

PUBLIC VERSION

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

In the Matter of)

CERTAIN INK CARTRIDGES AND)
COMPONENTS THEREOF)

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

Enforcement Initial Determination

This is the administrative law judge's Enforcement Initial Determination (ED) pursuant to the Commission Order of May 1, 2008. The administrative law judge, after a review of the record developed, finds inter alia that the enforcement respondents violated the orders issued at the conclusion of Investigation No. 337-TA-565 on October 19, 2007.

This is also the administrative law judge's recommendation that enforcement measures are appropriate for violation of the Commission's orders which measures are set forth in the Conclusions of Law of this ED.

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ABBREVIATIONS

CEBr	Complainants' Post-hearing Brief In Enforcement Phase
CERBr	Complainants' Rebuttal Brief In Enforcement Phase
CFF	Complainants' Proposed Finding In Violation Phase And Enforcement Phase
CORFF	Complainants' Objection To Ninestar Respondents' Proposed Finding
CRRFF	Complainants' Proposed Rebuttal Finding to RFF
CX	Complainants' Exhibit
CX-E	Complainants' Exhibit In Enforcement Phase
ED	Enforcement Initial Determination
ID	Final Initial Determination In Violation Phase
RFF	Ninestar Respondents' Proposed Finding
RX-E	Ninestar Respondents' Exhibit In Enforcement Phase
RR/OCFF	Ninestar Respondents' Objection To Complainants' Proposed Finding
REBr	Ninestar Respondents' Post-hearing Brief In Enforcement Phase
RERBr	Ninestar Respondents' Rebuttal Brief In Enforcement Phase
RR/OSFF	Ninestar Respondents' Objection To Staff's Proposed Findings
SEBr	Staff's Post-hearing Brief In Enforcement Phase
SERBr	Staff's Rebuttal Brief In Enforcement Phase
SPFF	Staff's Proposed Finding In Enforcement Phase
SRFF	Staff's Rebuttal Finding In Enforcement Phase
Tr.	Transcript Of Pre-hearing Conference and Hearing In Enforcement Phase

I. Procedural History

On February 17, 2006, Seiko Epson Corporation, Epson America, Inc. and Epson Portland Inc. (Epson) filed a complaint seeking to initiate Investigation No. 337-TA-565. (Final Initial and Recommended Determinations (ID) March 30, 2007, EDIS Doc. No. 271963 at 1.) Epson's complaint alleged, inter alia, the infringement of one or more of the following patents by twenty-four respondents: U.S. Patent No. 5,615,957; U.S. Patent No. 5,622,439; U.S. Patent No. 5,158,377; U.S. Patent No. 5,221,148; U.S. Patent No. 5,156,472; U.S. Patent No. 5,488,401; U.S. Patent No. 6,502,917; U.S. Patent No. 6,550,902; and U.S. Patent No. 6,955,422. (ID at 1.) On March 17, 2006, the Commission determined to institute said Inv. No. 337-TA-565 and thereafter published its Notice of Investigation in the Federal Register. (71 Fed. Reg. 14720 (March 23, 2006).)

On April 12, 2006, Epson filed a motion to amend the complaint to add allegations of infringement of U.S. Patent No. 7,008,053 and U.S. Patent No. 7,011,397. (ID at 4.) On May 3, 2006, the administrative law judge issued an initial determination granting Epson's motion to amend the complaint and Notice of Investigation. (Order No. 5, May 3, 2006, EDIS Doc. No. 253241 (Non-reviewed May 26, 2006).)

On June 26, 2006, the administrative law judge issued an initial determination finding Respondents Mipo International Ltd. and Mipo America Ltd., in addition to other respondents, in default. (Order No. 12, June 26, 2006, EDIS Doc. No. 257305 (Non-reviewed July 19, 2006).) On January 16, 2007, the administrative law judge issued an initial determination terminating the investigation as to respondents Ribbon Tree (USA) Inc. and Apex Distributing, Inc. based on consent orders. (Order No. 28, Jan. 16, 2007, EDIS Doc. No. 268127 (Non-review February 12, 2007).)

The evidentiary hearing on violation took place on January 17-20 and 22-24, 2007. Respondents Ninestar Technology Co. Ltd. (Ninestar China), Ninestar Technology Company Ltd. (Ninestar US) and Town Sky Inc. (Town Sky) (collectively “Ninestar respondents”) participated in the hearing. On March 30, 2007, the administrative law judge issued a Final Initial and Recommended Determinations (ID), finding that the Ninestar respondents and other respondents and non-respondents had engaged in a widespread pattern of infringement of Epson’s patents in violation of Section 337. (ID at 350, 360.) The ID found that business conditions would enable respondents to circumvent a limited exclusion order. (ID at 350.) Based on the evidence, the administrative law judge recommended that the Commission issue a general exclusion order, as well as cease and desist orders against the Ninestar respondents and other respondents. (ID at 334, 360, 363.)

On April 13, 2007, the Ninestar respondents filed a petition for review of the ID. (Respondents Ninestar and Dataproducts’ Petition for Review, April 13, 2007, EDIS Doc. No. 272721.) On June 29, 2007, the Commission issued a determination to review portions of the ID and encouraged parties to the investigation, interested government agencies, and any other interested parties to file written submissions on the issues of infringement, validity, remedy, the public interest and bonding no later than July 13, 2007. (Notice dated June 29, 2007, EDIS Doc. No. 277164.)

On October 19, 2007, the Commission issued its Opinion, affirming certain of the administrative law judge’s conclusions, reversing certain other conclusions, adopting in part his recommendations on remedy and bonding, and providing relief in the form of a General Exclusion Order, a Limited Exclusion Order and Cease and Desist Orders directed to certain

domestic respondents. (See, generally, Commission Opinion, October 19, 2007, EDIS Doc. No. 284993.) On October 19, 2007, the Commission issued its Notice of Final Determination, Issuance of General Exclusion Order, Limited Exclusion Order and Cease and Desist Orders (the Remedial Orders), setting forth the details of its determination on remedy, bonding and the public interest. (Notice of Final Determination, Issuance of General Exclusion Order, Limited Exclusion Order and Cease and Desist Orders, October 19, 2007, EDIS Doc. No. 285001.)¹

The general exclusion order issued by the Commission on October 19, 2007 prohibits the unlicensed entry of ink cartridges for consumption covered by one or more of claim 7 of U.S. Patent No. 5,615,957 (the '957 patent); claims 18, 81, 93, 149, and 164 of U.S. Patent No. 5,622,439 (the '439 patent); claims 83 and 84 of U.S. Patent No. 5,158,377 (the '377 patent); claims 19 and 20 of U.S. Patent No. 5,221,148 (the '148 patent); claim 1 of U.S. Patent No. 5,488,401 (the '401 patent); claims 1, 2, 3, and 9 of U.S. Patent No. 6,502,917 (the '917 patent); claims 1, 31, and 34 of U.S. Patent No. 6,550,902 (the '902 patent); claims 1, 10, and 14 of U.S. Patent No. 6,955,422 (the '422 patent); claim 1 of U.S. Patent No. 7,008,053 (the '053 patent); and claim 21 of U.S. Patent No. 7,011,397 (the '397 patent).

The limited exclusion order issued by the Commission on October 19, 2007 prohibits the unlicensed entry for consumption of certain ink cartridges that are covered by one or more of claim 165 of the '439 patent and claims 29, 31, 34, and 38 of the U.S. Patent No. 5,156,472 (the '472 patent) that are manufactured abroad by or on behalf of, or imported by or on behalf of defaulting respondents Glory South Software Mfg., Butterfly Image Corp., Mipo International

¹ On January 13, 2009, the Federal Circuit, per curiam, affirmed the Commission Opinion and the Remedial Orders. (Judgment, January 13, 2009, Ninestar Technology Co. Ltd., et al. v. International Trade Commission, et al., 2008-1201 (Fed. Cir.).)

Ltd. (Mipo International), Mipo America Ltd. (Mipo America), AcuJet USA, Tully Imaging Supplies, Ltd. (Tully), Wellink Trading Co., Ltd. (Wellink), and Ribbon Tree (Macao) Trading Co. (Ribbon Tree (Macao)) or any of their affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns. The limited exclusion order also prohibits the unlicensed entry for consumption of certain ink cartridges that are covered by one or more of claims 45, 53, and 54 of the '397 patent that are manufactured abroad by or on behalf of, or imported by or on behalf of Mipo International, Mipo America, Tully, Wellink, and Ribbon Tree (Macao) or any of their affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns.

The Commission on October 19, 2007 also determined to issue cease and desist orders covering 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; claim 1 of the '053 patent; and claim 21 of the '397 patent. Said cease and desist orders were directed to domestic respondents Ninestar US, Town Sky, MMC Consumables, Inc., and Dataproducts USA, LLC. The Commission on October 19, 2007 further determined to issue additional cease and desist orders covering claim 7 of the '957 patent; claims 18, 81, 93, 149, 164, and 165 of the '439 patent; claims 83 and 84 of the '377 patent; claims 19 and 20 of the '148 patent; claims 29, 31, 34, and 38 of the ('472 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; claim 1 of the '053 patent; and claims 21, 45, 53, and 54 of the '397 patent (Mipo America only). Said cease and desist orders were directed to defaulting domestic respondents

Glory South Software Mfg., Mipo America, and AcuJet U.S.A.

The Commission served all parties, including Ninestar China, Ninestar US and Town Sky, with copies of the General Exclusion Order, Limited Exclusion Order and Cease and Desist Orders, by overnight mail on October 22, 2007. (Notice of Final Determination, Issuance of General Exclusion Order, Limited Exclusion Order and Cease and Desist Orders, October 19, 2007, at Certificate of Service.)

On October 30, 2008, the Commission issued corrected Cease and Desist Orders directed to respondents Ninestar US and Town Sky. The corrected Cease and Desist Orders removed references to the '397 patent, including claim 21 of the '397 patent, that were in the original Cease and Desist Orders. (Cease and Desist Order (Corrected) to Ninestar US, October 30, 2008; Cease and Desist Order to Ninestar US, October 19, 2007; Cease and Desist Order (Corrected) to Town Sky, October 30, 2008; Cease and Desist Order to Town Sky, October 19, 2007, EDIS Doc. No. 313129.)

On February 8, 2008, complainants filed two complaints seeking institution of formal enforcement proceeding against five respondents. One complaint alleges that Ninestar China and domestic companies Ninestar US and Town Sky have violated the general exclusion order and that Ninestar US and Town Sky have violated the cease and desist orders directed to them. The second complaint alleges that Mipo International and Mipo America have violated the general and limited exclusion orders and that Mipo America, Ltd. has violated the cease and desist order issued to it.

On May 1, 2008, the Commission issued a "Notice Of Institution Of Formal Enforcement Proceeding," under the caption "Consolidation Enforcement Proceeding." The Commission

Order with said notice read in part:

3. The enforcement proceeding is hereby certified to administrative law judge Paul J. Luckern, for the appropriate proceedings and the issuance of an enforcement initial determination ("ED"). In accordance with Commission rule 210.51 (a), the ALJ is directed to set the earliest practicable target date for completion of the enforcement proceeding within 45 days of institution. Such target date is to exceed the date of issuance of the ALJ's ED by four months.
4. The administrative law judge, in his discretion, may conduct any proceedings he deems necessary, including issuing a protective order, holding hearings, taking evidence, ordering discovery, and seeking documents from other agencies consistent with Commission rules to issue his ED. The ED will rule on the question of whether the enforcement respondents violated the orders issued at the conclusion of the above-captioned investigation on October 19, 2007. All defenses not barred by claim preclusion may be raised in this proceeding.
5. The administrative law judge shall also recommend to the Commission what enforcement measures are appropriate if the respondents are found to violate the Commission's orders. The administrative law judge, in his discretion, may conduct any proceedings he deems necessary, including taking evidence and ordering discovery, to issue his recommendations on appropriate enforcement measures.

(Emphasis added.)

Order No. 34, which issued on May 28, 2008, set a target date of August 17, 2009, which meant that the enforcement initial determination (ED), pursuant to the Commission Order of May 1, 2008, had to be filed no later than April 17, 2009. Order No. 34 also set a hearing date of January 14, 15, and 16, 2009.

On June 23, 2008, the Commission issued an order under the caption "Enforcement

Proceeding II” instituting an additional enforcement proceeding in this investigation, naming two enforcement respondents, viz. Ribbon Tree USA, Inc., dba Cana-Pacific Ribbons, Inc. (Ribbon Tree USA) and Apex Distributing Inc. (Apex). In said order the Commission stated:

3. The enforcement proceeding is hereby certified to administrative law judge Paul J. Luckern, who may consolidate the proceeding with the pending consolidated enforcement proceeding if he deems it appropriate to do so.

The administrative law judge in his Order No. 37 which issued on September 18, 2008, determined that it was appropriate to consolidate the two enforcement proceedings, viz. Consolidated Enforcement Proceeding and Enforcement Proceeding II. The respondents in the Consolidated Enforcement Proceeding and Enforcement Proceeding II are Ninestar China, Ninestar US, Town Sky (collectively “Ninestar respondents”), Mipo International, Mipo America, Ribbon Tree USA, and Apex, which respondents were named in the three complaints.

The parties were put on notice in Order No. 37 that the procedural schedule in Order No. 34, which issued on May 28, 2008 in the Consolidated Enforcement Proceeding, was in effect for the Consolidated Enforcement Proceeding and Enforcement Proceeding II.

Order Nos. 42, 43, 44, 45, 49 and 50 relate to joint stipulations entered into by counsel for respondents Ninestar China, Ninestar US and Town Sky (Ninestar respondents) and counsel for complainants. Specifically, Order No. 42 related to respondents Ninestar China and Comptree and what Ninestar China sold to Comptree, Order No. 43 related to authenticity of documents produced by complainants and the Ninestar respondents, Order No. 44 related to compatible ink cartridges and remanufactured ink cartridges, Order No. 45 related to certain products sold in the United States, Order No. 49 related to infringement of certain patent claims asserted in the

enforcement phase, and Order No. 50 related to infringement of certain patent claims asserted in the enforcement phase.

Order No. 48, which issued on January 9, 2009, found respondents Mipo International, Ribbon Tree USA and Apex in default. Order No. 51, which issued on January 13, 2009 and referred to Motion No. 565-89 filed by complainants on November 26, 2008, found respondent Mipo America in default. The staff, in a response dated December 8, 2008 to Motion No. 565-89, had agreed with complainants that adverse inferences against Mipo America should be made. However, it did not support certain of the adverse inferences requested by complainants.

On January 9, 2009, complainants filed a motion for an initial determination finding certain adverse inferences against defaulting respondents Mipo International, Ribbon Tree USA and Apex. (Motion Docket No. 565-91.) In an e-mail dated February 9, 2009, the staff informed the attorney adviser that it would not be opposing Motion No. 565-91.

An evidentiary hearing was conducted on January 14, 15 and 16, 2009 in which the staff, complainants and the Ninestar respondents participated.² Post hearing submissions have been filed.

On April 16 and 17, 2009, this administrative law judge was on official travel, approved by the Chairman's office, and which involved being away from Washington, D.C. However,

² During the hearing complainants and the staff were requested in their posthearing submissions to address service of Order Nos. 46 and 48 on respondents Mipo International, Ribbon Tree USA and Apex (Tr. at 156-166, 759-763). Also during the hearing complainants were requested to address in their posthearing submissions the staff's positions on the adverse inferences complainants had requests against Mipo America in complainants' Motion No. 565-89. (Tr. at 759-760.) In response, complainants represented that they are no longer pursuing the adverse inferences that the staff opposed. Rather they requested that the administrative law judge draw the adverse inference that the staff did not oppose as well as the specific inferences requested in Section VII of CEBR. (CEBR at 8, 9.)

before leaving Washington, he had finalized the ED, subject to telephone contact with his attorney advisor. Pursuant to the Commission notice of May 1, 2008, said ED had to be filed no later than April 17, 2009.

The administrative law judge was able to complete the official travel and return to his office in Washington at about 1:00pm EDT on April 17. He then first learned of a filing by counsel for the Ninestar respondents on April 16, 2009 at 2:16pm EDT. Said filing, titled "Respondents' Supplemental Authority," was procedurally defective in that it lacked a motion for leave to file the filing. However, the administrative law judge on April 17, 2009 learned that complainants' counsel had filed a response at 9:17 am EDT on April 17 titled "Complainants' Response To Respondents' Supplemental Authority." In view of the subject matter in issue in the ED, the administrative law judge has waived the procedural defect of the filing of the Ninestar respondents on April 16 and has considered the substance of the filings of the Ninestar respondents on April 16 and of complainants on April 17.

