allowed customers to return the cartridges. Ninestar Penalty Br. at 11.

On reply, the Ninestar Respondents argue that remanufactured cartridges were not at issue in the original proceeding, so they could not reasonably know that they might infringe. Ninestar Penalty Reply at 19. They insist that there is no evidence that any of the Ninestar Respondents knew that the remanufactured cartridges were infringing, and if they had known they would not have imported the remanufactured cartridges. They explain that they did not seek advice of counsel or an advisory opinion because they thought what they were doing was entirely proper. Ninestar Penalty Reply at 24-25.

With respect to the inaccurate statements of compliance, the Ninestar Respondents emphasize that there is no evidence that they knowingly filed false statements. Ninestar Penalty Reply at 25. Although admitting the compliance statements were false, they claim there is no evidence that Mr. Dai, who prepared the statements, ***. Ninestar Penalty Reply at 25-26.

The IA argues that the ALJ correctly found bad faith on the part of the Ninestar Respondents in violating the orders. He argues that they do not appear to have taken any steps to avoid violating the orders, such as seeking the advice of counsel or seeking an advisory opinion. IA Brief on Penalties (“IA Penalty Br.”) at 9. Moreover, he argues that the importations were voluminous and only stopped when U.S. Customs and Border Protection halted the importations. Id. He also claims that there was evidence that the Ninestar Respondents back-dated sales to before the issuance of the Commission’s orders and that the Ninestar Respondents’ inventory records were manipulated to mask the sale of compatible cartridges. Id.
c. Analysis of Good or Bad Faith

We find that the ALJ’s findings as to the first factor are supported by the record and his conclusion that they violated the orders in bad faith is well reasoned. The evidence is clear that the Ninestar Respondents did not comply with the Commission’s orders. Rather than importing and selling the compatible cartridges which were clearly prohibited, the Ninestar Respondents began importing and selling remanufactured cartridges. While they argue that they believed their remanufactured cartridges were not infringing and therefore not covered by the orders, the evidence cited by the ALJ refutes this contention. The evidence indicates that the Ninestar Respondents understood the first sale requirement and were on notice that their remanufactured cartridges were infringing and therefore covered by the orders. Yet, they continued to import and sell the cartridges. The Ninestar Respondents, though pleading innocence, do not dispute the factors and evidence relied upon by the ALJ for finding violations of the orders in bad faith. As Epson and the IA observe, there was additional undisputed evidence of bad faith, such as “conditional sales,” upon which the ALJ did not rely.9 While the record is replete with evidence of bad faith, as the ALJ has outlined, we also have considered evidence showing good faith on the part of the Ninestar Respondents. There is evidence that for three months the Ninestar

9 Ninestar US reported selling approximately *** compatible cartridges on Sunday, ***. The testimony at the hearing indicated that it is likely these “conditional sales” for six months of inventory were almost certainly shipped after issuance of the Commission’s remedial orders on October 19, 2007, though they were conditionally booked in Ninestar US’ accounting system on ***. Tr. 430-440 (Kinrich). Ninestar appears to maintain that these sales occurred prior to the remedial orders. Ninestar Respondents Proposed Rebuttal to Complainants’ Findings of Fact at 124-132.
Respondents refilled empty cartridges first sold in the United States. EID 68. The Ninestar Respondents also cooperated in the enforcement proceedings and provided discovery rather than electing to default. However, there is additional evidence suggesting that they attempted to comply with the Commission’s orders only so long as it was convenient for them to do so, *i.e.*, until demand exceeded the U.S. supply of empty cartridges. EID 68. As such, any initial attempt to comply with the Commission’s remedial orders shows just a minimal amount of good faith on the part of the Ninestar Respondents. We disagree with the Ninestar Respondents that allowing customers to return cartridges shows that they operated in good faith. Any returns appear to be merely an attempt to maintain customer relations rather than an effort to comply with the Commission’s remedial orders given that the Ninestar Respondents continued to sell remanufactured cartridges in violation of the orders until at least June 2008. EID 99; Complainants’ Proposed Findings of Fact (“CFF”) IX.A.25-26 (undisputed). After consideration of each of the five factors, we conclude, as did the ALJ, that the Ninestar Respondents acted in bad faith. We therefore adopt the ALJ’s findings with respect to the bad faith of the Ninestar Respondents to the extent they are not inconsistent with the findings in this section.

2. Injury to the Public

   a. The EID

   With respect to the second factor, injury to the public, the ALJ stated that the Commission’s focus is not on harm to the public at large, but on whether respondent’s violation of a remedial order through unlicensed sales injured the domestic industry. EID 84-85 (citing *Magnets* at 25 in which the Commission held that harm to the domestic industry and, by
extension, the public, could be measured in terms of respondents’ unlicensed sales). The ALJ found that the public interest factor weighed against the Ninestar Respondents because Ninestar US and Town Sky sold a significant amount of cartridges in violation of the cease and desist orders on 109 and 78 different days, respectively. EID 85. He also noted, later in his analysis, that these sales deprived Epson of over $*** in revenue. EID 96.

b. Arguments of the Parties

Epson argues that this factor also weighs in favor of a stiff penalty as the Ninestar Respondents harmed the domestic industry by importing thousands of cartridges and depriving Epson of sales that could have totaled over $***. Epson Penalty Br. at 17-18, 18 n.44.

The Ninestar Respondents argue this factor is redundant as the other factors demonstrate that there has been no injury to the public because the Ninestar Respondents have not benefitted from any violations and operated in good faith at all times. Ninestar Penalty Br. at 11. Further, they maintain that injury to Epson should not be equated with injury to the public because Epson’s prices are monopolistic and Ninestar’s lower-priced products benefit the public. Ninestar Penalty Reply at 26.

c. Analysis of Factor 2

The ALJ correctly found that harm to the public is considered in terms of the harm to the domestic industry. EPROMs and Magnets were both patent-based cases in which a sale made by the respondent was a sale lost to the complainant, and those losses were found to demonstrate injury to the public. EPROMs, Comm. Op. at 24-25; Magnets, Comm. Op. at 25. The competition and the loss of sales for each infringing sale made by the Ninestar Respondents are
not disputed. These losses to Epson, totaling over $***, were substantial. See EID 96 ($*** and $***). The ALJ’s conclusion that the domestic industry and, consequently, the public, were injured to a degree warranting the imposition of a significant penalty against respondents, is supported by the record. EID 96.

We reject Ninestar Respondents’ contention that there was no injury to Epson or the public because the Ninestar Respondents’ cartridges were sold at lower prices. The focus of this factor is injury to the domestic industry and protection of intellectual property rights rather than the lowest prices for consumers. The Commission has consistently held that the benefit of lower prices to consumers does not outweigh the benefit of providing complainants with an effective remedy for an intellectual property-based section 337 violation. See Certain Crystalline Cefadroxil Monohydrate, Inv. No. 337-TA-293, Commission Opinion at 46-47, USITC Pub. 2391 (June 1991) (issuing exclusion order covering lower priced drugs); Certain Ink Jet Print Cartridges and Components Thereof, Inv. No. 337-TA-446, Commission Opinion at 14, USITC Pub. 3549 (Oct. 2002).

3. Respondents’ Ability to Pay

   a. The EID

   With respect to the respondents’ ability to pay, the ALJ found that the record was not as clear as it was with respect to the other factors. The ALJ found that the Ninestar Respondents did not present any accountant testimony, even that of an in-house accountant or bookkeeper, on this issue, nor did it introduce any audited records. Instead, the Ninestar Respondents presented the testimony of Mr. Dai of Ninestar US who is not an accountant and who made his own
calculations about the profits attributable to Ninestar’s sales of Epson compatible and remanufactured cartridges. EID 89. The ALJ noted that Mr. Dai of Ninestar US allocated expenses between Epson-related products and other products, yet the calculations failed to differentiate between fixed expenses that Ninestar US would have incurred regardless of any violations and marginal costs which resulted from the sale of Epson compatible and remanufactured cartridges. EID 89.

The ALJ concluded that the failure of the Ninestar Respondents to produce knowledgeable witnesses on accounting to testify as to the finances of the Ninestar Respondents and the absence of any reliable documents relating to the finances of the Ninestar Respondents, weighed against them in the determination of their ability to pay. EID 90 (citing Tractors, EID 52 and Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1573 (Fed. Cir. 1996) (indicating that “if evidentiary imprecision is due to inadequacy of the infringer’s records, uncertainty is resolved against the wrongdoer”)).

The ALJ reiterated that he found the three Ninestar Respondents jointly and severally liable for the violations, and he further noted that Mr. Lu of Ninestar China indicated that the Ninestar Respondents had sales in the neighborhood of “***.” EID 91 (citing Tr. 811).

b. Arguments of the Parties

Epson argues that the ALJ was appropriately critical of the Ninestar Respondents’ failure to produce reliable evidence, such as audited records or the testimony of an accountant to support its argument that they have limited means. Epson Penalty Br. at 19. Epson further claims that the Ninestar Respondents failed to produce documents showing sales of Ninestar China and this
fact properly weighed against the Ninestar Respondents in the ALJ’s analysis. Epson Penalty Br. at 19.

Epson believes that the ALJ properly took account of the fact that Ninestar China is one of the largest manufacturers of aftermarket ink cartridges in China and has sales of “***.” Epson Penalty Br. at 20.

The Ninestar Respondents contend that they are small companies with only a limited ability to pay a fine. They maintain that Ninestar US has equity of only $*** and Town Sky has negative equity so that a significant fine would put the two companies out of business. Ninestar Penalty Br. at 8.

The Ninestar Respondents criticize the ALJ for disregarding the testimony of Ninestar’s officers who testified as to the lack of assets of the subsidiaries. Ninestar Penalty Reply at 28. In their view, there is no need for audited financial statements or an accountant’s testimony to show the financial condition of the companies. Ninestar Penalty Reply at 28-29.

The IA contends that the record shows that the Ninestar Respondents are multi-million dollar enterprises with worldwide operations so they can afford to pay a substantial fine. IA Penalty Br. at 9. The IA agrees with Epson that the evidence showed annual revenues of more than $*** for Ninestar US and $*** for Town Sky, and he argues that Ninestar China has sales in excess of $80 million. IA Penalty Reply at 3.

c. Analysis of Factor 3

We find that the ALJ properly considered the Ninestar Respondents’ ability to pay though he was hampered by their failure to introduce pertinent evidence. He reasonably found that the
Ninestar Respondents’ ability to pay was not a limitation on the size of the penalty as it has been in other enforcement proceedings.10

The ALJ here was only able to make a rough assessment of the ability to pay. The evidence indicated that the Ninestar Respondents had revenues of “**.” EID 91. He also found it undisputed that Ninestar China is one of the largest manufacturers and sellers for importation of aftermarket ink cartridges in China.11  EID 13. Further, according to the last known data from 2005, Ninestar China exported goods worth over $80 million. CFF.IX.A.56 (undisputed). Thus, the limited evidence suggests that the Ninestar Respondents have the ability to pay substantial penalties.12

As the ALJ explained, there was no accounting testimony or records as a result of the Ninestar Respondents’ failure to introduce evidence concerning their finances. The ALJ correctly found that the uncertainty in the evidence should be resolved against the Ninestar Respondents given their unwillingness to provide more specific financial information. Certainly

10 In the most recent enforcement proceeding in which the Commission imposed penalties, Cameras II, the Commission found the ability to pay was a mitigating factor because respondent Jazz Photo Corporation was in bankruptcy, and as a result, the Commission set a penalty of $25,000 per day. Cameras II, Comm Op. at 21.

11 The ALJ correctly considered the resources of Ninestar China since the Ninestar Respondents will be held jointly and severally liable for the penalties. See Section D, infra, at 48; See Magnets, Comm. Op. at 26 (examining respondents' sales of foreign parent, to evaluate respondents' collective ability to pay).