The "Respondents' Supplemental Authority" reads, in toto:

Respondents respectfully request this Court to review the recent decision of the district court in Kentucky, Static Control Components, Inc., v. Lexmark Int'l. Inc., 2009 U.S. Dist. LEXIS 29479 (E.D. Ky. Mar. 31, 2009) (Exhibit A) [Static Control Components], wherein the Court opined that in light of the Supreme Court's decision in Quanta Computer, Inc. v. LG Electronics, Inc., 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008) (Exhibit B), as discussed in LG Electronics, Inc. v. Hitachi, Ltd., 2009 U.S. Dist. LEXIS 20457, 2009 WL 667232, (N.D. Cal. March 13, 2009) (Exhibit C), that the decision of the Court of Appeals for the Federal Circuit in Jazz Photo Corp. v. Int'l Trade Comm., 264 F.3d 1094 (Fed. Cir. 2001) [Jazz Photo] is likely no longer the law.

Said document also includes as exhibits the three cases mentioned, supra.³

In Static Control Components, referred to by the Ninestar respondents, the district court held that a single use restriction that Lexmark sought to impose on U.S. purchasers of its “prebate” cartridges, by way of a single use condition or restriction on the product packaging, was ineffective to avoid patent exhaustion after that sale occurred. Static Control Components, 2009 U.S. Dist. LEXIS 29479 at *31-33. As patent exhaustion has never been raised by the Ninestar respondents except in the context of the affirmative defense of permissible repair, the administrative law judge assumes that respondents’ reference to Static Control Components is meant to raise a question related to one or both of the two elements of permissible repair, viz. 1) that the repairs 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.

With respect to reconstruction, the reasoning of the holding in Static Control Components rests squarely on the fact that “Static Control engaged in repair, not reconstruction or ‘replication’ of Lexmark’s Prebate cartridges.” (Static Control Components, 2009 U.S. Dist. LEXIS 29479, at *42 (emphasis added).) Thus, Static Control Components is inapposite because it does not signal a change in the law with respect to reconstruction.

With respect to a patent-exhausting first sale in the United States, the exhaustion issue in Static Control Components was decided based on whether the first sales were conditioned in any way, and not whether said first sales occurred in the United States or abroad. Thus, the administrative law judge finds Static Control Components, on its facts, irrelevant to this

³ There was no analysis or reasoning in the filing, and the filing does not point out which of the Ninestar respondents’ specific arguments said “recent decision” bolsters.

enforcement proceeding. While the opinion of Static Control Components does question whether or not patent exhaustion is triggered by foreign sales or is still restricted to sales in the United States as per Jazz Photo, any statements in Static Control Components with respect to foreign sales are indisputably dicta, as the opinion states “the issue of overseas sales is not before the Court in the context of Static Control’s Motion to Reconsider...” Dicta in a District Court case does not generally override Federal Circuit and Supreme Court precedent.

Based on the foregoing, the administrative law judge finds that Static Control Components, as referred to in “Respondents’ Supplemental Authority,” does not in any way change the law with respect to permissible repair.⁴

The matter is now ready for a final decision.

The enforcement initial determination (ED) is based on the record compiled at the 2009 hearing and the exhibits admitted into evidence as well as the record generated in the violation phase. The administrative law judge has also taken into account his observation of the witnesses who appeared before him during the hearing in January 2009. Proposed findings of fact submitted by the parties not herein adopted, in the form submitted or in substance, are rejected as either not supported by the evidence or as involving immaterial matters and/or as irrelevant. Certain findings of fact included herein have references to supporting evidence in the record. Such references are intended to serve as guides to the testimony and exhibits supporting the finding of fact. They do not necessarily represent complete summaries of the evidence

⁴ Moreover, any possible change in the law based on Static Control Components could not have assisted the Ninestar respondents, as the administrative law judge has found, infra, that the affirmative defense of permissible repair was waived, and that respondents have admitted that no evidence regarding one element of said affirmative defense was even presented to the administrative law judge in this enforcement proceeding. (See Section V, infra.)

supporting said findings.

II. Parties

A. Complainants

Complainant Seiko Epson Corporation (Seiko Epson) is a corporation organized and existing under the laws of Japan, located at 3-3-5 Owa, Suwa-Shi, Nagano-Ken, 392-8502, Japan (CFF III.A.1 (undisputed).)⁵ Seiko Epson is in the business of designing, engineering, manufacturing, and selling a wide variety of consumer, commercial, and industrial products, including ink cartridges for use with Epson printers. (CFF III.A.2 (undisputed).)

Subject to certain exclusive licenses, Seiko Epson owns all right, title, and interest in, including the right to sue thereon and the right to recover for infringement thereof, the following United States patents at issue in the Enforcement Phase which were named in the complainants, viz. the '439 patent, the '917 patent, the '053 patent, and '397 patent. (CFF III.A.3 (undisputed).) The '439, '917, '053, and '397 patents all relate generally to ink cartridges for printers and all were adjudicated in the Violation Phase (CFF III.A.4 (undisputed).)

Complainant Epson America, Inc. (Epson America) is a corporation organized and existing under the laws of the State of California, located at 3840 Kilroy Airport Way, Long Beach, California. (CFF III.A.5 (undisputed).) Epson America is the exclusive licensee of the right to distribute ink cartridges in the United States that are covered by the Epson Enforcement Patents. (CFF III.A.6 (undisputed).)

Complainant Epson Portland Inc. (Epson Portland) is a corporation organized and

⁵ While complainants' findings in the violation phase were designated "CFF," the numerical and letter references in the findings differentiate those findings from the new findings in the enforcement phase.

existing under the laws of the State of Oregon located at 3950 NW Alcock Place, Hillsboro, Oregon. (CFF III.A.7 (undisputed).) Epson Portland is the exclusive licensee of the right to manufacture ink cartridges in the United States that are covered by the Enforcement Patents. (CFF III.A.8 (undisputed).)

B. Respondents

The Enforcement respondents can be classified into two general categories: (1) Enforcement Respondents that are actively defending in this enforcement phase, and (2) Defaulting Enforcement Respondents that have failed to respond to allegations and/or discovery at issue.

1. Active Enforcement Respondents

There are three active Enforcement Respondents in this Enforcement Phase: (a) Ninestar Technology Co. Ltd. (Ninestar China), (b) Ninestar Technology Company, Ltd. (Ninestar US) and (c) Town Sky Inc. (Town Sky) (Ninestar respondents). Respondent Ninestar China is a corporation organized under the laws of China with its principal place of business located at No. 63 Mingzhubei Road, Xiangzhou District, Guangdong, China. (CFF III.B.1 (undisputed).) Ninestar China is one of the largest manufacturers and sellers for importation of aftermarket ink cartridges, including ink cartridges for use with Epson printers, in China. (CFF III.B.3-7, CFF IX.A.60 (all undisputed).)

Active Enforcement Respondents Ninestar US and Town Sky are wholly owned subsidiaries of Ninestar China. (CFF III.B.8 undisputed).) Ninestar China sells inkjet cartridges to its subsidiaries, Ninestar US and Town Sky, for resale in the United States. (CFF III.B.15 (undisputed).) The subsidiary entities have no other source or supplier for the Epson inkjet

cartridges that they sell in the United States other than Ninestar China. (CFF III.B.17-18 (undisputed).)⁶

In the violation phase of the investigation the administrative law judge found that Ninestar China “used several non-respondent affiliated companies to export to the United States Ninestar [China’s] ink cartridges for use with Epson printers,” including “Ferri Limited, Broadway Circuit, Ltd., Speed Leader, Ltd., and Giant Will Hong Kong.” (CFF III.B.29 (undisputed).) This finding was made in support of the recommendation for the issuance of a general exclusion order and was relied upon by the Commission in issuing the General Exclusion Order. (CFF III.B.30 (undisputed).) Since that time, Ninestar China began using “Color Depot Company Limited” (Color Depot) as an additional non-respondent affiliated company to export cartridges to the United States for use with Epson printers. (CFF III.B.31, (undisputed); CFF VI.A.219-220 (all undisputed).) In the Enforcement Phase Evidentiary Hearing, the Ninestar respondents admitted that Color Depot shipped Ninestar China’s products at Ninestar China’s behest, and that all Epson products Ninestar US and Town Sky buy and sell are manufactured by Ninestar China. (CFF III.B.31 (undisputed), CFF VI.A.219-220 (all undisputed).)

Respondent Ninestar US is private corporation organized under the laws of the State of

⁶ CFF III. B 17-18 read:

17. Upon questioning, witnesses for Town Sky and Ninestar US could not name a single other source for the goods they sold other than Ninestar China and its close affiliates. (Dai, Tr. at 961:23-962:22; CX-E657C Li Tr. at 33:17-33:21; 34:22-35:4.)

18. Town Sky and Ninestar US’ inventory and product offerings are limited to products sold by Ninestar China. (Dai, Tr. at 961:23-962:22; CX-E657C Li Tr. at 33:17-33:21; 34:22-35.)

New Jersey with its principal place of business located at 19895 Harrison Ave., Walnut, California. (CFF III.B.35 (undisputed).) Ninestar US imports into the United States and sells after importation aftermarket ink cartridges, including ink cartridges for use with Epson printers, all of which it purchases from Ninestar China. (CFF III.B.36 (undisputed).) In the Violation Phase of this investigation, the Commission entered a Cease and Desist Order, dated October 19, 2007, directed to Ninestar US. (CFF II.28, 42 (all undisputed).)

Respondent Town Sky is a corporation organized under the laws of the State of California with its principal place of business located at 5 South Linden Ave., Suite 4, South San Francisco, California. (CFF III.B.37 (undisputed).) Town Sky imports into the United States and sells after importation aftermarket ink cartridges, including ink cartridges for use with Epson printers, all of which it purchases from Ninestar China. (CFF III.B.16, 18, 38 (all undisputed).) In the Violation Phase, the Commission entered a Cease and Desist Order, dated October 19, 2007, directed to Town Sky. (CFF II.28, 42 (all undisputed).)

a. Whether Each Of The Ninestar Respondents Should Be Found Jointly And Severally Liable Should A Violation Be Found As To Any Of Said Respondents

Complainants argued that Ninestar China is jointly and severally liable for the violations of Ninestar US and Town Sky. (CEBr at 41-46.) Specifically, complainants have argued that Ninestar China wholly owns Ninestar US and Town Sky (CEBr at 42); that Ninestar China “structured Ninestar US and Town Sky so that the owners of Ninestar China had complete control over the subsidiaries” (CEBr at 42); that Ninestar China was “actively involved in directing the activities of Ninestar US and Town Sky” (CEBr at 42); that Ninestar China “controlled and directed the imports and sales of the products at issue in this case” (CEBr at 43);

and that Ninestar China was subject to the Cease and Desist Orders as Ninestar US' and Town Sky's sole shareholder (CERBr at 26).

The Ninestar respondents argued that Ninestar China is not liable for the activities of Ninestar US and Town Sky. (REBr at 15.) Specifically, respondents argued that a parent is not liable for the actions of its subsidiary, even if there are overlapping directors or officers (REBr at 15; RERBr at 12); and that "Ninestar US and Town Sky are independent corporations and their activities are not directed, in any way, shape, or form, by Ninestar China" (REBr at 15).

The staff argued that:

Ninestar China is subject to the Commission's general exclusion order. In addition, Ninestar China is subject to the Commission's cease and desist orders directed to Ninestar US and Town Sky issued in the underlying investigation because Ninestar is a principal or stockholder as defined in Part II of the orders. The evidence shows that Ninestar China is the sole shareholder of both Ninestar US and Town Sky. The evidence shows Ninestar China shipped ink cartridges covered by the patents identified in the Commission orders to its subsidiaries for importation and thus directly participated with each of its subsidiaries in violating the exclusion and cease and desist orders. Thus, the staff supports Complainants' request that civil penalties be imposed against Ninestar China

(SEBr at 15.)

Commission cease and desist orders protect legal rights, including patent rights, and enforcement proceedings, like contempt proceedings, make it clear that Commission orders are to be complied with. Absent the ability to impose sanctions, the courts and the Commission are "mere boards of arbitration, whose judgments and decrees would be only advisory." Electrical Workers Pension Trust Fund v. Gary's Electric Service Company, 340 F.3d 373, 378 (6th Cir. 2003), citing Gompers v. Buck's Stove and Range Co., 221 US. 418, 450 (1911). It is

undisputed that each of Ninestar US and Town Sky are wholly owned subsidiaries of Ninestar China (CFF III.B.8 (undisputed)); and that Ninestar China sells inkjet cartridges to Ninestar US and Town Sky for resale in the United States (CFF III.B.15 (undisputed)). It is further undisputed that the inventory and product offerings of Ninestar US and Town Sky are limited to products sold by Ninestar China. (CFF III.B.18 (undisputed).) The administrative law judge has found that Ninestar China, Ninestar US, and Town Sky are affiliates of each other. (Final ID on Violation at 372 (Finding of Fact 20).) Moreover, Ninestar China had actual knowledge of the Cease and Desist Orders against Ninestar US and Town Sky (Tr. at 776-77) and Ninestar China was subject to the Cease and Desist Orders as Ninestar US' and Town Sky's sole shareholder. (CFF IV.B.2 (undisputed).)

In Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406, Enforcement Proceedings II, Enforcement Initial Determination, Apr. 6, 2004, at 101-102 (Lens-Fitted Film Packages), the cease and desist order extended to the principals of respondent Jazz, and the Commission found that officer Benun was "legally identified with Jazz [the respondent] and had the power to affect compliance with Jazz's Cease and Desist Order." Similarly, in the present investigation, the administrative law judge finds that Ninestar China is liable for violations of the Cease and Desist Orders as a principal and the sole shareholder of Ninestar US and Town Sky. See Fuji Photo Film Co., Ltd. v. International Trade Comm'n, 474 F.3d 1281, 1293 (Fed. Cir. 2007) (Fuji Photo) (affirming the administrative law judge's decision to hold shareholder liable for corporation's violation of Cease and Desist order because shareholder was "legally identified with [respondent] and had the power to affect compliance with Cease and Desist Order"); see also San Huan New Materials High Tech v. ITC, 161 F.3d 1347, 1349-50 n.2 (Fed. Cir. 1998) (San Huan) (finding

that when two companies own a controlling interest in a third company, the three companies should be subject to the same liability).

The Ninestar respondents do not appear to dispute that the Cease and Desist Orders issued against Ninestar US and Town Sky apply to Ninestar China. These Orders expressly apply to the subsidiaries' "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and majority-owned business entities, successors, and assigns . . . insofar as they are engaging in [prohibited] conduct." (Cease and Desist Order at 3.) This provision makes Ninestar China, the subsidiaries' principal and sole owner, liable for violating the Cease and Desist Orders, whether directly through its own actions or through its control over the violations of the two subsidiaries, under basic agency principles. See, e.g., Lens-Fitted Film Packages, Enforcement Initial Determination at 99 ("By this plain language, the Order applies to those persons who would be responsible for the actions of a business entity. . . under long-standing agency law principles."). Thus, as this administrative law judge has previously found, "piercing the corporate veil" is not required to hold a controlling officer liable" "for failing to direct his corporations to comply with the [Court's] orders." Id. at 101-02 (citation omitted), citing Chicago Truck Drivers v. Bhd. Labor Leasing, 207 F.3d 500, 507-08 (8th Cir. 2000); see also Fuji Photo, 474 F.3d at 1293 (noting that Cease and Desist Order applied to officer respondent where Commission found officer was "legally identified with [respondent] and had the power to affect compliance with [the] Cease and Desist Order").

The Commission has routinely imposed aggregate penalties and joint and several liability upon related respondents in similar circumstances in past enforcement proceedings. See, e.g.,

Certain Agricultural Tractors Under 50 Power Take-OffHorsepower, Inv. No. 337-TA-380

Enforcement Proceeding, Comm'n Op., 1999 ITC LEXIS 260 at *128-29 (Tractors) (finding joint and several liability appropriate where respondents “are doing or have done business under a number of names . . . and it is unclear which assets are held by which business entity at any given time”); see also San Huan, 161 F.3d at 1349-50 n.2 (noting without disapproving that the administrative law judge recommended that penalty “be imposed in the aggregate” where the three respondents were “related companies,” the US respondent obtained its infringing magnets from the other two respondents, and two respondents owned a controlling interest in the third respondent). Here, every single sale of a remanufactured cartridge by Ninestar US or Town Sky in violation of the Remedial Orders was made possible by Ninestar China, as the sole provider of the cartridges (CFF III.B.15, 17-18 (all undisputed); CFF VIX.A.3-5,7-8 (all undisputed)), and said subsidiaries were wholly owned by Ninestar China.