12 The wrongdoer’s income and revenue is an appropriate measure of the ability to pay. See United States v. Danube Carpet Mills, 737 F.2d 988, 995 (11th Cir. 1984) (gauge of ability to pay civil penalty under FTC Act is overall sales and earning capacity); United States v. Papercraft Corp., 393 F. Supp. 415, 426 (W.D. Penn. 1975) (same).
they were in the best position to put forth accounting records to mitigate the penalties, but they declined to put forth the evidence of inability to pay. It was their responsibility to do so if they sought mitigation of the penalties based on this factor. See Avery Dennison Corp. v. Four Pillars Enterprise Co., 45 Fed.Appx. 479, 489-90 (6th Cir. 2002) (incumbent upon defendant to present evidence of inability to pay punitive damages); Johnson v. Howard, 24 Fed.Appx. 480, 488 (6th Cir. 2001) (defendant's burden to present evidence of his ability to pay when he would like that information to be considered by the jury in connection with a punitive damages award). See also San Huan, 161 F.3d at 1364 (“any inaccuracy in the Commission’s computations was at least partly attributable to San Huan”).

The Ninestar Respondents did not introduce accounting records or demonstrate any reason why the maximum penalties should not be imposed. We therefore do not view the Ninestar Respondents’ ability to pay as any limitation on the amount of penalties to be imposed.

4. **Extent to Which Respondents Benefitted from Their Violations**

a. **The EID**

With respect to factor four, the respondents’ benefit from the violations, the ALJ found two types of benefits from the violations. The ALJ found that Ninestar US sold at least *** cartridges on 109 different days for revenue of $*** and that the value of the cartridges based on the average price for Epson OEM product sales, as determined in the violation phase, is $*** per unit and, thus over $*** million may have been lost as a result of these violations of the cease and desist order. EID 96. He also found that Town Sky sold at least *** cartridges on 78 different days for a revenue of $*** and that the value of these cartridges, based upon the average
price of Epson OEM cartridges exceeds $***.

Thus, the ALJ found that the Ninestar Respondents’ benefitted from the $*** in revenues made on the sale of the infringing cartridges. EID 96. He further found that if the Ninestar respondents were unable to fulfill resellers’ demand for cartridges for use with a major printer brand like Epson, those customers may have sought out other suppliers, such as those licensed to sell Epson OEM cartridges. He concluded therefore that an appropriate penalty amount should also reflect this unquantifiable benefit of customer retention made possible by the sale of infringing ink cartridges. EID 95-96.

b. Arguments of the Parties

i. Epson’s Arguments

Epson argues that the Ninestar Respondents benefitted by selling over *** ink cartridges for revenues over $***. Epson Penalty Br. at 22. It further claims that in addition, it is undisputed that over *** compatible cartridges were sold to one customer alone on ***, and shipped to that customer between October 25, 2007 and February 1, 2008. Epson Penalty Br. at 22 & n.62.

The Ninestar Respondents assert that the undisputed testimony indicated that Ninestar US suffered a loss of $*** on the sale of remanufactured cartridges and a profit of $*** on the sale of compatible cartridges. Ninestar Penalty Br. at 6 (citing testimony of Dai). Similarly, they claim Town Sky only made $*** on its sales. Ninestar Penalty Br. at 7. Moreover, according to the Ninestar Respondents, once overhead and attorneys’ fees are factored in, they actually suffered losses. Ninestar Penalty Reply at 29.
c. Analysis of Factor 4

In assessing the benefit to the Ninestar Respondents, the ALJ took account of two types of benefits: the fact that the Ninestar Respondents’ sales in violation of the orders totaled more than $*** and the unquantifiable benefit of customer retention. He indicated that both benefits should be considered in setting penalties. EID 95-96.

The ALJ did not directly address the Ninestar Respondents’ claim that the sales were unprofitable. EID 92-93. It appears, however, that his finding of intangible benefits was a response to this argument, suggesting that the Ninestar Respondents benefitted in less tangible ways from their sale of cartridges in violation of the orders even if the sales were allegedly unprofitable. We agree that it is reasonable to consider all of the benefits received by the Ninestar Respondents in analyzing this factor. As the ALJ noted, the Commission has found benefits to respondents in earlier investigations that included sales of related goods and competitive advantages. EID 94 (citing Tractors, EID at 62 and EPROMs, Comm. Op. at 25). We therefore find that the Ninestar Respondents received significant intangible benefits, as well as the more obvious financial gains from their violations.

5. The Need to Vindicate the Authority of the Commission

a. The EID

The ALJ found that the evidence demonstrated that the Ninestar Respondents “blatantly disregarded the Commission orders” even after they knew that there were legal issues with the remanufactured cartridges and that the Ninestar respondents stopped selling the remanufactured Epson products mainly because they could no longer import the cartridges after U.S. Customs
and Border Protection’s began seizing the cartridges. EID 99. He found that the Ninestar Respondents continued their sale of remanufactured cartridges for eight months after the orders were enacted. He also noted that if the Ninestar respondents were in fact unsure what was covered under the Commission’s orders, they should have requested clarification or sought the advice of legal counsel. Thus, the ALJ found that $EPROMs$ factor five weighs against the Ninestar Respondents. EID 99.

b. Arguments of the Parties

Epson argues that Ninestar Respondents disregarded the Commission’s orders and there is a need to vindicate Commission authority by imposition of a stiff penalty. It sees one of the most telling indicators of the Ninestar Respondents’ disregard for the Commission's authority as their continued sales of remanufactured cartridges until at least June 2008, some eight months after the orders prohibited their sale and importation and after Epson filed an enforcement complaint in February 2008. Epson Penalty Br. at 24. It further argues that the Ninestar Respondents showed disdain for the Commission’ orders by arranging for “conditional sales” that were placed on the books prior to the issuance of the orders but were actually shipped and paid for later. Epson Penalty Br. at 25. According to Epson, this scheme, essentially backdated sales of compatible cartridges. Epson also claims that the Ninestar Respondents submitted false statements of compliance, which enabled their sales to continue. Epson views the maximum penalty recommended by the ALJ as an appropriate response to these schemes. Epson Penalty Reply at 25.

The Ninestar Respondents argue that there is no need to vindicate the authority of the
Commission because they acted in good faith and did not disrespect the Commission. In such circumstances, they view this factor as redundant to the other factors. Ninestar Penalty Br. at 10-11.