The administrative law judge finds that the only evidentiary cite for the claim of Ninestar respondents that Ninestar US and Town Sky “are independent corporations and their activities are not directed, in any way, shape, or form by Ninestar China” is the hearing testimony of Rusong Lu and William Dai.⁷ The administrative law judge finds Dai’s hearing testimony contradicts the position set forth by the Ninestar respondents because during his testimony Dai admitted inter alia that{ }and that he put a Ninestar China officer, Rusong Lu, on the payroll{ } Thus said hearing testimony read:

⁷ Lu is employed by Ninestar China (Tr. at 645-46), while Dai is a vice president of Ninestar US (Tr. at 830).

Q. Sir, let me put up portions of your deposition taken in this matter, page 37, lines 5 through 21 first.

Mr. Dai, you understand English somewhat, don't you?

A. It's hard to say how much, but I understand some.

Q. Now, I'm going to read your testimony.

"QUESTION: To whom do you report?

"ANSWER: Regarding what?

"QUESTION: The business.

"ANSWER:{
}

"QUESTION: When there are questions that are beyond your authority, to whom do you talk?

"ANSWER:{

}

"QUESTION: If you think there is a problem, who do you talk to?

"ANSWER: If there is a big problem, I will talk with
{ }

"QUESTION: Is that { }

"ANSWER: Yes.

Q. Thank you. And then going on to page 37, line 22, through 38, 19, and this is with respect to the same{ }

"QUESTION: Does he ever come to the offices of Ninestar U.S.?

"ANSWER: What period of time?

"QUESTION: Since March of 2007?

"ANSWER: I cannot recall.

"QUESTION: When is the last time you saw{ } in the offices of Ninestar U.S.?

"ANSWER: I cannot recall.

"QUESTION: What is{ } position at Ninestar U.S.

"ANSWER: I don't know.

"QUESTION: When you turn to him with respect to the business of Ninestar U.S., in what capacity are you speaking to him?

"ANSWER: I don't fully understand your question. In what capacity? I am the marketing manager.

"QUESTION: What capacity does he have when you are talking to him?

"ANSWER: I don't know what capacity he is in, but I only know he is{ }

"QUESTION: The{ } of what?

"ANSWER: The { }

Did you understand the second part, or do you want it translated?

A. I understand this part, but in terms of the word I don't remember clearly what I said. It seemed I used the word (Chinese word) in Chinese, which means{ }

Q. Now, when you were deposed, there was a formal translator, correct?

A. Yes.

Q. And there was also a check translator there with your attorney, Mr. O'Connor, isn't that correct?

A. Yes.

Q. { }

A. { }

Q. { }

A. Yes.

Q. What position does Rusong Lu have at Ninestar U.S.?

A. I don't think he has any position there.

Q. Is he on the payroll of Ninestar U.S.?

A. Yes.

Q. And isn't he on the payroll of Ninestar U.S.? { }

A. { }

Q. { }

A. { }

Q. { }

}

A. What time period are you referring to?

Q. In 2008?

A. { }

Q. For Ninestar U.S.?

A. Should be Ninestar China.

Q. What about for Ninestar U.S.?

A. { }

Q. Then why is he paid a salary by Ninestar U.S.?

A. { }

Q. Why was he paid a salary by Ninestar U.S. in 2008?

A. { }

Q. { }

A. { }

(Tr. at 834-39 (emphasis added).) In addition, there is the following portion of the hearing testimony of Rusong Lu:

Q. Yet it's true, is it not, that { }

A. { }

Q. Does he do that? Isn't it true that { }

A. { }

}

Q. Isn't it true that, when there are major events,{
}

A. { }

Q. I would like to present page 24 of the witness' deposition. I would like to present the witness with his deposition, page 24, line 17, through page 25, line 8. This is page 24, line 17, through page 25, line 8, and Ryan will put them together for us in the appropriate order, I am sure.

"QUESTION: {
}

"ANSWER: { }

"QUESTION: { }

"ANSWER: {
}

"INTERPRETER UN: Sorry.

"Interpreter conferring with the deponent.

"THE INTERPRETER: {
}

Then Ms. Chu states, {
}

Then Mr. Barza says, "Do you accept that, Mr. Translator?"

"INTERPRETER UN: Yes, I do."

(Tr. at 665-66 (emphasis added).)

Respondents' dependance on United States v. BestFoods, 524 U.S. 51 (1998)

(BestFoods) and Wayts v. Peter Kiewit Sons, Case No. 90-8022, 1991 U.S. App. LEXIS 14028

(10th Cir. June 27, 1991) (Wayts) for the proposition that a parent is not liable for the actions of

its subsidiary, even if there are overlapping directors or officers, is found inapposite, as the administrative law judge has found, supra, that Ninestar China exercised implicit control over both Ninestar US and Town Sky due to its status as the sole owner and supplier of the cartridges delivered to said subsidiaries. (See REBr at 15.) Further, in BestFoods the 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," thus, supporting a finding in favor of complainants due to Ninestar China being the sole shareholder of its subsidiaries and Ninestar China's use of its subsidiaries to sell the remanufactured cartridges. Best Foods, 524 U.S. at 62. Additionally, the Wayts case is found inapposite because it is a case about 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. As found, supra, 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, playing more than an "advisory role" and, thus, subjecting itself to liability for the actions of the subsidiaries.

Based on the foregoing, the administrative law judge finds that each of the Ninestar respondents should be found to be jointly and severally liable should a violation be found as to any of said respondents.

2. Defaulting Enforcement Respondents

The Defaulting Enforcement Respondents are Mipo International, Mipo America, Ribbon Tree USA and Apex. Defaulting Enforcement Respondent Mipo International is a private limited company organized under the laws of Hong Kong with its principal place of business

located at Flat B, 11F, Wong Tze Building, 71 Hoe Yuen Road, Kwun Tong, Kowloon, Hong Kong. (CFF III.B.39 (undisputed).) It is a manufacturer and seller for importation of aftermarket ink cartridges, including ink cartridges for use with Epson printers. (CFF III.B.40 (undisputed).) Mipo International is affiliated with Enforcement Respondent Mipo America (collectively “Mipo”). (CFF III.B.41 (undisputed).) In the Violation Phase, the Commission entered a Limited Exclusion Order dated October 19, 2007 directed to Mipo International. (CFF III.B.42 (undisputed).) In the Enforcement Phase, Mipo International has failed to respond to Order No. 46 directing Mipo International to show cause why it should not be held in default. (CFF II. 44-45 (all undisputed).) As a result, the administrative law judge entered Order No. 48 on January 9, 2009, finding respondents Mipo International, Ribbon Tree USA and Apex in default. (CFF II.45 (undisputed).)

Defaulting Enforcement respondent Mipo America Ltd. is a corporation organized under the laws of the State of Florida with its principal place of business located at 3100 N.W. 72nd Avenue #106, Miami, Florida. (CFF III.B.52 (undisputed).) 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. (CFF III.B.53 (undisputed).) In the Violation Phase, the Commission entered a Cease and Desist Order and a Limited Exclusion Order, both dated October 19, 2007, directed to Mipo America. (CFF III.B.54 (undisputed).) Mipo America failed to respond to complainants’ motion for default and adverse inferences and to compel discovery filed November 26, 2008. (CFF II.48-50 (all undisputed).) On January 13, 2009, the administrative law judge granted complainants’ motion and found Mipo America in default. (CFF II.51 (undisputed).)

Defaulting Enforcement respondent Ribbon Tree USA 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. (CFF III.B.55 undisputed.) Ribbon Tree USA continues to have a place of business in Canada located at Unit 260, 4011 Viking Way, Richmond B.C., Canada. (CFF III.B.56 (undisputed).) Ribbon Tree USA is registered with the Florida Secretary of State as a foreign corporation and maintains another registered agent there, Paul Lee, located at 16081 Flight Path Drive, Brooksville, FL. (CFF III.B.57 (undisputed).) Ribbon Tree USA 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. (CFF III.B.58-59 (undisputed).) In the Violation Phase, the Commission entered a Consent Order directed to Ribbon Tree USA dated February 12, 2007. (CFF III.B.60 (undisputed).) Ribbon Tree USA failed to respond to Order No. 46, directing it to show cause why it should not be held in default. (CFF II.44-45 (undisputed).) As a result, the administrative law judge entered Order No. 48 on January 9, 2009, finding Ribbon Tree USA in default.

Defaulting Enforcement 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. (CFF III.B.61 (undisputed).) 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. (CFF III.B.62 (undisputed).) In the Violation Phase, the Commission entered a Consent Order directed to Apex dated February 12, 2007. (CFF III.B.63 (undisputed).) Apex failed to respond to the ALJ's Order No. 46, directing Apex to show cause why it should

not be held in default. (CFF II.44-45 (undisputed).) As a result, the administrative law judge entered Order No. 48 on January 9, 2009, finding Apex in default. (CFF II.45 (undisputed).)

- a. Whether Each Of Respondent Mipo International and Respondent Mipo America Should Be Found Jointly And Severally Liable Should A Violation Be Found As To Any Of Said Respondents And Whether Each of Respondent Ribbon Tree USA And Respondent Apex Should Be Found Jointly And Severally Liable Should A Violation Be Found As to Any Of Said Respondents

Complainants argued that joint and several liability should apply between respondent Mipo International and its subsidiary respondent Mipo America. (CEBr at 110.) Complainants also argued that Ribbon Tree USA and Apex are affiliated. (CEBr at 15; CFF III.B.58 (undisputed as to asserted facts).)

The staff argued that Mipo America is affiliated with Mipo International, and thus, the staff supported complainants' request that the Mipo respondents be held jointly and severally liable. (SEBr at 16.)

Complainants have presented unrebutted 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. (CFF III.B.50 (undisputed).) Also, said website refers to having a "branch office" in the United States. (CFF III.B.49 (undisputed).) In addition, Mipo America sells in the United States and sells after importation aftermarket ink cartridge manufactured by Mipo International. (CFF III.B.53 (undisputed).) Based on the foregoing, the administrative law judge finds 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 stemming from this enforcement action.

The administrative law judge has found in the violation phase of the investigation that Ribbon Tree USA and Apex are affiliated. (See Inv. No. 337-TA-565, ID, Section XIII.A.106.) Order No. 28, which issued on January 16, 2007, terminated both Ribbon Tree USA and Apex from the investigation based on a consent order.⁸ Based on the foregoing, the administrative law judge finds that respondents Ribbon Tree USA 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.

III. Jurisdiction

Enforcement Respondents Ninestar US, Town Sky, Mipo International, Mipo America, Ribbon Tree USA, and Apex are all named individually in specific orders issued under Commission rule 210.75(b). (CFF IV.B.1 (undisputed).) The Orders to Cease and Desist directed to Ninestar US and Town Sky also require Ninestar China to comply with those orders because Ninestar China is “the shareholder” of each of those companies. (CFF IV.B.2 (undisputed).) The Commission issued those Orders to address unfair importation as defined in 19 U.S.C § 1337(a)(1)(B). Pursuant to said section the Commission has subject matter jurisdiction over certain acts of unfair importation declared unlawful by Congress, namely:

[t]he importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee of articles that . . . infringe a valid and enforceable United States patent.

Congress delegated this authority from its plenary power to regulate foreign commerce under Article I, section 8, clause 3 of the Constitution. See California Bankers Ass’n v. Shultz, 416

⁸ As indicated in the Procedural History, the Commission determined not to review Order No. 28 and issued a consent order on February 12, 2007.

U.S. 21, 59, 94 S.Ct. 1494, 1516 (1974) (“The plenary authority of Congress to regulate foreign commerce, and to delegate significant portions of this power to the Executive, is well established”); Certain Single Handle Faucets, Inv. No. 337-TA-167, Comm’n Determination at 26-7 (Aug. 10, 1984). Congress also delegated to the Commission authority to enforce specific orders. See 19 U.S.C. § 1337(f)(2). Pursuant to this authority, the Commission’s rules provide that it may commence proceedings to enforce its orders and address “violations of any exclusion order, cease and desist order, or consent order.” See Commission rule 210.75(b)(1). Based on the foregoing, the administrative law judge finds that the Commission has subject matter jurisdiction.

The administrative law judge finds that the Commission has personal jurisdiction over Enforcement Respondents Ninestar China, Ninestar US, and Town Sky because they have responded to the complaint and because they have actively participated in this Consolidated Enforcement Proceeding And Enforcement Proceeding II by filing numerous pleadings and appearing at the hearing. (CFF IV.A.1 (undisputed).) The administrative law judge has already stricken Ninestar China’s defense of no personal jurisdiction in the Violation Phase on the grounds that it participated extensively in the investigation. (CFF IV.A.2 (undisputed).)

Enforcement Respondent Mipo America has responded to the complaint and Notice of Enforcement and has filed a motion in this Enforcement Action. Enforcement respondents Ribbon Tree USA and Apex were both served with copies of the complaint at the address of their registered agent for service of process, which lies within the Commission’s territorial jurisdiction, and were also served with notices of institution of the Enforcement Action within the Commission’s territorial jurisdiction. (CFF IV.A.6 -7 (all undisputed).) Furthermore, Ribbon

Tree USA and Apex actively participated in the underlying violations phase of this case by signing a Consent Order and by filing motions. (CFF IV.A.8 (undisputed).) The signed Consent Order expressly contemplated that “enforcement ... shall be carried out,” under the Commission’s rules, which further consents to the jurisdiction of this Commission. (CFF IV.A.9 (undisputed).) Based on the foregoing, the administrative law judge finds that the Commission has personal jurisdiction over respondents so named in this paragraph.

IV. The Products And Claims At Issue

Complainants selected four of the 31 patent claims that were found valid and infringed in the Violation Phase and that are the subject of the Remedial Orders. These four claims are claim 81 of the ‘439 patent, claim 9 of the ‘917 patent, claim 1 of the ‘053 patent and claim 21 of the ‘397 patent (the Enforcement Claims). (CFF V.B.1 (undisputed).) All of these claims are covered by the General Exclusion Order. (General Exclusion Order : 337-TA-565, Oct. 19, 2007, at 2 ¶ a, EDIS Doc. No. 285001.)

Each of the Cease and Desist Orders issued against the Enforcement Respondents prohibits the sale or importation for sale of “covered products.” In the case of the Cease and Desist Orders entered against respondents Ninestar US and Town Sky, “covered products” include three of the four Enforcement Claims, namely, claim 81 of the ‘439 patent, claim 9 of the ‘917 patent and claim 1 of the ‘053 patent. (Order to Cease And Desist (Corrected) re Ninestar US and Town Sky, 337-TA-565, Oct. 30, 2008, at 2 ¶ G, EDIS Doc. Nos. 313129, 313131.) Claim 21 of the ‘397 patent was not included as part of these Cease and Desist Orders because complainants represented that, during the Violation Phase, Ninestar US and Town Sky were not importing and selling ink cartridges that infringed that claim.

“Covered products,” as defined in the Cease and Desist Order against Mipo America, include cartridges covered by one or more of the four Enforcement Claims. (Order to Cease and Desist re Mipo America, 337-TA-565, Oct. 19, 2007, at 2 ¶ G, EDIS Doc. No. 285001.) Finally, the Consent Order against the Apex Respondents prohibits the sale or importation for sale of “ink cartridges that infringe claim[] . . . 81 . . . of . . . the ‘439 patent . . . ; claim[] 9 . . . of . . . the ‘917 patent . . . ; claim 1 of the ‘053 patent; and claim[] 21 . . . of the ‘397 patent” (Consent Order re Ribbon Tree USA and Apex, 337-TA-565, Feb. 12, 2007, at 2, EDIS Doc. No. 269534.)

The products at issue are Enforcement Respondents’ ink cartridges, the sale or importation for sale of which Epson alleges violate the Commission’s Remedial Orders. Complainants argued, and it is undisputed that the ink cartridges are for use in Epson’s on-carriage ink jet printers. (CFF V.C.1 (undisputed).) There are two types of ink cartridges in use: (1) compatible ink cartridges and (2) remanufactured ink cartridges. Epson and the Ninestar respondents have defined “compatible” ink cartridges as new ink cartridges that are not manufactured by Epson and that are manufactured for use with Epson inkjet printers. (Order No. 44: Joint Stipulation Regarding Products at Issue, Dec. 11, 2008, EDIS Doc. No. 315711; CFF V.D.1 (undisputed).) At the hearing, Epson’s witnesses, Herb Seitz, Gerald Murch and Jeff Kinrich, as well as William Dai of Ninestar US, all defined compatible cartridges in this way and used the term to refer to these types of cartridges. (CFF V.D.1 (undisputed).)

Complainants and the Ninestar respondents have defined “remanufactured” ink cartridges as genuine Epson ink cartridges (i.e., originally manufactured by Epson) that have been used by a consumer and thereafter refilled with ink by a remanufacturer. (Order No. 44: Joint Stipulation

Regarding Products at Issue, Dec. 11, 2008, EDIS Doc. No. 315711; see also CFF V.D.2 (undisputed).) At the hearing, complainants' witnesses, Seitz, Murch and Kinrich, as well as the Ninestar respondents' witness Dai, all defined remanufactured cartridges in this way. (CFF V.D.2 (undisputed).) Remanufactured cartridges are sometimes referred to as "remans" for short. (CFF V.D.8 (undisputed); see also CEBr at 20-21.)