The IA argues that there is a need to vindicate the authority of the Commission because the Ninestar Respondents purposefully attempted to evade the orders. According to the IA, the importations stopped only because of action taken by U.S. Customs and Border Protection, and he agrees with Epson that there is also evidence of backdating of sales. IA Penalty Br. at 11-12.

c. Analysis of Factor 5

We agree with the ALJ that there is an interest in vindicating the authority of the Commission in this case, particularly in light of the Ninestar Respondents’ bad faith. The Ninestar Respondents did not simply ignore or disregard the Commission’s orders; they deliberately evaded the orders. In addition to the facts relied upon by the ALJ indicating disregard for the Commission’s orders, the record indicates that the Ninestar Respondents encouraged their customers to reserve a six-month supply of cartridges due to the possibility that the Commission would issue a general exclusion order. CFFVI.B.5. The Ninestar Respondents then recorded sales of *** compatible cartridges on ***, prior to the issuance of the remedial orders. The record leaves little doubt, however, that they shipped these cartridges after the issuance of the Commission’s cease and desist orders issued just 12 days later.\(^{13}\)

\(^{13}\) Tr. 430-440 (Kinrich). While the total number of cartridges recorded as sold on *** was ***, the Ninestar Respondents have only acknowledged that *** were paid for and shipped subsequent to the Commission’s orders issuing. CFF VI.B.17-19; Order No. 42 (Nov. 20, 2008). They did not, however, dispute the facts concerning how they recorded the sale of the ink.
Although the sales were recorded on ***, the customers did not request, receive or pay for the ink cartridges until a later date. The arrangement was apparently designed to enable Ninestar to claim the cartridge orders predated the Commission’s remedial orders and convince customers that the sales were therefore not prohibited. There is no record of when most of the orders shipped and Epson was unable to determine when the actual sales occurred, so the *** cartridges were not included in the tally of sales violations relied upon by Epson and the ALJ in arriving at the number of violation days. CFFVI.B.27.

The record also shows that the Ninestar Respondents filed compliance statements that they knew or should have known were false. Mr. Dai of Ninestar US testified at the hearing that he had no idea whether the remanufactured cartridges imported by Ninestar US were *** even though he attested to the fact that they were substantially all of U.S. origin in compliance statements filed with the Commission. EID 61, 80.

Based on this record of bad faith, we find that the penalties should reflect the fact that there is a need to vindicate the Commission’s authority in this investigation.

6. The Public Interest

a. The EID

The ALJ noted that the public interest lies in protecting intellectual property rights, and the pattern of infringement evidenced here undermines the Commission’s mission. EID 85-86. The ALJ found that the arguments of the Ninestar Respondents concerning the potential effect on cartridges on *** though customers did not request, pay for, or receive the cartridges until a later date. CFF VI.B.17-31.
the competitive conditions of the U.S. economy resulting from civil penalties should be rejected, in view of the need to affirm the integrity of the current order process and the protection of valid U.S. intellectual property rights. He also noted that Federal Circuit case law indicates that a company built upon infringing products should not complain if an injunction against continued infringement destroys the company. EID 86 (citing *Windsurfing In’l Inc. v. AMF, Inc.*, 782 F.3d 995, 1003 n.12 (Fed Cir. 1986)). He concluded that the public interest is not harmed by the imposition of a civil penalty and that this factor weighs against the Ninestar Respondents in assessing appropriate civil penalties. EID 86.

b. Arguments of the Parties

Epson contends that the ALJ correctly found that the imposition of the maximum allowable penalty under the statute serves the public interest by confirming the integrity of the Commission's remedial Orders and protecting valid U.S. intellectual property rights. Epson Penalty Br. at 18 (quoting *Magnets* at 33 ("[T]he public interest favors the protection of U.S. intellectual property rights and therefore militates in favor of a significant penalty.").

The Ninestar Respondents argue that the public interest would not be served by the imposition of harsh penalties because they would destroy the Ninestar Respondents, and the destruction of viable businesses is not in the public interest. Ninestar Penalty Br. at 12.

The IA contends that the public interest lies in the protection of intellectual property rights and supports a substantial penalty. He notes that the Commission takes into account the three considerations enumerated by Congress in the legislative history of section 337(f)(2): deterrence of violations, the intentional or unintentional nature of any violations, and the public
interest. IA Penalty Brief at 8 (citing San Huan, 161 F.3d at 1362).

c. Analysis of Factor 6

We adopt the ALJ’s analysis of the public interest factor and find that the public interest weighs in favor of substantial penalties. The public interest at issue in this case, as in most section 337 investigations, is the protection of intellectual property rights. The public interest is not served if intellectual property rights are not respected, and the imposition of a penalty that is substantial enough to deter future violations is in the public interest. While the purpose of the penalty is not to destroy the businesses, as the ALJ points out, the Ninestar Respondents should not complain if their business suffers if a severe penalty is imposed in response to their misconduct.

7. Discussion of the Appropriate Penalty

a. The EID

The ALJ found that all six factors of the EPROMs test weigh heavily against the Ninestar Respondents and, thus “demonstrate that the Ninestar respondents should be subjected to a severe penalty.” EID 99-100. He found that, based on his consideration of the traditional six factors as they applied to the Ninestar Respondents, imposing the statutory maximum penalty was warranted due to the “egregious” violations of the cease and desist orders. EID 123. The ALJ also distinguished the Commission’s penalty of $50,000 per day in Magnets, observing that the Commission found that respondents in that investigation made “some efforts” to comply with the consent order, and thus a lesser penalty was warranted in that investigation. EID 123 (citing San Huan, 161 F.3d at 1362).