There is evidence that a remanufactured cartridge is no different in terms of patent claim analysis than the genuine Epson cartridge from which it was remanufactured. (CFF V.D.3, 7 (all undisputed).) Hence, because all genuine Epson cartridges for Epson's on-carriage ink jet printers practice the Enforcement Claims all such genuine Epson cartridges would infringe the Enforcement Claims after they are remanufactured.⁹ (CFF V.C.2, V.D.3, 7 (all undisputed).)

All genuine Epson cartridges for Epson's on-carriage ink jet printers can be divided into five generations, which Epson refers to as the (1) sponge, (2) sponge-plus-chip, (3) HAV I, (4) HAV II and (5) HAV III generations.¹⁰ (CFF V.C.4 (undisputed).) All genuine Epson cartridges

⁹ The process by which a genuine Epson cartridge is remanufactured includes refilling the empty genuine Epson cartridge with ink; removing or covering up the original Epson label; covering up, blacking out, obliterating other Epson markings; resetting the chip; shaving off certain plastic projections; and capping the ink-supply port to prevent leakage after refilling. (CFF V.D.3-6 (all undisputed).) None of these steps, however, changes the infringement analysis of the remanufactured cartridge. In other words, the remanufactured cartridge infringes the same claims as are practiced by the genuine Epson cartridge from which it is remanufactured. (CFF V.D.7 (all undisputed).)

¹⁰ Sponge cartridges use an ink-supply tank containing a sponge to regulate ink flow. (CFF V.C.5 (undisputed).) Sponge-plus-chip cartridges use an ink-supply tank containing a sponge and also incorporate a semiconductor chip on the cartridge with contacts for communication with the printer. (CFF V.C.6 (undisputed).) HAV I cartridges use a valve system to regulate ink flow and also incorporate a chip and a lever. (CFF V.C.7 (undisputed).) HAV II cartridges also use a valve system, but they place the chip on the cartridge side wall opposite the side with the lever. Finally, HAV III cartridges also use a valve system, a lever and a chip. (CFF V.C.8 (undisputed).) Like HAV I cartridges, HAV III cartridges place the chip on

within a generation are of identical or essentially identical structure because each cartridge has components that are common to all of the other cartridges in that generation, even if the size of the components or the size of the cartridge as a whole may vary from cartridge to cartridge. (CFF V.C.11 (undisputed).) This commonality allows all cartridges within a generation to be represented by a single representative cartridge. (CFF V.C.10 (undisputed).) Complainants' Murch selected five representative cartridges (one from each generation) to represent the universe of Epson's on-carriage genuine cartridges sold world-wide. (CFF V.C.10, 13, 17, 21, 25, 29 (all undisputed).) Murch referred to these five representative cartridges as "Genuine Epson Representative Cartridge" or "GERC." (CFF V.C.10 (undisputed).) "GERC-1" (CPX-1111) represents all genuine Epson cartridges sold worldwide of the sponge generation. (CFF V.C.13 (undisputed).) "GERC-2" (CPX-1114) represents all genuine Epson cartridges sold worldwide of the sponge-plus-chip generation. (CFF V.C.17 (undisputed).) "GERC-3" (CPX-1124) represents all genuine Epson cartridges sold worldwide of the HAV I generation. (CFF V.C.21 (undisputed).) "GERC-4" (CPX-1125) represents all genuine Epson cartridges sold worldwide of the HAV II generation. (CFF V.C.25 (undisputed).) Finally, "GERC-5" (CPX-E281) represents all genuine Epson cartridges sold worldwide of the HAV III generation. (CFF V.C.29 (undisputed).)

Applying the relevant claim constructions for claim 81 of the '439 patent, the administrative law judge finds that GERC-1 practices claim 81 because it literally meets the preamble and each limitation of the claim. (CFF V.E.1-7; V.F.2-10 (all undisputed).) Because GERC-1 is representative of all of the genuine Epson cartridges within the sponge generation, he

the same side wall as the lever and near the ink-supply port. (CFF V.C.9 (undisputed).)

finds that all cartridges within that generation also practice claim 81. (CFF V.F.11 (undisputed).)

In addition, the analysis of GERC-1 under claim 81 also equally applies to GERC-2 and the genuine Epson cartridges it represents because like GERC-1, GERC-2 incorporates a sponge in the ink cartridge and thus the administrative law judge finds that it meets the preamble and all of the claim limitations. (CFF V.F.12 (undisputed).) Accordingly, the administrative law judge finds that GERC-2 and the genuine Epson cartridges it represents also practice claim 81 of the '439 patent. (CFF V.F.13 (undisputed).)

Also, if any of the genuine Epson models represented by GERC-1 are remanufactured, the administrative law judge finds that such remanufactured cartridges would infringe claim 81 of the '439 patent in the same way that GERC-1 practices claim 81. (CFF V.F.14 (undisputed).) Similarly, if any of the genuine Epson models represented by GERC-2 are remanufactured, the administrative law judge finds that such remanufactured cartridges would infringe claim 81 of the '439 patent in the same way that GERC-2 practices claim 81. (*Id.*) Accordingly, the administrative law judge finds that any remanufactured genuine Epson cartridge model represented by GERC-1 or GERC-2 infringes claim 81 of the '439 patent. (*Id.*) Thus, the administrative law judge finds that genuine Epson cartridges represented by GERC-1 or GERC-2 that are covered by claim 81 of the '439 patent are listed in CFF V.F.17 (undisputed).

Applying the relevant claim constructions for claim 9 of the '917 patent, the administrative law judge finds that GERC-2 practices claim 9 because it literally meets the preamble and each claim limitation. (CFF V.E.1-2, 8-11; CFF V.F.18-33 (all undisputed).) Because GERC-2 is representative of all of the genuine Epson cartridges within the sponge-plus-chip generation, he further finds that all cartridges it represents within that generation also

practice claim 9. (CFF V.F.34 (undisputed).)

The administrative law judge finds that the analysis of GERC-2 under claim 9 applies equally to GERC-3, GERC-4 and GERC-5 and the genuine Epson cartridges represented by those cartridges. (CFF V.F.35 (undisputed).) The administrative law judge further finds that like GERC-2, GERC-3, 4 and 5 all incorporate a semiconductor storage device that stores information about the ink and all have contacts arranged as required by claim 9. (Id.) As such, he finds that GERC-3, 4 and 5 each meet the preamble and all of the limitations of claim 9 in the same way as GERC-2.¹¹ Accordingly, the administrative law judge further finds that GERC-2, 3, 4 and 5, and the genuine Epson cartridges they represent, also practice claim 9 of the '917 patent. (Id.)

If any of the genuine Epson models represented by GERC-2 are remanufactured, then the administrative law judge finds that such remanufactured cartridges would infringe claim 9 of the '917 patent in the same way that GERC-2 practices claim 9. (CFF V.F.36 (undisputed).)

Similarly, if any of the genuine Epson models represented by GERC-3, 4 or 5 are remanufactured, the administrative law judge finds that such remanufactured cartridges would infringe claim 9 of the '917 patent in the same way that GERC-3, 4 and 5 practice claim 9. (Id.)

Accordingly, he finds that every remanufactured genuine Epson cartridge model represented by GERC-2, GERC-3, GERC-4 or GERC-5 infringes claim 9 of the '917 patent. (Id.) All genuine

¹¹ Although there are differences in structure between GERC-2 and GERC-3, 4 and 5, those differences are immaterial with respect to analysis of claim 9 because these cartridges all have the same common features as required by claim 9. (CFF V.F.35 (undisputed).) Nevertheless, an independent claim analysis with respect to each of GERC-3, 4 and 5 further confirmed that each practices claim 9 of the '917 patent and confirmed that the analysis he presented of GERC-2 under claim 9 equally applies to GERC-3, 4 and 5. (Id.)

Epson cartridges represented by GERC-2, 3, 4 or 5 that are covered by claim 9 of the '917 patent are listed in CFF V.F.37 (undisputed).

Applying the relevant claim constructions for claim 1 of the '053 patent, the administrative law judge finds that GERC-4 practices claim 1 because it literally meets the preamble and each claim limitation. (CFF V.E.1-2, 12-13; CFF V.F.38-51 (all undisputed).) Because GERC-4 is representative of all of the genuine Epson cartridges within the HAV II generation, he further finds that all Epson HAV II cartridges also practice claim 1. (CFF V.F.52 (undisputed).)

The administrative law judge finds that if any of the genuine Epson models represented by GERC-4 are remanufactured, such remanufactured cartridges would infringe claim 1 of the '053 patent in the same way as GERC-4 practices claim 1. (CFF V.F.53 (undisputed).) Accordingly, he finds that every remanufactured genuine Epson cartridge model represented by GERC-4 infringes claim 1 of the '053 patent. (*Id.*) All genuine Epson cartridges represented by GERC-4 that are covered by claim 1 of the '053 patent are listed in CFF V.F.54 (undisputed).

The administrative law judge finds that GERC-4 practices claim 21 of the '397 patent because it literally meets the preamble and each claim limitation. (CFF V.F.55-70 (all undisputed).) He further finds that because GERC-4 is representative of all of the genuine Epson cartridges within the HAV II generation, all Epson HAV II cartridges also practice claim 21. (CFF V.F.71 (undisputed).)

The administrative law judge finds that the analysis of GERC-4 under claim 21 equally applies to GERC-5 and the genuine Epson cartridges it represents because like GERC-4, GERC-5 incorporates a membrane valve structure as required by claim 21. (CFF V.F.72 (undisputed).)

As such, he finds that GERC-5 meets the preamble and all of the limitations of claim 9 in the same way as GERC-4. Accordingly, he further finds that GERC-5, and the genuine Epson cartridges it represents, also practice claim 21 of the '397 patent. (Id.)

The administrative law judge finds that if any of the genuine Epson models represented by GERC-4 are remanufactured, then such remanufactured cartridges would infringe claim 21 of the '397 patent in the same way that GERC-4 practices claim 21. (CFF V.F.73 (undisputed).) Similarly, he finds that if any of the genuine Epson models represented by GERC-5 are remanufactured, then such remanufactured cartridges would infringe claim 21 of the '397 patent in the same way that GERC-5 practices claim 21. (Id.) Accordingly, he finds that every remanufactured genuine Epson cartridge model represented by GERC-4 or GERC-5 infringes claim 21 of the '397 patent. (Id.) All genuine Epson cartridges represented by GERC-4 or 5 that are covered by claim 21 of the '397 patent are listed in CFF V.F.74 (undisputed).

A. Whether Enforcement Respondents' Cartridges Are Covered Products

1. The Ninestar Respondents

It is a fact that the Ninestar respondents have stipulated that their compatible and remanufactured cartridges at issue infringe the Enforcement Claims. See Order No. 50. Thus, Order No. 50 identifies the specific Enforcement Claims that are infringed by specific models of the Ninestar respondents' compatible and remanufactured cartridges. These model numbers were culled from the Ninestar respondents' sales, purchase and import documents as produced and constitute the universe of model numbers at issue for purposes of determining the number of violations that occurred and the penalty that should be assessed in this proceeding. (See CFF

VI.A.5-213.)¹² While Order No. 50 identifies which of the Ninestar respondents' models infringe each of the four Enforcement Claims, claim 21 of the '397 patent is not part of the Cease and Desist Orders entered against Ninestar US and Town Sky.¹³ Nevertheless, every model of the Ninestar respondents identified in Order No. 50 as infringing claim 21 of the '397 patent is also identified as infringing at least claim 9 of the '917 patent (which is part of the Cease and Desist Orders). Accordingly, every model number of the Ninestar respondents identified in Order No. 50 infringes one or more of the Enforcement Claims applicable to Ninestar US and Town Sky (claim 81 of the '439 patent, claim 9 of the '917 patent and/or claim 1 of the '053 patent). Thus, in view of the rejection of the Fifth Amendment due process argument of the Ninestar respondents, infra, the administrative law judge finds that all of the Ninestar respondents' compatible and remanufactured products at issue in this proceeding are covered products under the Ninestar US and Town Sky Cease and Desist Orders.

a. Fifth Amendment Argument

While the Ninestar respondents agree that compatible cartridges are covered under the cease and desist orders entered against Ninestar US and Town Sky, the Ninestar respondents argued that any remanufactured products are not covered under said orders. Thus, the Ninestar

¹² The Ninestar respondents did object to CFF VI.A.5-10, 14-133, 136-213 on the grounds that there has been no independent factual determination that the imported products were "covered products" and that that determination is a matter of law to be determined based upon Fifth Amendment considerations. The administrative law judge, infra, has rejected the Fifth Amendment due process argument of the Ninestar respondents with respect to refillable cartridges and further found that every remanufactured cartridge of the Ninestar respondents at issue in these proceedings is a covered product under the Cease and Desist orders entered against Ninestar US and Town Sky.

¹³ The Ninestar respondents have stipulated to infringement of claim 21 of the '397 patent because certain of its remanufactured cartridges infringe this claim.

respondents have argued extensively that the “fifth amendment to the U.S. Constitution prohibits any of the respondents being penalized for importation, or sale, of any refilled products,” (REBr at 6-12) and, hence, the exclusion orders do not extend to remanufactured products, also known as refilled products. For example it is argued that the mere fact that a subsequent product may be found to be an infringing product does not mean that said product was subject to the original exclusionary order and that penalties can be imposed for the importation or sale of that product (REBr at 8); that the mere fact that something may be an infringement is not sufficient to allow a court (or this Commission) to find a party in contempt (or its equivalent in these proceedings) and impose sanctions (REBr at 8); and that the fundamental problem with any injunction by district courts, with the same law applying to exclusion orders by this Commission, is that if written so broadly as to prohibit all infringement, they would subject legitimate “design around” attempts, not merely to damages, but also to penalties (REBr at 10). Thus, the Ninestar respondents, as indicated supra, repeatedly objected to complainants’ CFF VI.A.5-10, 14-133, 136-213 on the ground that:

There has been no independent factual determination that the imported products were “covered” products. That determination is a matter of law to be determined based upon Fifth Amendment considerations.

(RR/OCFF5, etc.) The Ninestar respondents argued that they have consistently taken the position that any attempts to extend the exclusion orders to remanufactured products would be a violation of the Fifth Amendment right to due process; that district court injunctions, which it is argued are governed by the same constitutional restrictions as this Commission, are never so broad as to apply to all products that would ever infringe a patent involved in litigation in the

district courts; that any such orders would be so broad as to subject a person, who engages in a legitimate design around, to contempt of court; that while these proceedings are not strictly those of a district court, they are governed by the same constitutional prescriptions and the same care should be taken in the preparation of orders, which subject a person or persons to contempt (i.e. any form of punishment); that the uncontroverted evidence in this investigation has shown that none of the accused defendants received any significant benefit from any violations (assuming violations are found); that the small number of sales of products involved in this investigation demonstrate that there is no real damage to the public or to the integrity of these proceedings or this Commission's orders; that at a minimum, the clear ambiguity in the exclusion orders, and whether or not the exclusion orders apply to refilled or remanufactured cartridges, which were never involved in the original proceedings, would make the imposition of any substantial penalties blatantly unfair, in view of the fact that the Minestar respondents clearly had reasons to believe that selling refilled products was perfectly legal and not covered by the exclusion order. (REBr at 4-5.)

Complainants argued that a remanufactured cartridge is no different in terms of patent claim analysis than the genuine Epson cartridge from which it was remanufactured (CFF V.D.3,7 (all undisputed as to asserted facts)); and that, as such, because all genuine Epson cartridges for Epson's on-carriage ink jet printers practice the Enforcement Claims, all such genuine Epson cartridges infringe the Enforcement Claims after they are remanufactured. (CFF V.C.2, V.D.3, 7 (all undisputed as to asserted facts).)

The staff argued that while the Ninestar respondents argued that the Commission orders failed to provide sufficient notice to a lay person that patent infringement includes acts of selling

refilled cartridges that were not originally sold within the United States, counsel for the Ninestar respondents essentially conceded that the Commission orders did in fact provide notice that any infringement of the asserted patents was prohibited, merely suggesting that the Ninestar respondents themselves did not understand the orders. (SEBr at 8.) It is argued that the evidence shows that the Ninestar respondents took some steps to comply with the orders by searching for spent Epson ink cartridges that could comply with a patent exhaustion defense; that in the staff's view, this negates the assertion that the orders did not sufficiently apprise the Ninestar respondents of what conduct was prohibited; that the established law concerning patent exhaustion is not obscure or even difficult to understand; that thus, the Commission orders are not vague and do in fact clearly and unmistakably apprise the Ninestar respondents of the line that they should not cross, viz. infringement of the identified patent claims; that the defense should be rejected because the Commission has repeatedly stated that persons subject to a remedial 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," citing Lens-Fitted Film Packages, Commission Opinion on Enforcement Matters at 20 (June 23, 2003) (internal quotations omitted); and that the evidence shows that the Ninestar respondents did not take the required energetic steps to stay several healthy steps away from infringement. (SEBr at 8-9.)