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To determine his recommended penalty amount, the ALJ first calculated the applicable statutory ceiling, that is, the maximum per diem penalty that 19 U.S.C. § 1337(f)(2) would allow under the circumstances. First, he determined the days on which the covered products (infringing ink cartridges) were either imported or sold by Ninestar US or Town Sky and the value of the ink cartridges on each day. EID 104-121. The ALJ found it undisputed that Ninestar US imported covered products on 6 days on or between October 25, 2007 and December 12, 2007. EID 121. He found that Ninestar US sold covered products on 109 days on or between October 23, 2007 through May 5, 2008. EID 121. Similarly, he found undisputed that Town Sky imported covered products on 9 days on or between October 23, 2007 and May 5, 2008, and that Town Sky sold covered products on 78 days starting on October 23, 2007 and continuing through March 7, 2008. EID 121-122.

The ALJ then determined the statutory ceiling for the penalty that could be imposed for each day of violation for Ninestar US and Town Sky. He applied the $100,000 cap set in § 1337(f)(2) for any given violation day for which twice the domestic value of the infringing cartridges was less than $100,000. For any violation day for which twice the domestic value of infringing cartridges exceeded $100,000, he capped the penalty at this higher amount (twice the domestic value of infringing ink cartridges) per § 1337(f)(2). EID 123-124.

b. Arguments of the Parties

Epson supports the ALJ’s analysis and urges the Commission to impose the recommended maximum penalty against Ninestar Respondents based on the ALJ’s finding that the six factors “weighed heavily” against the Ninestar Respondents and that they should be
subject to a "severe penalty." Epson Penalty Br. 7 (citing EID 99-100).

Epson contends that Ninestar China's liability for the recommended penalty derives from its direct responsibility for and material assistance and participation in the sales and importations by its subsidiaries, not its exportation of cartridges, so the ALJ did not unfairly double the penalty. Epson Penalty Reply at 7.

The Ninestar Respondents argue that the recommended penalties of $100,000 per day are disproportionate to the size of the importations on certain days when few cartridges were imported. Ninestar Penalty Br. at 12. As they see it, imposing a $100,000 per day fine for such a small values of importations "shocks the conscience." Ninestar Penalty Br. at 12. They maintain that the ALJ has unfairly doubled the penalty for importations because he counted the days on which Ninestar US and Town Sky received products rather than the days on which Ninestar China shipped products. Ninestar Penalty Br. at 14.

They maintain that the maximum penalty should be $500,000 each for Ninestar US and Ninestar China and at most $100,000 for Town Sky. Ninestar Penalty Br. at 14.

The IA argues that the record supports the ALJ's recommendation that the Commission impose a substantial penalty on the Ninestar Respondents although he supports the "slightly lower" $80,000 per day penalties that he originally proposed to the ALJ. IA Penalty Br. at 1, 11. He states, however, that the EID "presents reasoned conclusions concerning the proper amount of a penalty that have support both in fact and law." IA Penalty Br. at 1.

The IA further argues that the improper importations and a large percentage of the sales occurred immediately after the Commission issued its remedial orders, and thus Ninestar should
have submitted a bond to legally continue its activities during the Presidential review period. IA Penalty Br. at 10. The IA suggests that the Commission consider that the Ninestar Respondents’ bond would have totaled over $*** when setting appropriate civil penalties. IA Penalty Br. at 10, 13.

c. Discussion

In San Huan, the Federal Circuit found that the Commission applied a reasonable methodology in setting the penalty amount in Magnets. Based on this precedent, it is clear that the Federal Circuit considers it reasonable for the Commission to use the six factor analysis to determine what the daily penalty should be and that it is within the Commission’s discretion to impose a penalty less than the statutory maximum. The Commission has observed that “[t]he legislative history to the civil penalty provision counsels that, while we are to take into account other factors, we are principally to exercise our discretionary authority ‘so as to insure the deterrent effect of [our] order.’” Tractors, Comm. Op. at 73 (quoting H.R. Rep No. 317, 96th Cong. 1st Sess. 191 (1979) and S. Rep. No. 249, 96th Cong. 1st Sess. 262 (1979)).

Furthermore, we find that the ALJ has correctly analyzed the six factors in weighing the severity of a penalty for the Ninestar Respondents. His conclusion that the Ninestar Respondents’ conduct warrants a severe penalty is, in our view, fully supported by the evidence. The Ninestar Respondents largely ignore the ALJ findings in arguing that their conduct does not warrant a harsh penalty. For instance, they never explain why, if they were operating in good

14 161 F.3d at 1362-65.
faith, their sales of infringing cartridges stopped only when they ran out of inventory.

The Ninestar Respondents’ argument that imposing a $100,000 penalty on days when importations were small results in a penalty that is disproportionate has no merit because it does not present a fair view of the evidence and simply relies on those few days on which a small number of cartridges shipped. The Federal Circuit rejected a similar argument in San Huan, 161 F.3d at 1364, noting that “San Huan points to small shipments, ignoring large ones.” We also reject the Ninestar Respondents’ contention that the ALJ unfairly “doubled” the penalty because he calculated the days based on importation rather than days of exportation by Ninestar China as 19 U.S.C. § 1337(f)(2) specifically indicates that the penalty is based upon the number of days on which the articles were imported or sold.

The ALJ concluded that the proportionality of the penalty is just one of the several factors to be considered in setting an appropriate penalty, and he did not find that the amount of the penalties should be limited relative to the value of the infringing goods. 15 In Magnets however, the Commission accepted the proposition that the Excessive Fines Clause of the Eighth Amendment 16 may, under some circumstances, limit the Commission’s authority to impose penalty.

15 The ALJ only briefly addresses the issue of the value of the infringing goods relative to the recommended penalty. “The administrative law judge also finds that the characterization by the Ninestar respondents of San Huan to support their position that the penalty of $12 million dollars against Ninestar US should be denied because it is a huge multiple of the value of the products being sold is in error. The test described by the Commission in San Huan is “[b]ased on a balancing of the . . . factors.” EID 85 (quoting San Huan, 161 F.32 at 1363).

16 Under the Eighth Amendment, “[e]xcessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.”
penalties of 100,000 per day pursuant to 19 U.S.C. 1337(f)(2). See Magnets, Comm. Op. at 37-38. The Commission explained that “[u]nder the circumstances, a civil penalty in the amount of $1.55 million, or roughly 3.5 times the sales value of the goods sold in violation of our order, is not excessive in light of the record in this case.” Magnets, Comm. Op. at 39. On appeal, the Federal Circuit approved of the Commission’s consideration of the issue under the Excessive Fines Clause of the Eighth Amendment. San Huan, 161 F.3d at 1363-64.