In Order No. 41, the administrative law judge rejected a motion of the Ninestar respondents to amend the response to the complaint to include a Fifth Amendment affirmative defense with respect to refilled cartridges and stated:

The record in this investigation shows that the due process

objection Ninestar seeks to assert, which is a legal argument, has been thrice rejected by the administrative law judge on August 15, September 25, and September 30 [in Order Nos. 35, 38, and 39]. Moreover, it appears that Ninestar has admitted that “the refilled Epson cartridges are covered by the claims of the relevant patents, i.e. that the claim terms read on the original Epson cartridges.” In addition, Ninestar has already pled in their original response that they have not violated the Commission orders by continuing to import and sell “ink cartridges found to infringe the asserted Epson patents.” See Enforcement Complaint ¶ 28; Ninestar Response ¶ 28; see also Ninestar Response, prayer for relief, item B (“find no violation of the General Exclusion Order and any Cease and Desist Order by Respondents”).

(Order No. 41 at 1-2 (emphasis added) (footnotes omitted).) The administrative law judge, in Order No. 40, also denied a Motion For Summary Determination of the Ninestar respondents (Motion No. 565-80). He further has denied Motion No. 565-84, which was a motion for interlocutory review of Order No. 40. (Tr. at 12-13.) Also, during the hearing, the administrative law judge stated:

I assume, Mr. O'Connor, you're going to lay it all out for the Commission in your initial submission of due process, are you, et cetera, et cetera, et cetera, the whole kit and caboodle will go to the Commission, and I expect that you'll do it. So whatever you want to do, you can do, but I would be very surprised if you don't do it, but in any event, you will have your opportunity, even though it may be purely legal argument, I want you to get into it in your posthearing submissions in the same way with Complainants and the Staff because it's going up to the Commission, the whole kit and caboodle.

(Tr. at 12-13 (emphasis added).)¹⁴ Thus the Ninestar respondents have continued to maintain their Fifth Amendment due process argument in their post-hearing submissions.

As found, supra, there is no dispute that a remanufactured, or refilled, genuine Epson

¹⁴ The parties have the right to request a review by the Commission of any order of an administrative law judge.

cartridge is made by refilling the empty genuine Epson cartridge with ink; removing or covering up the original Epson label; covering up, blacking out, obliterating other Epson markings; resetting the chip; shaving off certain plastic projections; and capping the ink supply port to prevent leakage after refilling. Also, it is undisputed that none of these steps change the infringement analysis of the remanufactured cartridge and in other words, the remanufactured cartridge infringes the same claims as are practiced by the genuine Epson cartridge from which it is remanufactured. (CFF V.D.7 (undisputed).) With respect to refillable cartridges, the administrative law judge in Order No. 35 found:

As to any argument that Ninestar cannot be liable for violating the General Exclusion Order by selling for importation products (refilled Epson genuine cartridges) that were not previously adjudicated to infringe in the underlying action, **this consolidated enforcement proceeding is appropriately directed at any cartridges covered by the patent claims at issue in the investigation which would include the sale of refilled cartridges for importation into the United States, so long as those refills fall within the ambit of the General Exclusion Order (by practicing the patent claims at issue) and are not subject to a valid repair defense.** The Commission has the authority to enter exclusion orders that have the effect of precluding any products found to infringe patents adjudicated in a Commission investigation, whether or not those products are identical to those which gave rise to the exclusion order. 19 U.S.C. § 1337(d). “Commission remedial orders are intended to prevent future violations of section 337 with respect to products involved in the investigation, but are not limited in their effect to the specific products to which the question of patent infringement was adjudicated.” Unfair Competition and the ITC, Donald Duvall et al., § 7.18 at 338 (2005 ed.).

(Order No. 35 at 9-10 (underlined emphasis in original) (boldfaced emphasis added).)¹⁵

¹⁵ The administrative law judge is aware that said Order No. 35 was not directed to Ninestar China, Ninestar US, or Town Sky, but rather was issued in response to a motion to quash filed jointly by non-parties ACECOM INC.-SAN ANTONIO, CARTRIDGES ARE US,

Moreover, Order No. 39 stated:

[R]espondents have objected [to complainants' Motion No. 565-77 to compel] on the grounds that, because refilled cartridges were not explicitly included in the General Exclusion Order, any penalties imposed based on the importation of these cartridges would be in violation of the Due Process guarantee of the 5th Amendment. (Resp. Opp. at 7.) The Federal Circuit has indicated that "there must be adequate notice of what conduct is regulated by the order, whose conduct is regulated by the order, and the parameters of any relevant affirmative defenses." Fuji Photo Film Co. v. Int'l Trade Comm'n, 474 F.3d 1281, 1292-93 (Fed. Cir. 2007) (Fuji Photo). After the initial proceedings and the related exclusion orders in this investigation, respondents, however, had notice that the order applied to "ink cartridges that are covered by one or more of [the asserted claims]." See Certain Ink Cartridges and Component Parts Thereof, 337-TA-565, Final Determination, Oct. 19, 2007. Nothing in the exclusion orders limited the language of the order to new cartridges, or even to the specific cartridges then accused. Moreover, the administrative law judge has already noted that any due process requirements in this investigation have been met. See Certain Ink Cartridges, 337-TA-565, Order No. 35 at 10 (citing Fuji Photo).

(Order No. 39 at 5-6 (emphasis added).) Thus, as the cartridges in the current investigation are effectively the same as the cartridges found to infringe in the original investigation, the Ninestar respondents were on notice that, barring some legal argument otherwise (for example, the doctrine of permissible repair, on which the Ninestar respondents rely), the exclusion order properly including refilled cartridges as excluded products. The actions of the Ninestar respondents after issuance of the exclusion order show their awareness of that fact, as they did attempt to identify which refilled cartridges were purchased in the United States and which were not, which purchase would be a requirement of their affirmative defense of permissible repair.

INC., COMPTREE, INC., INKJET MADNESS.COM, INC., LINKYO CORP., PRINTPAL, INC., and XP SOLUTIONS LLC. Said order is, however, relevant to the Fifth Amendment due process argument at issue here.

For example, 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 exclusion orders. (CFF IX.8 (undisputed).) The Ninestar respondents' first purchases of empty Epson cartridges for remanufacturing were all from United States firms. (CFF IX.A.9, CFF IX.A.10 (all undisputed).) On November 30, 2007, "Town Sky / Ninestar" received a fax from Access Computer Products stating that the limited their collection of Epson cartridges for resale to the United States. (CFF IX.A.12 (undisputed); see also CX-E520.)¹⁶

The Ninestar respondents apparently understand that their argument goes against many years of precedent, as they admit in their remand post-hearing brief:

The Respondents recognize that the Commission has, in the past, routinely entered orders prohibiting importation of any "infringing" products. Respondents' response to that common practice is that, frankly, that mistake has been made long enough. The Commission is bound by the same constitutional requirements of due process as are all federal district courts. Fuji Photo Film Co. v. ITC, 474 F.3d 1281 (Fed. Cir. 2007).

(REBr at 6 (emphasis added).) No respondent should be surprised when a finding of a violation by the administrative law judge results in an exclusion order prohibiting importation of "any 'infringing' products." Moreover, the argument of the Ninestar respondents is contradictory on its face, as a long-standing and generally known practice should give sufficient notice of expected behavior. Finally, with respect to the Fuji Photo case, in Order No. 35, the administrative law judge stated:

¹⁶ There are other facts in evidence to support the conclusion that the Ninestar respondents knew of this issue. (CFF IX.A.14 - 17, 19-23 (all undisputed).)

Movants, citing Fuji Photo Film Co. v. ITC, 474 F.3d 1281, 1293 (Fed. Cir. 2007) (Fuji) argued that the law as it relates to the requirement of proper prior notice before the imposition of penalties is the same whether one is talking about district courts or whether one is talking about administrative agencies. However in Fuji, while the principal of Jazz Photo contended that a \$13,675,000 civil penalty against him for violating a Commission cease and desist order violated his fifth amendment due process right, the Federal Circuit found that he was adequately notified of the activities prohibited by the cease and desist order sufficient to support the penalty. Ninestar has received adequate notice that the Commission has prohibited the importation of products that infringe the patents-in-issue.

(Order No. 35 at 10 (emphasis added).) Thus, respondents' reliance on Fuji Photo is unavailing, as the Fuji Photo Court never reached the Fifth Amendment issue of due process with respect to permissible repair. (Fuji Photo, 474 F.3d at 1293 ("Benun clearly had notice that importing and selling refurbished cameras first sold outside the United States was impermissible. Whether he had adequate notice of the scope of permissible repair is a matter we need not decide."))¹⁷

The Ninestar respondents also apparently attempt to conflate the issue of whether or not "R series" products that were not at issue in this investigation and "legitimate 'design around' attempts" are subject to the exclusion orders, with the issue of whether or not refilled cartridges are subject to the exclusion orders, at least with respect to their Fifth Amendment due process argument. Thus, the Ninestar respondents argued, for example:

The fundamental problem with any injunction by district courts (the same law, of course, applies to exclusion orders by this Commission) is that if written so broadly as to prohibit all infringement, they would subject legitimate "design around"

¹⁷ The Fuji Photo Court did reach, and reject, appellant's Fifth Amendment argument with respect to whether or not the ITC could impose civil penalties directly on appellant. (Fuji Photo, 474 F.3d at 1293 ("we conclude that the Commission provided adequate notice that Benun's own conduct was subject to the [cease and desist] order."))

attempts, not merely to damages, but for penalties.

(REBr at 10 (emphasis added).) The Ninestar respondents have admitted, however, that the refilled cartridges literally infringe. (CFF IV.D.2, 3, 7 (all undisputed).) Moreover, the Ninestar respondents have not argued that any of the products at issue in this enforcement action are “design around” products that do not infringe.¹⁸ Indeed, the Ninestar respondents have admitted infringement as to all products at issue in this enforcement action. (CFF IV.D.2, 3, 7 (all undisputed); CFF IV.G.3 (undisputed).) Thus, the administrative law judge finds that the analogy that the Ninestar respondents appear to be drawing is simply inapposite.

The Ninestar respondents also argued:

While the physical structure of the refilled cartridges are covered by patents, that does not mean that the refilled products are covered by patents. The patents apply to the physical structure themselves, and clearly, if those physical structures were copied by Ninestar and sold into the United States, that would be infringement. It is uncontroverted, however, that one may refill cartridges, first sold in the United States, under the repair/reconstruction doctrine. See Hewlett-Packard vs. Repeat-O-Type Stencil Mfg. Corp., Inc., 123 F.3d 1445 (Fed. Cir. 1997), (coincidentally argued by Respondents’ attorney before the Court of Appeals for the Federal Circuit). Hewlett Packard chose not to seek certiorari in that case, and accordingly, it is presently the law. Jazz Photo Corp. v. United States, 439 F.3d 1344 (Fed. Cir. 2006) subsequently modified that law by limiting the right to refill cartridges or repaired/refurbished cartridges to those originally sold in the United States.

The fact that such products, if not originally sold in the United States, would be infringing products, is not the issue

¹⁸ In another investigation, the undersigned did find that a design-around product has not violated a cease and desist order. See In the Matter of Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy-Duty Trucks and Components Thereof, Inv. No. 337-TA-503 Commission Decision Not to Review an Enforcement Initial Determination (March 27, 2006).

presented for this Court's consideration at this time. The issue is whether or not the Respondents are on notice, by virtue of the exclusion orders, that such refilled products are infringing products.

(REBr at 11-12.) Thus, the Ninestar respondents are pointing to the basis for their purported belief that refilled cartridges were not covered by the exclusion orders. Again, their own arguments contradict their conclusion. Thus, the Ninestar respondents admit in the cited excerpt that they believed that selling refilled cartridges is allowed under the repair/reconstruction doctrine, which is an affirmative defense to patent infringement, only if said cartridges were purchased in the United States. Therefore, the administrative law judge finds that the Ninestar respondents cannot now claim to be surprised that an exclusion order which, on its face, prohibits importation into the United States of infringing goods, reaches, inter alia, refilled cartridges.

Based on the foregoing, the administrative law judge rejects the Fifth Amendment due process argument of the Ninestar respondents with respect to refillable cartridges and further finds that every remanufactured cartridge of the Ninestar respondents at issue in this proceeding is a covered product under the Cease and Desist orders entered against Ninestar US and Town Sky.

2. The Mipo Respondents

Both Mipo Respondents, viz. respondent Mipo International and respondent Mipo American, have been found in default in this action. The complaint for enforcement proceedings against the Mipo respondents alleges, among other things, that the Mipo-brand cartridges Epson obtained directly from the U.S. subsidiary 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.” (Mipo Complaint at 7-9.) By virtue of the Mipo Respondents’ defaults, the allegations of the complaint, including this infringement allegation, are found to be deemed admitted against them. Moreover, the administrative law judge finds that complainants have established that the Mipo-brand cartridges obtained by Epson’s investigator after the entry of the Remedial Orders, which are all compatible cartridges (CFF V.G.8 (undisputed)), infringe at least claim 9 of the ‘917 patent. Thus, complainants’ expert Murch reviewed and analyzed the four Mipo compatible cartridges that complainants’ Seitz purchased from Mipo America’s website, *www.hqinkjets.com*, following the entry of the Remedial Orders. (CFF V.G.8-9 (all undisputed).) Murch selected CPX-E116, which he found to be representative of the other three Mipo cartridges, and presented his infringement analysis during the evidentiary hearing with respect to this cartridge. (CFF V.G.11 (undisputed).) CPX-E116 was found to meet the preamble and limitations of claim 9 of the ‘917 patent literally. (CFF V.G.13-28 (all undisputed).) Because CPX-E116 is representative of the other three Mipo cartridges (CPX-E113, CPX-E114 and CPX-E115), the administrative law judge finds that the infringement analysis of CPX-E116 presented by Murch is found to be equally applicable to them. (CFF V.G.11, 29 (all undisputed).) The administrative law judge further finds that an independent analysis of the other three Mipo cartridges established that those cartridges infringe claim 9 of the ‘917 patent as well. (CFF V.G.9 (undisputed).)

In addition, the administrative law judge finds that documents from third-party *amazon.com* reveal that respondent Mipo America sold remanufactured cartridges after the date of the Remedial Orders. See CFF VII.A.1-15 (all undisputed). Hence, because every genuine Epson cartridge for Epson’s on-carriage ink jet printers practices at least one Enforcement Claim,

the administrative law judge finds that a Mipo-brand remanufactured Epson cartridge must also infringe the same Enforcement Claim(s). (CFF V.D.3, 7; CFF V.F.1 (all undisputed).)

Accordingly, the administrative law judge finds that the remanufactured cartridges sold and/or imported by the Mipo Respondents, through amazon.com, also infringe at least one Enforcement Claim and are therefore covered products.

3. The Apex Respondents

The Apex respondents, viz. respondent Ribbon Tree U.S.A. and respondent Apex Distributing Inc., have been found in default in these proceedings. The complaint for enforcement proceedings against the Apex respondents alleges, among other things, that the cartridges complainants obtained from them infringe the claims that are the subject of the Consent Order entered into by the Apex respondents. (Apex Respondents Complaint at 7-9.) Thus, the Apex respondents' defaults ~~are~~ found sufficient to deem the allegations of the complaint, including the infringement allegations, admitted. Moreover, the administrative law judge finds that complainants have established that each and every remanufactured cartridge (all of the Apex respondents' cartridges at issue in this proceeding are remanufactured cartridges) which complainants' investigators obtained from the Apex respondents after the entry of the Remedial Orders infringe certain claims in issue. Thus, the administrative law judge finds that the Apex respondents' remanufactured cartridges represented by GERC-1 (sponge generation) or GERC-2 (sponge-plus-chip generation) infringe claim 81 of the '439 patent literally because GERC-1 and 2 each meet the preamble and every limitation of claim 81. (CFF V.F.2-14; CFF V.G.33-34 (all undisputed).) He further finds that the analysis of claim 81 of the '439 patent set forth, supra, is found to be equally applicable to these remanufactured cartridges. (CFF V.G.33-

34; CFF V.F.14 (all undisputed).) The Apex respondents' remanufactured cartridges that are found to infringe claim 81 of the '439 patent, as represented by GERC-1 or 2, are listed in CFF V.G.34 (undisputed).

The administrative law judge finds that the Apex respondents' remanufactured cartridges represented by GERC-2 (sponge-plus-chip) or GERC-4 (HAV II) infringe claim 9 of the '917 patent literally because GERC-2 and 4 each meet the preamble and every limitation of claim 9. (CFF V.G.35-40; CFF V.F.18-36 (all undisputed).) He also finds that the analysis of claim 9, supra, is equally applicable to these remanufactured cartridges. (CFF V.G.35-40; CFF V.F.35-36 (all undisputed).) The Apex respondents' remanufactured cartridges found to infringe claim 9 of the '917 patent, as represented by GERC-2 or 4, are listed in CFF V.G.40 (undisputed).

The administrative law judge finds that the Apex respondents' remanufactured cartridges represented by GERC-4 (HAV II) infringe claim 1 of the '053 patent literally because GERC-4 meets the preamble and every limitation of claim 1. (CFF V.G.41-42; CFF V.F.38-53 (all undisputed).) He further finds that the analysis of claim 1 of the '053 patent set forth, supra, is equally applicable to these remanufactured cartridges. (CFF V.G.41-42; CFF V.F.52-53 (all undisputed).) All of the Apex respondents' remanufactured cartridges found to infringe claim 1 of the '053 patent, as represented by GERC-4, are listed in CFF V.G.42 (undisputed).

The Apex respondents' remanufactured cartridges represented by GERC-4 (HAV II) are found to infringe claim 21 of the '397 patent literally because GERC-4 meets the preamble and every limitation of claim 21. (CFF V.G.43-44; CFF V.F.55-73 (all undisputed).) The analysis of claim 21 of the '397 patent set forth, supra, is found to be equally applicable to these remanufactured cartridges. (CFF V.G.43-44; CFF V.F.71-73 (all undisputed).) All of the Apex

respondents' remanufactured cartridges that complainants' Murch reviewed and found to infringe claim 21 of the '397 patent, as represented by GERC-4, are listed in CFF V.G.44 (undisputed).

Thus, the administrative law judge finds that complainants have established that all of the Apex respondents' remanufactured cartridges obtained by complainants' investigators after the Remedial Orders infringe at least one of the Enforcement Claims. (CFF V.G.30-31, 33-44 (all undisputed).) In addition, he finds that complainants have shown that because every genuine Epson cartridge for Epson's on-carriage ink jet printers practices at least one Enforcement Claim, any such cartridge in its remanufactured state infringes the same Enforcement Claim(s). (CFF V.F.1, 14, 35-36, 52-53, 71-73 (all undisputed).) Hence, he finds that the remanufactured cartridges sold and/or imported by the Apex respondents that Epson uncovered through third-party discovery and that formed the basis of the violations of the Remedial Orders identified, infra, infringe the Enforcement Claims and are therefore covered products.

V. Affirmative Defenses

In addition to the due process Fifth Amendment defense, which the administrative law judge has rejected, supra, the Ninestar respondents raised at various times four affirmative defenses. Complainants argued that the Ninestar respondents presented no evidence at the evidentiary hearing regarding their first affirmative defense (invalidity), third affirmative defense (lack of personal jurisdiction and non-compliance with the Hague Convention), or fourth affirmative defense (inequity of enforcement while reexamination proceedings and an appeal are pending). (CFF VIII.A.1-2, 4, 6 (all undisputed as to asserted facts).) Complainants also argued that respondent Mipo America has also waived said affirmative defenses, despite attempts to "incorporate by reference" the Ninestar respondents' first and fourth affirmative defenses,

because Mipo America subsequently defaulted and no respondent asserted or presented any evidence supporting these affirmative defenses nor did they file any pre-hearing brief at all. (CEBr at 73.)

In Section III, supra, the administrative law judge has found that there is personal jurisdiction as to the Ninestar respondents. Also, the administrative law judge finds that the Ninestar respondents have waived said first and fourth affirmative defenses by failing to raise these defenses in their pre-hearing statement or present supporting evidence at the hearing in January 2009.¹⁹ (CFF II.23, 54, VIII.A.2-7 (all undisputed).) He further finds that the defaulting respondents waived any affirmative defenses because of their default and the fact that they did not assert or present any evidence supporting the affirmative defenses and did not file any pre-hearing statements.

Complainants argued that the Ninestar respondents have waived their second affirmative defense of permissible repair, as they have with the first and fourth affirmative defenses, because they only raised three “issues to be considered at the Hearing” in their pre-hearing statement: due process, fairness, and their financial condition. (CEBr at 74.) Complainants further argued that counsel for the Ninestar respondents conceded at the pre-hearing conference that said affirmative defense was not raised in the pre-hearing statement of the Ninestar respondents, but indicated

¹⁹ See, e.g., Order No. 1: Notice of Ground Rules, Setting 4/25/06 Date for Discovery Statements, and 5/2/06 Date for Preliminary Conference, Mar. 21, 2006, EDIS Doc. No. 250193, at Ground Rules at 12 (“Pre-Hearing Statement . . . (v) Any contentions not set forth in detail as required herein shall be deemed abandoned, or withdrawn, except for contentions of which a party is not aware and could not be aware in the exercise of reasonable diligence at the time of filing the pre-hearing statements.”). Pursuant to this requirement, each of the parties and the staff shall take a position on the issues it is asserting no later than the filing of its pre-hearing statement. (CFF VIII.C.1 (undisputed), Order No. 1.)

that the Ninestar respondents intended to present evidence at the hearing regarding “patent exhaustion.” (*Id.*) Complainants also argued that the Ninestar respondents failed to present evidence that would permit a finding that their remanufactured cartridges were permissibly repaired; and that even though said respondents have the burden of proof, evidence presented by complainants affirmatively disproves any permissible repair defense in this investigation. (CEBr at 75.) Complainants further argued that they did not affirmatively put at issue whether specific remanufacturing steps constitute permissible repair or an infringing reconstruction. (CEBr at 77.) It is argued that the Ninestar respondents failed to introduce any evidence from which the administrative law judge could determine that any remanufacturing process of the Ninestar respondents is limited to permissible repair and does not amount to infringing reconstruction CFF VIII.C.3 (undisputed as to asserted facts); and that because the Ninestar respondents cannot prove a patent exhausting first sale in the United States, an element of the permissible repair defense, the administrative law judge is not required to decide this issue. (*Id.*)

Complainants further argued that the Ninestar respondents presented no evidence that any of the empty cartridges the Ninestar respondents purchased for remanufacturing were first sold in the United States; that any argument the Ninestar respondents may make that the purchase of an empty cartridge from a U.S.-based collector is sufficient to prove that the cartridge was first sold in the United States is not supported by any evidence; and that requiring the Ninestar respondents to provide evidence to support said argument is not unreasonable because remanufacturers and resellers routinely seek certifications from their sellers documenting their collection procedures and controls in order to comply with the first sale requirement and avoid patent infringement. (CEBr at 78, CFF VIII.C.4 (undisputed as to asserted facts).) Complainants also argued that the

Ninestar respondents did not produce any evidence regarding the collection practices of their other suppliers; that there is no indication from whom or from where these collectors obtain cartridges; that Lu of Ninestar China has testified that he is unaware of any conversations anyone at Ninestar China had with its vendors about this subject; and that from the evidence presented by complainants, the only U.S.-based collector for which there is more than a name and address in the record, Access, obtains Epson inkjets from sources outside the United States, including over fifty schools in Canada. (CEBr at 79, CFF VIII.C.5-6, 8 (all undisputed as to asserted facts).)

Complainants further argued that documents produced by Access made it clear that Access did not separate out cartridges first sold outside of the United States from the empty cartridges it provided to the Ninestar respondents; and that Access' president refused to sign a declaration stating (1) that cartridges received from occasional Canadian sources are culled to remove any Epson cartridges that exist and (2) that Access could state with virtual certainty that Epson cartridges supplied to Town Sky/Ninestar US are solely of U.S. origin. (CEBr at 80, CFF VIII.C.9-14 (all undisputed as to asserted facts).) Complainants also argued that without a system in place to sort the cartridges, the Ninestar respondents cannot prove that any of the remanufactured cartridges they shipped into the United States were first sold in the United States; and that Dai of Ninestar US confirmed at the evidentiary hearing that he had no idea whether or not the remanufactured cartridges imported by Ninestar US from China were first sold in the United States. (CEBr at 81, CFF VIII.C.17 (undisputed as to asserted facts).) Complainants further argued that the Ninestar respondents failed to bring their conduct within the parameters of the permissible repair defense because complainants' investigator Seitz was able to determine

that Ninestar-brand remanufactured cartridges he purchased after the entry of the Remedial Orders were first sold in Japan, Europe or the general Asia Pacific region simply by peeling back the Ninestar respondents' labels and examining the original Epson labels and part numbers. (CEBr at 81, CFF VIII.C.18 (undisputed as to asserted facts).)

The Ninestar respondents argued that they did not waive their defense of permissible repair; and that it was not necessary for them to present evidence or arguments on this defense because complainants' expert Kinrich conceded that some 16% of the refilled cartridges were probably of US origin. (RERCBBr. at 29.)²⁰

The staff argued that the evidence does not show that the Ninestar respondents established a valid patent exhaustion defense by showing that the allegedly remanufactured cartridges were first sold by complainants within the United States; and that said defense was not raised by the Ninestar respondents in their pre-hearing statement. (SEBr at 7-8.)

The affirmative defense of permissible repair is closely related to the concept of patent exhaustion. An alleged infringement defendant must prove two elements to establish a permissible repair defense: (1) that the repairs 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. *See, e.g., Jazz Photo Corp. v. United States*, 353 F. Supp. 2d 1327, 1352 (Ct. Int'l Trade 2004) (*Jazz Photo II*), *aff'd* 439 F.3d 1344 (Fed. Cir. 2006) (citing *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1102 (Fed. Cir. 2001) (*Jazz Photo I*)). Notably, patent exhaustion, and consequently permissible repair, must be proven on an article-by-article basis. *See, e.g., Minebea Co., Ltd. v.*

²⁰ Even if 16% of their refilled cartridges were of U.S. origin, the Ninestar respondents are admitting that 84% of the cartridges are not of U.S. origin.

Papst, 444 F. Supp. 2d 68, 161 n.69 (D.D.C. 2006) (“The unit of analysis for patent exhaustion is, after all, the article sold, and the authorized first sale of an article under a patent may exhaust the patent holder’s rights only with respect to that article.”) (citing United States v. Univis Lens Co., 316 U.S. 241, 249 (1942)). Because permissible repair is an affirmative defense, the Ninestar respondents bear the burden of proving permissible repair by a preponderance of the evidence for each cartridge they sold or imported in violation of the Remedial Orders. Jazz Photo I, 264 F.3d at 1102.

Patent exhaustion, also referred to as the “first sale doctrine,” provides that the first authorized unconditional sale of a patented item terminates patent rights to that item. Quanta Comp., Inc. v. LG Elecs., Inc., 128 S. Ct. 2109, 2115 (2008). The patented article becomes the purchaser’s personal property, with the purchaser acquiring “the right to use it, repair it, modify it, discard it, or resell it, subject only to overriding conditions of the sale.” Jazz Photo I, 264 F.3d at 1102 (citing Mitchell v. Hawley, 83 U.S. 544, 548 (1872)). The purchaser does not acquire, however, the right to reconstruct the article. Reconstruction amounts to the making of a new patented article in which the patentee’s rights have not been exhausted by sale and is, therefore, an infringement. Id. at 1102 (“[T]he rights of ownership do not include the right to construct an essentially new article on the template of the original, for the right to make the article remains with the patentee.”).

In a line of cases originating in the Commission involving recycled lens-fitted film packages (i.e., disposable cameras), the Federal Circuit made clear 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. See, e.g., Jazz Photo I, 264 F.3d at 1105 (“To invoke the protection of

the first sale doctrine, the authorized first sale must have occurred under the United States patent. . . . Imported [cameras] of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment.”); see also Fuji Photo, 474 F.3d at 1293 (“The affirmative defense of repair only applies to products whose patent rights have been exhausted through a first sale in the United States.”) (citation omitted); Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1376 (Fed Cir. 2005) (Jazz Photo Corp.) (rejecting argument that patentee’s authorized foreign sales could exhaust patent rights because “foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect”); id. (noting with approval that Jazz Photo I “expressly limited first sales under the exhaustion doctrine to those occurring within the United States”) (citations omitted).

The Ninestar respondents first raised the affirmative defense of permissible repair in their response to complainants’ complaint and reiterated the defense in Motion No. 86 to amend the response to the complaint. However, they did not raise it in their pre-hearing statement, response to complainants’ interrogatories, posthearing brief or reply brief, or at the evidentiary hearing. Further, the Ninestar respondents did not dispute that they did not assert the affirmative defense of permissible repair in their pre-hearing statement or that they did not provide any evidence to support this affirmative defense at the evidentiary hearing. (CFF VIII.C.1-6, 8-18 (all undisputed).) With respect to reconstruction, it is undisputed that the Ninestar respondents did not introduce any evidence regarding their remanufacturing process. (CFF VIII.C.3 (undisputed).) Complainants have never conceded that the remanufactured cartridges are permissibly repaired. (CEBr at 77.) Thus, the administrative law judge finds that the Ninestar respondents have

waived the second affirmative defense of permissible repair.

Assuming arguendo that the Ninestar respondents did not waive their defense of permissible repair, the administrative law judge finds that the Ninestar respondents failed to meet their burden of proving permissible repair by a preponderance of the evidence for each cartridge sold or imported in violation of the Remedial Order. Thus he finds that the Ninestar respondents did not establish from whom or where the collectors that the Ninestar respondents received their cartridges from obtained the cartridges. Rather, the administrative law judge finds that the record establishes that there is no way to tell that the accused devices of the Ninestar respondents were first sold in the United States, as required for the permissible repair defense.

Thus, the record indicates that the only U.S.-based collector for which there is more than simply a name and address in the record, Access, obtains Epson inkjets from sources outside the United States, including from over fifty schools in Canada, and documents produced by Access demonstrate that it did not engage in any sorting process to remove cartridges first sold outside of the United States from the empty cartridges provided to the Ninestar respondents. (CFF VIII.C.6, 9 (all undisputed).) Moreover, Access' president, Joe Goodell, refused to sign a declaration that he could state "with virtual certainty" that Epson cartridges supplied to Town Sky and Ninestar US are solely of U.S. origin, stating that "[he] would never sign it under 'penalties of perjury.'" (CFF VIII.C.11-12 (all undisputed).) Additionally, the administrative law judge finds that the same reasoning outlined by the Court of International Trade in Jazz Photo II applies to the ink cartridges in the present investigation because there is an active market for empty cartridges for sale to remanufacturers like the Ninestar respondents. Also, he finds that proof of mere purchase of empty cartridges from a U.S.-based collector does not equate to proof of an authorized first

sale of the original cartridge in the United States.

Additionally, even assuming arguendo that all of the Epson cartridges provided to the Ninestar respondents by Access were first sold in the United States and permissibly repaired, the Ninestar respondents did not provide any evidence that those cartridges were segregated and carefully tracked throughout the manufacturing process. Additionally, Dai of Ninestar US, testified at the evidentiary hearing that he had no idea whether the remanufactured cartridges imported by Ninestar US were first sold in the United States or not:

Q. Sir, when you signed this compliance statement, you did not believe that substantially all of the remanufactured cartridges which Ninestar U.S. had imported or sold in the United States after the date of the cease and desist order were of U.S. origin and, therefore, not covered products, isn't that true?

A. No, what I said just now was I didn't know -- or I don't know.

Q. Don't know what?

A. I mean, I didn't know where the empties used for producing the remans came from, that I didn't know.

Q. So you didn't believe that they were mostly of U.S. origin, correct?

A. No. I mean I didn't know.

(Tr. at 959-60 (emphasis added).) Without a separation system, the administrative law judge finds that the Ninestar respondents cannot prove that any of the remanufactured cartridges that they shipped into the United States were first sold in the United States. (CFF VIII.C.15 (undisputed); see, e.g., Jazz Photo II, 353 F.Supp. 2d at 1333 ("An adequate inventory control system is required so that 'first sale' and 'permissible repair' can be established for the particular [articles] in [particular] shipments."))

In addition to the foregoing, at the evidentiary hearing complainants presented testimony of investigator Seitz to the effect that he was able to determine that Ninestar-brand remanufactured cartridges he purchased after the entry of the Remedial Orders were first sold in Japan. Thus he testified:

Q. Do you have any way of telling whether or not -- let me rephrase.

Do you have any way of telling where that cartridge was first sold by Epson?

A. Yes, sir, I do.

Q. And what is the way you have of telling?

A. The remanufactured cartridge has been relabeled with a label that says, "remanufactured ink cartridge." Underneath that label, if you peel it off, there's an Epson label that is exclusive to Japan.