The Ninestar Respondents have only raised this issue in passing in their submissions to the Commission,17 but we note that the recommended penalty of $20,504,974 is over *** times the sales value ($***) of the goods sold in violation of the cease and desist orders.18

We do not view the ratio of infringing sales to penalties as necessarily the only measure of the proportionality of the penalties. First, as we discuss above, it appears that the ALJ was conservative in determining the number of sales violations because the specific days on which certain ink cartridges were sold could not be identified. He found that Ninestar US and Town Sky sold *** ink cartridges in violation of the consent orders, but it is likely that approximately

17 The Ninestar Respondents note only in passing that “fines and penalties should not be excessive.” Ninestar Penalty Br. at 8 (citing BMW of N. America v. Gore, 517 U.S. 559 (1996)).

18 This ratio of *** to 1 exceeds the ratios noted by the Federal Circuit as permissible in San Huan, 161 F.3d at 1363 (citing BMW, 517 U.S. at 581, which upheld a penalty of no more than 10 times the amount of harm resulting from the defendant's conduct). It also exceeds the ratio of the penalty to the value of infringing goods in previous Commission enforcement proceedings. In Tractors, the ratio of penalties to sales violations was three to one. See Tractors, Comm. Op. at 74, 74 n. 165. In Cameras II, the ratio was only one-fifth to one. Cameras II, Comm. Op. at 29. In EPROMs however, the Commission found a lack of good faith on the part of the respondent and imposed the maximum $100,000 per day penalties resulting in a ratio of penalties to sales violations of six to one. EPROMs, Comm. Op. at 27-29.
*** more ink cartridges were also sold in violation of the cease and desist orders. EID 96. Thus, the quantity, if not the value, of sales violations was massive. Second, as the ALJ found, the Ninestar Respondents received unquantifiable benefits from their sales violations. EID 95-96. These facts suggest that the $*** sales figure understates the scale of the violations and the benefit to the Ninestar Respondents of their violations.

Further, as outlined by the ALJ, the misconduct in this investigation was egregious despite a minor effort to comply with the remedial orders by initially purchasing empty cartridges first sold in the United States.¹⁹

We also believe that the harm to the domestic industry is an important factor when weighing the proportionality of the penalties. The ALJ found that Epson lost sales of over $*** dollars as a result of the Ninestar Respondents' infringing sales. EID 96. The harm to Epson is an appropriate consideration (rather than benefit to the Ninestar Respondents) when assessing whether the penalties are disproportionate. See BMW, 517 U.S. at 580 ("most commonly cited indicium of an unreasonable or excessive punitive damage award is its ratio to the actual harm inflicted on the plaintiff").

Based upon the circumstances of this investigation, we find that it is appropriate to impose a penalty of $55,000 per violation day. While not the maximum penalty, it is a severe penalty that is also commensurate with the $*** in sales violations and bad faith demonstrated by the Ninestar Respondents, the lost sales of Epson, and the bond that should have been posted by

¹⁹ In EPROMs, the Commission also found that that the respondent acted in bad faith and the Commission imposed the maximum statutory penalty. EPROMs, Comm. Op. at 28.
the Ninestar Respondents. The combined penalty of $11,110,000 should be sufficient to deter future violations by the Ninestar Respondents and others considering violating the Commission’s orders. The Commission has also decided, consistent with our actions in previous enforcement proceedings, to delay collection of the penalties until any appeals are resolved. See Cameras II, Comm. Op. at 34.21

E. Penalties for the Defaulting Respondents

1. EID

   a. Mipo Respondents

   The Mipo Respondents defaulted in the enforcement phase of the investigation as they did in the violation phase. EID 30. The ALJ found undisputed that documents from online retailer *** and testimony from Epson’s investigator showed that Mipo America sold covered products after the date of the remedial orders. The ALJ concluded that the evidence was unrebutted that the Mipo Respondents had imported covered products on two days, and had sold covered products on 95 separate days. EID 126. The ALJ recommended that the Commission impose the maximum penalty on the Mipo Respondents of $100,000 for 97 days of violations, or

   20 The ALJ found a total of 115 violation days for Ninestar US and 87 violation days for Town Sky. EID 121-122. We assess penalties at $55,000 per day for a total penalty of $6,325,000 for Ninestar US and $4,785,000 for Town Sky.

   21 We have used the EPROMs factors as a framework to guide the exercise of our discretion to impose an appropriate penalty amount that takes into account the three overarching considerations indicated by Congress in the legislative history, viz., the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest. We do not foreclose consideration of a modified analytical framework for establishing penalties in future cases.
b. Apex Respondents

The Apex Respondents also defaulted in the enforcement phase. The ALJ found that Epson had established through testimony by Epson’s investigator and documentary evidence that Apex and Ribbon Tree USA had sold covered cartridges on three separate days and imported covered cartridges on four separate days in violation of a consent order. EID 51-53, 129. The ALJ recommended that the Commission impose the maximum penalty on the Apex Respondents of $100,000 for 7 days of violations, or $700,000. EID 126-127.

2. Arguments of the Parties

Epson argues that the Commission should impose the penalties recommended by the ALJ for the defaulting Mipo Respondents and Apex Respondents. It claims the $100,000 daily penalty recommended by the ALJ is appropriate given that the respondents’ failure to participate in discovery precluded Epson and the IA from determining the full extent of their violations of the Commission’s Orders or conducting a meaningful analysis of the traditional penalty factors. Epson points out that defaulting respondents should not be rewarded with reduced penalties for their decision not to participate in Commission proceedings. Epson Penalty Br. 28.