Q. And how do you know that that Epson label is exclusive to Japan?

A. By the part number.

(Seitz, Tr at 110-11.)

The administrative law judge's finding is consistent with the finding in Jazz Photo II, which expressly rejected any general presumption that "a shell collected from any source in the United States . . . resulted from a single use camera that underwent a patent exhausting first sale in the United States." Jazz Photo II, 353 F. Supp. 2d at 1333-34. The Jazz Photo II Court recognized that because there is a significant international market for used camera shells, "a collection of shells obtained in the United States, from which . . . foreign labeled shells have been removed, would not necessarily satisfy the first sale requirement" and "additional evidence is necessary to establish compliance with the first sale requirement." Id. at 1339.

Based upon the foregoing, the administrative law judge finds that the Ninestar respondents would not have established the second affirmative defense of permissible repair, even if said defense had not been waived as found, supra.

VI. Penalties

Section 1337(f)(2) of 19 U.S.C. authorizes imposition of “a civil penalty for each day on which an 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.” Moreover, daily penalties, rather than value-based penalties, should be assessed unless the \$100,000 daily maximum is insufficient. “The Commission has indicated a preference for a daily penalty, as opposed to a penalty based on the domestic value of the infringing articles, ‘unless the domestic value of the articles sold on a given day makes the daily maximum insufficient to serve as a deterrent to violation.’” Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, Inv. No. 337-TA-372, Comm’n Opinion at 21 (Oct. 28, 1997) (Magnets); see also Certain Erasable Programmable Read Only Memories, Components Thereof, Prod. Containing Such Memories, and Process for Making Such Memories, Inv. No. 337-TA-276, Comm’n Opinion at 28 (Aug. 1, 1991) (EPROMs) (“The legislative history of the civil penalty provision suggests that the penalty of \$100,000 per day is intended for most violations, with the penalty of twice the domestic value of the articles concerned intended for those situations where sales or importations on a given day exceed \$100,000 in value.”).

In determining the amount of the penalty that should be imposed, “the Commission [takes] into account the ‘three overarching considerations enumerated by Congress in the

legislative history [of section 337(f)(2)], viz., the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest.” San Huan, 161 F.3d at 1362 (citations omitted). The Commission traditionally applies an analysis balancing six factors, which have been termed the EPROMs factors,²¹ to determine the appropriate penalty, viz. (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 the respondent has benefitted from its violations, (5) the need to vindicate the authority of the Commission, and (6) the public interest. Id.²²

A. Ninestar Respondents

1. EPROMs Factor One: Good Or Bad Faith

As the Court stated in EPROMs a respondent’s “failure to act in good faith in attempting to comply with the Commission’s orders warrants a significant civil penalty in order to ensure the continuing deterrent effect of the Commission’s orders, to vindicate the Commission’s authority, and to put future parties subject to Commission remedial orders on notice of the risks of failure to comply with Commission Orders.” EPROMs, Comm’n Opinion at 29. A five prong test has been used to assess a respondent’s good or bad faith in violating Commission orders. The test considers whether the respondent: (1) had a reasonable basis to believe that the violating

²¹ Said EPROMs factors are distinguishable from the nine EPROMs factors enunciated by the Commission to determine whether an exclusion order should extend to a respondent’s downstream products. See Certain Erasable Programmable Read-Only Memories, Components Thereof Products Containing Such Memories, and Processes For Making Such Memories (EPROMs), Inv. No. 337-TA-276, Comm’n Op. (May 1989), aff’d sub nom. Hyundai Elec. Indus. Co. v. U.S. Int’l Trade Comm’n, 899 F.2d 1204 (Fed. Cir. 1990).

²² The Commission has not “foreclose[d] consideration of a modified analytical framework for establishing civil penalties in future cases.” Magnets, Comm’n Opinion at 22.

product was not within the scope of the Commission's order (prong one), (2) requested an advisory opinion or clarification from the Commission (prong two), (3) provided any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation (prong three), (4) decided which products were subject to the order based on the decisions of management and technical personnel, without legal advice (prong four), and (5) satisfied its reporting requirements under the relevant Commission order (prong five). See, e.g., Tractors, Comm'n Opinion at 54-56 (Aug. 18, 1999) (finding that the administrative law judge gave insufficient weight to respondents' scheme to avoid prohibition on importation of tractors bearing complainant's trademark by shipping tractor and label under separate cover in assessing bad faith).

Complainants argued that the Ninestar respondents had no reasonable basis to believe that the sale or importation of the Ninestar respondents' compatible cartridges was consistent with the Remedial Orders; and that the Ninestar respondents' witnesses readily admit that they understood that the importation and sale of most models of Epson compatible cartridges was prohibited by the General Exclusion Order and the Cease and Desist Orders. (CEBr at 89-90, citing CFF IX.A.1-2 (all undisputed as to asserted facts).) Complainants also argued that despite this clear understanding, Ninestar US continued to sell compatible cartridges, albeit surreptitiously, first through backdated conditional sales and later by passing them off to their customers as remanufactured cartridges; and that, with respect to remanufactured cartridges, the Ninestar respondents' witnesses protested generally that the Remedial Orders were "vague," but none could claim that the express wording of the Remedial Orders did not apply to the remanufactured genuine Epson cartridges of the Ninestar respondents. (*Id.* at 90, citing CFF IX.A.3-4 (all

undisputed as to asserted facts); Lu, Tr. at 683.)

Complainants further argued that the witnesses of the Ninestar respondents insinuated that they were unaware of the first sale requirement, but that the Ninestar respondents never sought any clarification or advisory opinion from the Commission regarding the scope of the Orders. (Id. at 90, 93; CFF IX.A.5, 29-31 (all undisputed as to asserted facts).) Complainants also argued that despite having access to counsel, the Ninestar respondents admitted at the evidentiary hearing that they were not relying on any advice of counsel to show that they had a good faith belief in the absence of their actions (Id. at 93-94; CFF IX.A.34 (undisputed as to asserted facts)); and that no competent counsel would have advised the Ninestar respondents in 2007 that the importation and sale of remanufactured cartridges made from empty cartridges purchased and collected all over the world was permitted under the Remedial Orders, as Ninestar's counsel admits. (Id. at 93-94, citing REPre at 5.) Complainants also argued that top executives for the Ninestar respondents discussed whether the Remedial Orders applied to the Ninestar respondents' manufactured cartridges (Id. at 94-95; CFF IX.A.35-36 (all undisputed as to asserted facts)); and that reliance on management instead of legal advisors in deciding whether a desired course of action will violate a Commission remedial order is probative of an enforcement respondent's bad faith because, as in this investigation, the management does not always fully understand the meaning of the Remedial Orders and should seek advice from the legal department to ascertain the meaning of said Orders. (Id.; CFF IX.A.37-39 (all undisputed as to asserted facts).) Complainants further argued that Ninestar US and Town Sky purported to meet the requirement of the Cease and Desist Order to report to the Commission the total quantity in units and the value in dollars of covered products imported or sold in the United

States during the reporting period by filing false statements prepared for them by Ninestar China's legal department. (CEBr at 95; CFF IX.A.4-46 (all undisputed as to asserted facts).)

Complainants also argued that if Ninestar US and Town Sky wanted to import infringing remanufactured cartridges during the Presidential Review Period, they were required to have posted a bond in the amount of \$13.60 per cartridge. (CEBr at 39.) Complainants further argued that the fact that Ninestar US and Town Sky evaded posting and forfeiting an approximately \$4.4 million bond should weigh against said respondents in determining the amount of penalty to impose for import violations. (Id.)

Regarding prong one, the administrative law judge finds that following his ID on March 30, 2007, the Ninestar respondents were aware that they were confronted by the risk that they would no longer be able to import and sell compatible cartridges, as demonstrated by the following deposition testimony of Lu of Ninestar China:

Q. Nonetheless – withdrawn.

{

}

A.{

}

Q. I understand that. I'm not arguing with you. What I'm asking you is {

}

Ms. Chu: Let me try to ask him.

Mr. Barza: Yes, Please. Is that all right with you?

Interpreter Un: Yes

Ms. Chu: [Speaking Mandarin] [Conferring with the deponent]

Interpreter Un: [Speaking Mandarin]

Ms. Chu: [Speaking Mandarin]

Interpreter Un: [Speaking Mandarin]

Ms. Chu: [Speaking Mandarin]

Interpreter Un: { }

(CX-E661C, Tr. at 97-98 (emphasis added).) The administrative law judge also finds that while

{

} (CFF IX.A.9-11

(all undisputed); and that these actions demonstrate that prior to the demand of the Ninestar respondents exceeding the available U.S. supply, Ninestar China placed a premium on cartridges collected in the United States because it fully appreciated the first sale requirement. The administrative law judge further finds that in November 2007, "TownSky/Ninestar" received a fax from Access Computer Products (Access), one of the U.S. suppliers of empty Epson cartridges to Town Sky and Ninestar US, stating that its collection base is "limited to within the United States" for Epson cartridges, which indicates that "Town Sky/Ninestar" were aware of the first sales doctrine and its impact on the legality of remanufactured cartridges. (CFF IX.A.12 (undisputed).) The administrative law judge finds that U.S. Customs seized Ninestar China's shipments of remanufactured cartridges to its U.S. subsidiaries in December 2007; and that Lu of Ninestar China testified at the evidentiary hearing as follows:

Q. Mr. Lu, in December of 2007, Customs seized certain

shipments that were being sent by Ninestar China into the United States, correct?

A. Yes.

Q. And that shipment included{
} correct?

A. Yes.

Q. And you understood, at this time, {
} isn't that correct?

A. Yes -

Q. ***

In early January of 2008, a customer of Ninestar U.S. called { } asked Ninestar U.S. to give{ } written proof that the remanufactured Epson cartridges Ninestar U.S. were selling were made from Epson empties first sold in the U.S., correct?

THE WITNESS: No, I don't remember clearly.

Q. Mr. Lu,{
}

A. No.

Q. Why not?

A. { }

Q. I want to present to the witness his deposition testimony, page 227, lines 14 to 19 and then line 25, through 228, line 11.

"QUESTION: After this shipment was seized or taken by Customs in December of 2007, the one which is the subject of this letter we're looking at, {
}

"ANSWER: Yes, I did.

"QUESTION: Whom did you tell this to?

"ANSWER: { }

"QUESTION: And did he obey your instruction?

"ANSWER: He obeyed my instructions.

"QUESTION: So we can tell when you gave him that instruction {
}

After a discussion amongst the interpreters, the answer is,
"I think that should be right."

Sir,{
} isn't that correct?

A. I think -- that paragraph I've seen in the deposition did not say this clearly. I should explain clearly about this.

Q. I'll allow you in a minute, but you reviewed the deposition, correct, and you made corrections?

A. I should explain clearly that the background for these two questions were -- the context were different. During the deposition in Macau, you asked a lot of questions about the relationship between the company and individuals. {
}

But I understand that the question you asked me just now was about{
} So that's what I want to clarify.

(Tr. at 723-26 (emphasis added).) Thus, the administrative law judge finds that the Ninestar

respondents were fully aware that there were legal issues regarding their remanufactured cartridges.

The administrative law judge also finds that on January 11, 2008, Ninestar US customer { } informed Ninestar US that it would only buy Epson remanufactured cartridges made from cartridges first sold in the United States and that it would require certificates of origin and randomly inspect the original Epson labels. (CFF IX.A.16-17 (all undisputed).) Dai of Ninestar US testified at the evidentiary hearing as follows:

Q. By the way, didn't you have discussions with your customer, { } in which they told you that the only remanufactured Epson products they wanted to sell were those made from empty Epson cartridges first sold by Epson in the United States?

A. In the beginning, they didn't mention that when they bought remanufactured Epson cartridges from us.

Q. Isn't it true that { } told you they would only buy Epson remanufactured cartridges from you if they were first made from empties first sold in the U.S.?

A. They told us later on, but not at that time.

Q. When did they tell you?

A. I don't recall the exact time, but it should be probably the, in the neighborhood of the end of 2007 and to January 2008, again, I don't recall the exact time.

Q. Mr. Dai, you did understand that the cease and desist order covered most of the Epson compatible products that Ninestar U.S. had been selling, isn't that true?

A. What timeframe are you referring to?

Q. When the cease and desist order came down, you understood that it applied to at least most of the Epson compatible products Ninestar U.S. was then selling, isn't that true?

A. As I stated just now, that, after the C&D order, between October the 19th and the 22nd 2007, {

}

Q. And you understood this risk, even before the final order of the Commission came down, correct?

A. I don't know what you mean by, "risk."

Q. Let's put up the witness' deposition, page 93, lines 11 through 20.

"QUESTION: It was your understanding that, if Ninestar lost the ITC case before the ITC, Ninestar would stop selling the Epson compatible products involved in that case, is that correct?

"ANSWER: Yes, if the final judgment is against the Ninestar, then Ninestar will no longer be able to sell the compatible product."

You understood that at that time, right?

A. Yes.

(Tr. at 854-56 (emphasis added).)

The administrative law judge further finds that on January 15, 2008 Dai responded to{
} by saying: "I talked to our lawyers about Epson Remanu. Inkjet. We would like to take back Epson remanu. Inkjet. We will double check here. If we can make sure those empty is from US, we will let you know." (CFF IX.A.19 (undisputed); Tr. at 886.) The administrative law judge also finds that on January 21, 2008, Dai again e-mailed{ } and provided detailed contours of "legally permissible repair" that appear to have been cribbed directly from an article explaining the first sale requirement. (CFF IX.A.20-23 (all undisputed).) Dai testified at the evidentiary hearing as follows:

Q. Let me show you Exhibit CX-E956. It's an article on the right-hand side from the Recycler Magazine, and it's related to a website called ITCEpson.com. Have you ever seen this article before, Mr. Dai?

A. It seems I have never seen this before.

MR. BARZA: Ryan, could you move that to the left side? If you could put up, on the right side, page EB33 of Exhibit 944? And if you could blow up -- pull out item three from the left document, Ryan, item three from the left, yeah, and then item three from the left document, perfect.

BY MR. BARZA:

Q. Mr. Dai, the language in your e-mail dated January 21 to {
} is identical -- item three, to item three from that website,
the language is identical, if you look, it says, three, the refilling
process must be limited to legally permissible repair, et
cetera.

Could you explain to me how it is that you wrote an e-mail
quoting verbatim from that article on that website if you never saw
that article?

A. I don't remember what really happened at that time, and when you showed me the article on the website, I didn't know what it was talking about. Now, you compared the two documents, and I don't know what happened.

(Tr. at 889-91 (emphasis added).)

The administrative law judge also finds that the Ninestar respondents{

} (CFF IX.A.14, 25-26 (all undisputed).) Dai of

Ninestar US admitted{ } in his evidentiary hearing testimony:

Q. {

}

A. { }

(Tr. at 891.) Lu of Ninestar China, also discussed his awareness of the actions of U.S. customs and the implications of those actions at the evidentiary hearing:

Q. Mr. Lu, in December of 2007, Customs seized certain shipments that were being sent by Ninestar China into the United States, correct?

A. Yes.

Q. And that shipment{ }

A. Yes.

Q. And you understood, at this time, { }
isn't that correct?

A. Yes.

(Tr. at 723 (emphasis added).) The administrative law judge finds that the Ninestar respondents were aware of the first sale requirement but chose profit over legality and{

}(CFF IX.A.28 (undisputed)); and that the Ninestar respondents knew the steps they had to take to sell remanufactured cartridges lawfully but chose to ignore these steps in favor of expedience and profit. The administrative law judge also finds that the evidence shows that{

} (CFF IX.A.28 (undisputed).)

Thus, the administrative law judge finds 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 Order.

The administrative law judge further finds that the International Trade Commission

ordered that the bond amount during the Presidential Review period in this investigation be \$13.60 per cartridge. (CFF VI.A.224 (undisputed); Notice of Final Determination, Oct. 19, 2007, EDIS Doc. No. 285001.) Additionally, the administrative law judge finds that none of the Ninestar respondents posted a bond during the Presidential Review Period in this Investigation, in direct violation of the Commission Order. (CFF VI.A.223 (undisputed); Dai, Tr. 923-26.)

Based on the foregoing, including the undisputed facts set forth, supra, by complainants in their arguments, the administrative law judge finds 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 remedial orders and, hence, prong one weighs heavily in favor of a finding of bad faith.