For the Mipo Respondents, the IA argues for penalties of $50,000 per day rather than the $100,000 recommended by the ALJ, noting that the “95 days of violation are not insignificant.” IA Penalty Br. at 15. As to the Apex Respondents, the IA supports the recommended penalty of $100,000 per day and the $700,000 total penalty. The IA argues that failure to abide by a consent order is particularly egregious because the Apex Respondents voluntarily sought entry of the
order. He notes that the consent order states that the Commission may take adverse inferences if
the Apex Respondents fail to provide information and that the Commission may impose penalties
for violating the consent order to the full extent permitted by law. IA Penalty Br. at 16.

3. Analysis

The ALJ did not explain his recommendation that the Commission impose the maximum
penalties of $100,000 per day upon both groups of defaulting respondents. See EID 126-130. It
is, of course, difficult to assess the traditional penalty factors when the record is incomplete due
to the respondents’ default.

The Apex Respondents moved for entry of the consent order and then clearly violated the
order. The Mipo Respondents responded to the enforcement complaint and filed a motion in the
enforcement proceeding, but then elected to default rather than provide discovery. EID 26, 30.
Under these circumstances, it appears that the defaulting respondents believed that the
Commission’s orders could be ignored and that it would be to their advantage if they did not
 cooperate in the enforcement proceedings.22 We therefore impose the maximum penalty of
$100,000 per day upon the defaulting respondents; $9.7 million for the Mipo Respondents and
$700,000 for the Apex Respondents.23

F. Joint and Several and Several Liability for Violations of the Orders

22 The consent order indicated that the Commission may infer facts adverse to the Apex
Respondents if they fail to cooperate in enforcement proceedings.

1. The ALJ’s Determination

The ALJ determined that the members of each respondents group, the Ninestar Respondents, the Mipo Respondents, and the Apex Respondents should be jointly and severally liable for the violations he found. EID 15-29.

First, the ALJ found that the cease and desist orders applied to Ninestar China. EID 18. As the only shareholder of Ninestar US and Town Sky, Ninestar China became subject to the cease and desist orders issued to those subsidiaries pursuant to section II of the orders which makes “the subsidiaries’ principal and sole owner liable for violating the cease and desist order, whether directly through its own actions or through its control over the violations of the two subsidiaries under basic agency principles.” EID 18. The ALJ found that Ninestar China failed to effect compliance by its subsidiaries and actually participated in their violations. EID 18, 25.

Furthermore, according to the ALJ, joint and several liability in this investigation is Commission practice. The ALJ stated that “the Commission has routinely imposed aggregate penalties and joint and several liability upon related respondents in similar circumstances in past enforcement proceedings.” EID 18-19 (citing San Huan New Materials High Tech v. ITC, 161 F.3d 1347, 1349-50 n.2 (Fed. Cir. 1998) (Magnets) and Tractors, Comm’n Op. at 74).

Second, the ALJ also found that Ninestar China is liable because it exercised control over its subsidiaries and they acted for an improper purpose in order to benefit Ninestar China. EID 25. The ALJ found control by Ninestar China over the subsidiaries due to its involvement in their activities. He also found that Ninestar China provided the asserted cartridges to its subsidiaries and monitored the sales, inventory and returns of its subsidiaries, therefore
exercising substantial control over the subsidiaries and playing more than an “advisory role.”

EID 25. In discussing the degree of control exercised by Ninestar China over Ninestar US, the ALJ noted the testimony by a Ninestar US corporate officer, Mr. Dai, that *** and that he had also put a Ninestar China officer with no duties at Ninestar US on the Ninestar US payroll ***.

EID 19.

The ALJ also discussed two cases relied upon by the Ninestar Respondents and found them consistent with his conclusion that joint and several liability is appropriate. He found that the Ninestar Respondents’ reliance on United States v. Best Foods, 524 U.S. 51 (1998) (Best Foods) and Wayts v. Peter Kiewit Sons, Case No. 90-8022, 1991 U.S. App. LEXIS 14028 (10th Cir. June 27, 1991) for the proposition that a parent is not liable for the actions of its subsidiary, misapplied, because he found that Ninestar China exercised control over both Ninestar US and Town Sky due to its status as the sole owner and supplier of the cartridges delivered to its subsidiaries. Further, the ALJ noted that, in Best Foods, the Supreme Court held that the shareholder may be held liable for the subsidiary’s conduct when “the corporate form would otherwise be misused to accomplish certain wrongful purposes...on the shareholder’s behalf.” Best Foods, 524 U.S. at 62. According to the ALJ, this supports a finding of joint liability due to Ninestar China being the sole shareholder of its subsidiaries and Ninestar China’s use of its subsidiaries to sell remanufactured cartridges. EID 25. He also found that Wayts did not support respondents’ positions because that case concerned whether or not a parent is liable under Wyoming law for workplace injury at a subsidiary’s plant where the parent merely had an “advisory role” over safety issues. 1991 U.S. App. LEXIS 14028.

49
With respect to the Mipo Respondents, the ALJ found that Epson presented unchallenged evidence that Mipo International is affiliated with Mipo America. Specifically, Mipo International's website contains a “Contact us” page that lists Mipo America as a contact and the website refers to having a “branch office” in the United States. EID 28. He also found undisputed that Mipo America sells in the United States and sells after importation aftermarket ink cartridge manufactured by Mipo International. Based on the foregoing, the ALJ found that respondents Mipo America and Mipo International are affiliated and should be held jointly and severally liable for any civil penalties against any of them. EID 28.

Turning to the Apex Respondents, the ALJ found it undisputed that Ribbon Tree USA and Apex are affiliated. EID 27. Further, Order No. 28, which issued on January 16, 2007, terminated both Ribbon Tree USA and Apex from the investigation based on a consent order. Based on the foregoing, the ALJ concluded that respondents Ribbon Tree and Apex are affiliated and should be held jointly and severally liable for any civil penalties against any of them stemming from this enforcement action. EID 29.

2. Petition for Review and Responses

The Ninestar Respondents challenge the ALJ's determination that liability should be joint and several. Petition at 3-5. They argue that under Best Foods, the parent must direct the activities of the subsidiary company in order to be held liable for its acts, and they claim that there is no evidence that Ninestar China directed the activities of Ninestar US or Town Sky. Id. They further argue that it is irrelevant whether an employee of Ninestar China was on the payroll of Ninestar U.S. because interlocking officers and directors are of no legal significance. Id.
They also claim that it is legally irrelevant that Ninestar China sells covered products to its subsidiaries if it does not direct their activities. Id.

Epson argues the ALJ correctly found joint and several liability for the Ninestar Respondents. Epson Response at 28-32. It contends that Ninestar misinterpreted the EID because the ALJ’s determination to hold Ninestar China jointly and severally liable with its subsidiaries is based on Ninestar China's own activities. Id. at 29. Epson points out that the Ninestar Respondents do not dispute the ALJ’s finding that Ninestar China, as the sole owner of Ninestar U.S. and Town Sky, is subject to the cease and desist orders issued against its subsidiaries as the orders expressly apply to the subsidiaries’ principals and stockholders. Id. at 29.

Epson argues that the circumstances here make joint and several liability appropriate. It was undisputed that Ninestar U.S. and Town Sky are wholly owned subsidiaries of Ninestar China and Ninestar China supplies inkjet cartridges to Ninestar U.S. and Town Sky for resale in the United States. Epson notes that the product offerings of Ninestar U.S. and Town Sky are limited to products sold by Ninestar China. Moreover, Ninestar China admitted having actual knowledge of the cease and desist orders. In sum, Epson believes that Ninestar China should be liable because it supplied its U.S. subsidiaries with infringing inventory for resale in the United States with full knowledge of the cease and desist orders. Id. at 30. Epson maintains that the ALJ correctly rejected “self-serving” testimony that Ninestar China did not direct its subsidiaries' activities. Id. at 31-32. Epson argued that the ALJ correctly found that undisputed facts of this nature routinely result in the imposition of joint and several liability for an aggregate penalty.
under Commission precedent. The IA also supports joint and several liability for the Ninestar Respondents, arguing that they have failed to establish any error in the EID. IA Response at 9.

3. Analysis

As noted by the ALJ, the cease and desist orders apply to Ninestar China by virtue of its ownership of the two subsidiaries. EID 18. The cease and desist orders expressly apply to the owners of Ninestar US and Town Sky and Ninestar did not dispute that point before the ALJ. Ninestar China knew of the cease and desist orders and was in a position to ensure compliance with the cease and desist orders, yet it continued to supply covered products to its subsidiaries rather than directing compliance with the orders. 24 See EID 15-25.

We agree with the ALJ’s findings that Ninestar China exercised substantial control over its subsidiaries, monitoring their inventories and sales and ordering Ninestar US to place an individual on its payroll that performed no duties for Ninestar US. EID 19. The evidence was also undisputed that the subsidiaries only sell Ninestar China’s cartridges, suggesting the two subsidiaries were marketing arms of the parent, operating solely for Ninestar China’s benefit as its agents rather than independent businesses.

Furthermore, contrary to the Ninestar Respondents assertions, ***. EID 24 (quoting Tr. at 665-66). The record also shows that Rusong Lu of Ninestar China ***. EID 67-70; Tr. 723-726.

24 In Fuji Photo Film Co. v. ITC, 474 F.3d 1281, 1291 (Fed. Cir. 2007), the Court quoted from a Supreme Court decision indicating that failure of an officer to direct compliance with an order to the corporation can be the basis for liability. Id at1291 (quoting Wilson v. United States, 221 U.S. 361, 31 S.Ct. 538, 55 L.Ed. 771 (1911))
PUBLIC VERSION

The cases cited by Ninestar Respondents to the ALJ and in their petition were addressed by the ALJ, and fully support imposition of joint and several liability. In particular, the Supreme Court’s decision in Best Food indicates that an owner of a corporation may be held liable for the subsidiary’s conduct when “the corporate form would otherwise be misused to accomplish certain wrongful purposes...on the shareholder’s behalf.” Best Foods, 524 U.S. at 62.

As to the ALJ’s finding of joint and several liability with respect to the Mipo Respondents and Apex Respondents, these respondents have defaulted and they did not petition for review. Thus, the allegations in the complaint are accepted as true that they have acted in concert to violate the Commission’s remedial orders. Epson’s Complaint against Mipo Respondents (February 8, 2008) at 8-9.

III. CONCLUSION

For the foregoing reasons, we have determined to assess civil penalties in the amount of $11,110,000 against the Ninestar Respondents, jointly and severally. With respect to the Mipo Respondents, the Commission has determined to impose a civil penalty in the amount of $9,700,000 jointly and severally, and the Commission has determined to impose a civil penalty in the amount of $700,000 jointly and severally against the Apex Respondents.

By order of the Commission.

Marilyn R. Abbott
Secretary to the Commission

Issued: September 24, 2009
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, Kevin G. Baer, Esq., and on the following parties as indicated, on September 25, 2009.

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

ON BEHALF OF COMPLAINANTS EPSON PORTLAND, INC., EPSON AMERICA, INC., AND SEIKO EPSON CORPORATION:

Louis S. Mastriani, Esq.
ADDUCI MASTRIANI & SCHAUMBERG LLP
1200 Seventeenth Street, NW
Washington, DC 20036
P-202-467-6300
F-202-466-2006

ON BEHALF OF RESPONDENTS NINESTAR TECHNOLOGY CO., LTD., NINE STAR TECHNOLOGY CO., LTD. AND TOWN SKY INC.:

Edward F. O’Connor, Esq.
ECLIPSE GROUP
1920 Main Street – Suite 150
Irvine, CA 92614
P-949-851-5000
F-949-851-5051
RESPONDENTS:

Mipo America, Ltd.
3100 N.W. 72nd Avenue, Ste. 106
Miami, FL 33122

Mipo International, Ltd
Flat B, 11F, Wong Tze Building
71 Hoe Yuen Road
Kwun Tong, Kowloon, Hong Kong

Ribbon Tree USA, Inc.
Dba Cana-Pacific Ribbons, Inc.
6920 Salashan Parkway, D 107
Ferndale, WA 98248

Heather Hall
LEXIS-NEXIS
9443 Springboro Pike
Dayton, OH 45342

Kenneth Clair
THOMAS WEST
1100 Thirteen Street NW
Suite 200
Washington, DC 20005

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