Regarding prong two (requesting an advisory opinion or clarification from the Commission), according to Commission rule 210.9, "[u]pon request of any person, the Commission may...issue an advisory opinion as to whether any person's proposed course of action or conduct would violate a Commission exclusion order, cease and desist order or consent order." The administrative law judge finds that when a respondent believes there is a question as to the scope of the order or a respondent does not fully understand the terms of the exclusion order, cease and desist order or consent order, said respondent has the opportunity to seek clarification through an advisory opinion from the Commission. See EPROMs at 9 ("[R]espondent should have sought clarification of the Commission's orders if it truly believed there was some question as to the scope of the orders") (emphasis added). Moreover, Lu of Ninestar China testified at the evidentiary hearing that he did not fully understand the implications of the Commission's Orders:

Q. Did you feel, when you read the orders of the International Trade Commission, that you understood what they said?

A. {
}

Q. That's my question. Did you talk to anybody other than your lawyers about what the orders meant?

A. {
}

Q. {
}

A. Other people didn't read the orders, so they didn't know.

Q. {
}

A. {
}

Q. What are their names?

A. Vicky

Q. I'm sorry?

A. Vicky

Q. Vicky?

A. Yeah, Vicky.

Q. {
}

A. Yes, he.

THE INTERPRETER: He or she? She, Yeah, she, yeah.

THE WITNESS: {
}

BY MR. BARZA:

Q. {
}

A. { }

Q. { }

A. No.

Q. { }

A. Yes.

Q. {
}

A. As I said just now, the wording in the orders were very vague, I still hold my view.

Q. What does --

A. It didn't cover any specific products or models.

Q. Can we put up what I'm going to describe, only for identification, as CX-E603? Can we go to the next page? Do you see on page two, it says, "The Commission orders that ink cartridges covered by one or more of," and then it lists a number of patent claims, "are excluded from entry for consumption, entry for consumption from a foreign trade zone or withdrawn from a warehouse for consumption for the remaining term of the patents, except under license of the patent owner or as provided by law." Did you see that language?

A. Yes, I see.

Q. {
}

A. Yes.

Q. { }

A. Yes.

Q. {

}

A. Yes.

Q. {

}

JUDGE LUCKERN: In other words --

THE WITNESS: Yes.

BY MR. BARZA:

Q. And it's true, is it not, that you're not relying on any advice of counsel in your defense in these proceedings, you're not asserting any claim that you were told by your lawyers that the cease and desist orders did not cover remanufactured Epson cartridges?

MR. O'CONNOR: Your Honor, object to the question. I believe that's a matter that I should respond to and not the witness.

JUDGE LUCKERN: How do you want to respond, Mr. Barza?

MR. BARZA: I'm willing to accept a representation from counsel, if Mr. Baer is, assuming it's binding on the party.

MR. O'CONNOR: And with that agreement, we are not relying on advice of counsel.

(Tr. at 681-87 (emphasis added).) Thus, the administrative law judge finds that the Ninestar respondents' failure to obtain a Commission advisory opinion when they believed the Orders to be vague, which is prong two of the good or bad faith factor, weighs heavily in favor of a finding

of bad faith.

Referring to prong three, viz. providing any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation, the administrative law judge finds 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. See Jazz Photo I, 264 F.3d at 1105 (“To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent...Imported [articles] of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment.”); see also Fuji Photo, 474 F.3d at 1293 (Fed. Cir. 2007) (“The affirmative defense of repair only applies to products whose patent rights have been exhausted through a first sale in the United States.”) (citation omitted); Jazz Photo Corp., 394 F.3d at 1376 (noting with approval that the 2001 Federal Circuit decision in Jazz Photo I “expressly limited first sales under the exhaustion doctrine to those occurring within the United States” (citations omitted)). The administrative law judge also finds 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.” (REPre at 5.) Thus, the administrative law judge finds that the Ninestar respondents should have known it was necessary to seek the advice of legal counsel. Hence, he finds that said inaction weighs in favor of a finding of bad faith for prong three of the test.

Regarding prong four, viz. deciding which products were subject to the Commission order based on decisions of management and technical personnel without legal advice, the administrative law judge finds that the management and personnel of the Ninestar respondents

decided which products were subject to the Cease and Desist Order without seeking legal advice.

Thus, on July 30, 2008, Dai declared under penalty of perjury in a Statement of Compliance on behalf of Ninestar US that: "Ninestar [US] is unaware of what number if any, of [the remanufactured cartridges it imported or sold after importation during the reporting period] were not of U.S. origin and believes that substantially all of such cartridges were of U.S. origin and therefore not covered products." (CFF IX.A.43 (emphasis added) (undisputed); CX-E618C.)

Also, on July 28, 2008, Henry Li of Town Sky declared under penalty of perjury in a Statement of Compliance on behalf of Town Sky that: "Townsky is unaware of what number if any, of [the remanufactured cartridges it imported or sold after importation during the reporting period] were not of U.S. origin and believes that substantially all of such cartridges were of U.S. origin and therefore not covered products." (CFF IX.A.44 (emphasis added) (undisputed); CX-E521C.)

Further, at the evidentiary hearing, Dai of Ninestar US testified as follows:

Q. Sir, when you signed this compliance statement, you did not believe that{

} isn't that true?

A. No, what I said just now was I didn't know -- or I don't know.

Q. Don't know what?

A. I mean, I didn't know{
} that I didn't know.

Q. So you didn't believe that they were{ }
correct?

A. No. I mean I didn't know.

(Tr. at 959-60 (emphasis added).) Thus, the administrative law judge finds that the Ninestar

respondents decided which products were subject to the Exclusion and Cease and Desist Orders based on decisions of management and technical personnel without legal advice, weighing in favor of a finding of bad faith under prong four of the test.

Referring to prong five, viz. satisfying the reporting requirements under the relevant Commission order, Section V of the Order to Cease and Desist entered against Ninestar US states:

Within thirty (30) days of the last day of the reporting period, Respondent shall report to the Commission the quantity in units and the value in dollars of covered products that Respondent ha[s] imported or sold in the United States after importation during the reporting period and the quantity in units and value in dollars of reported covered products that remain in inventory in the United States at the end of the reporting period. Any failure to make the required report or the filing of any false or inaccurate report shall constitute a violation of this Order, and the submission of a false or inaccurate report may be referred to the U.S. Department of Justice as a possible criminal violation of 18 U.S.C. § 1001.

(Cease and Desist Order (Corrected) [to Ninestar US], October 30, 2008; Cease and Desist Order [to Ninestar US], October 19, 2007.) Section V of the Order to Cease and Desist entered against

Town Sky states:

Within thirty (30) days of the last day of the reporting period, Respondent shall report to the Commission the quantity in units and the value in dollars of covered products that Respondent ha[s] imported or sold in the United States after importation during the reporting period and the quantity in units and value in dollars of reported covered products that remain in inventory in the United States at the end of the reporting period. Any failure to make the required report or the filing of any false or inaccurate report shall constitute a violation of this Order, and the submission of a false or inaccurate report may be referred to the U.S. Department of Justice as a possible criminal violation of 18 U.S.C. § 1001.

(Cease and Desist Order (Corrected) [to Town Sky], October 30, 2008; Cease and Desist Order

[to Town Sky], October 19, 2007.) These orders required both Ninestar US and Town Sky to submit reports detailing the total quantity in units and the value in dollars of covered products imported or sold in the United States. While representatives for said respondents prepared Statements of Compliance, they did not know the origin of the remanufactured cartridges. See, Dai, Tr. at 959-60, supra. Thus, the administrative law judge finds that prong five weighs in favor of a finding of bad faith by the Ninestar respondents. See, e.g., Tractors, Comm'n Opinion at 54-56 (finding the administrative law judge understated degree of bad faith by not expressly addressing respondents' spoliation of evidence).

Based on the foregoing, the administrative law judge finds that an analysis of the five prongs of the good or bad faith test compels the conclusion that the Ninestar respondents violated the Commission's Remedial Orders in bad faith.

2. EPROMs Factor Two (Injury To The Public) and Factor Six (Public Interest)

The Ninestar respondents argued that injury to the public (factor two) and the public interest (factor six), as well as the need to vindicate the authority of the Commission (factor five) are redundant to the substantive issues to be considered. (REBr at 18.) The Ninestar respondents also argued that

If a party has received essentially no benefit from its activities; proceeded in a good faith belief that it had the right to conduct the activities of which it is accused; its activities resulted in no substantial harm to anyone; and the transgressions were minimal, then almost by definition, there has been no injury to the public, no disrespecting the authority of the Commission, and no damage to the public interest.

(Id.) They further argued that the public is harmed by the sale of Epson cartridges and the non-

availability of substantially less expensive but just as useful alternative products; and that no one would suggest that the public benefits from a monopoly. (*Id.*) They also argued that complainants' cite to San Huan, 161 F.3d 1347, actually supports respondents' position that the penalty of \$12 million should be denied because it is a huge multiple of the value of the products being sold (less than \$500,000 in gross sales). (*Id.* at 40-41.)

The Ninestar respondents further argued that the public interest would not be served by the imposition of harsh penalties on the Ninestar respondents because such penalties would have the effect of destroying respondent Ninestar US and respondent Town Sky and the public is never served by the destruction of viable businesses. (REBr at 19-20.) It is also argued that the public interest is only served by the imposition of penalties for violations of a proper, clear and unambiguous order, not a vague, ambiguous and arguably unconstitutional on its face exclusion order. (REBr at 20.)

Complainants argued that they possess the sole right to the domestic industry from their patents (CFF IX.A.95 (undisputed as to the asserted facts)), and that violation of the remedial order by the Ninestar respondents deprived complainants of the opportunity of selling genuine Epson cartridges for the over 630,000 cartridges impermissibly sold by the Ninestar respondents, which, based upon the average price of an OEM cartridge, equals sales that could have totaled well over \$9 million. (CEBr at 106-07) Complainants also argued that the public suffered an injury worthy of redress when the Ninestar respondents disseminated misinformation to their customers about what products they could permissibly sell and when they diverted support for a domestic industry on a near daily basis. (CEBr at 107.) Complainants further argued that the total penalty is neither inconsistent with prior penalties imposed by the Commission nor

unconstitutional and that a substantial penalty is both warranted and appropriate. (CERBr at 32.)

Complainants also argued that the Commission has specifically rejected arguments relating to the public interest not being served by the destruction of “viable businesses.” (Id. at 42, citing EPROMs, Notice, 1989 WL 608791 (Apr. 29, 1989), at *72.) Complainants further argued that there is no legitimate public interest in businesses that systematically undermine intellectual property rights and the orders of the US government. (CERBr at 43, citing Certain Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper, and Components Thereof, Inv. No. 337-TA-82, (Nov. 1981), at 13.) Complainants also argued that a substantial per-day penalty would further the public interest, favoring the protection of United States intellectual property rights. (CEBr at 107.)

The staff argued that the injury to the public factor weighs against Ninestar US because the evidence demonstrates that Ninestar US was shipping compatibles to its customers when the customers had requested remanufactured products; and that customers wanting to avoid infringement issues thought they could rely on Ninestar US to ship them proper product, but that did not always occur. (SEBr at 11, citing CX-E919C.) The staff also argued that the analysis is the same for Town Sky as for Ninestar US. (Id. at 14-15.) The staff further argued that the public interest factor weighs against Ninestar US. (SEBr at 11.)

The administrative law judge finds that factors two and six are not redundant to the substantive issues to be considered in the enforcement proceeding. Thus, when applying factor two of the EPROMs test, the Commission ““believe[s] it appropriate to focus on the harm to domestic industry rather than harm to the public at large in applying this factor;’ with the harm to domestic industry measured in terms of respondents’ unlicensed sales.” Magnets, Comm’n

Opinion at 25 (finding “significant importations and sales of infringing [products] by the enforcement respondents” harmed complainant and “by extension, the public” supporting imposition of a \$50,000 per day penalty). The administrative law judge finds that Ninestar US and Town Sky sold a significant amount of cartridges in violation of the cease and desist order on 109 and 78 different days, respectively. (CFF IX.A.72, 74 (disputed only as to legal conclusion not as to amount of sales); see also Section VII.A, infra.) 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.” In San Huan, the penalty was minimized because San Huan “made some, albeit belated, efforts to comply with the Commission’s order.” San Huan, 161 F.3d at 1363. The administrative law judge finds that the Ninestar respondents made no effort to comply with the Commission’s orders in this investigation. Thus, the administrative law judge finds that by harming complainants through infringing sales, factor two weighs against the Ninestar respondents in the assessment of the appropriate civil penalty.

Regarding the public interest (factor six), said factor favors the protection of U.S. intellectual property rights and, thus, a civil penalty is intended to confirm the integrity of the consent order process, thereby safeguarding, in the public interest, the Commission’s ability to apply that process in future cases. See Magnets, Comm’n Opinion at 33. In EPROMs the Commission rejected arguments by the respondents relating to the civil penalty being against the public interest. (EPROMs, Comm’n Opinion (July 9, 1998) at 221.) The administrative law

judge finds that arguments of the Ninestar respondents in this enforcement proceeding about the potential effect on the competitive conditions of the U.S. economy resulting from a civil penalty should be rejected, in view of the need to confirm the integrity of the current order process and the protection of valid U.S. intellectual property rights. Thus, the administrative law judge finds that the public interest is not harmed by the implementation of a civil penalty and that this factor weighs against the Ninestar respondents in assessing the appropriate civil penalty. See Windsurfing In'tl Inc. v. AMF, Inc., 782 F.3d 995, 1003 n.12 (Fed Cir. 1986) (holding that “one who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected.”).

3. EPROMs Factor Three: Ability To Pay

Complainants argued that the Ninestar respondents are the hub and two spokes of one of the world's largest aftermarket cartridge manufacturers (CFF IX.A.50-51 (all undisputed as to the asserted facts)); and that despite testimony of Lu of Ninestar China that “[o]ur company [is] a small one” (Lu, Tr. at 729), Ninestar China's promotional video reveals that the company operates an expansive, state-of-the-art campus and employs an army of skilled workers. (CEBr at 98-99, citing CX-E901.) Complainants also argued that Ninestar China operates on a 1.1 million square foot production facility, with 3000 skilled employees and a large research development staff, which produce 8 million inkjet cartridges per month in addition to toner cartridges; and that while Ninestar China has not revealed its gross revenues and profits, either publicly in the 2008 Global Services Report or privately in discovery, Lu conceded at the evidentiary hearing that sales amounted to{ } (CEBr at 100; Lu, Tr. at 810; CFF IX.A.52-58, 60 (all undisputed as to the asserted facts).) Complainants further argued that in

addition to extensive annual sales, Ninestar China also received a substantial investment from international investment company Legend Capital in December of 2007, resulting in a spin-off toner business named{ } in March of 2008. (CEBr at 101, CFF IX.A.61-62 (all undisputed as to the asserted facts).)

Complainants also argued that Ninestar US and Town Sky are able to pay a substantial penalty because Ninestar US' and Town Sky's revenues exceeded \$27 million and{ } respectively, in 2007 (CEBr at 101, CFF IX.A.65-67 (all undisputed as to the asserted facts)); and that even though Ninestar China complains that its high costs mean little profits despite the high sales figures, these "costs" are simply payments back to Ninestar China, the manufacturer of all of the goods sold by Ninestar US and Town Sky. (CEBr at 101, CFF VI.A.217 (undisputed as to the asserted facts).) Complainants further argued that the Ninestar respondents' reports of minimal or negative equity result from the fact that Ninestar US owes{ } of its total assets to its parent Ninestar China, its sole supplier of "inventory," and similarly, Town Sky's allegedly { } is mainly due to the{ } accounts payable it has accrued, mostly owed to its parent and sole supplier of merchandise, Ninestar China. (CEBr at 40.) Complainants also argued that Ninestar US and Town Sky alone spending over{ } on "legal expense" since the entry of Remedial Orders suggests that the Ninestar respondents could have afforded an independent auditor or accountant to testify regarding their financial condition if their low-profitability or poverty claims could withstand professional scrutiny, but that the Ninestar respondents did not offer any such witness, relying on testimony of non-accountant company employees such as Dai of Ninestar US and Lu of Ninestar China and, thus, those arguments based on the Ninestar respondents' financial condition should be disregarded.

(CERBr at 41.)

The Ninestar respondents argued that any significant fine would destroy all of the assets of Ninestar US and put it out of business because its total equity is only{ } and that any significant fine would also destroy all of the assets of Town Sky and put it out of business because its equity is{ } (REBr at 17-18.) They also argued that while Ninestar China has a substantial amount of business worldwide, most of the business of Ninestar China has nothing to do with the products accused of violating the remedial orders in this investigation. (RERBr at 37.) The Ninestar respondents further argued that most of the buildings in Ninestar China's plant are dormitories where the workers live, making the size of the plant a misleading factor; that complainants' arguments focused on Ninestar US and Town Sky as opposed to Ninestar China; and that regardless of Ninestar China's size, a \$12 million penalty or anything in excess of the total value of the sales of those products would be an abuse of discretion. (*Id.* at 38.)

The staff argued that as a multi-million dollar a year enterprise with worldwide operations the Ninestar respondents have sufficient ability to pay; that the argument of Ninestar US that the profit margin on the ink cartridges themselves is low should factor little in setting a penalty; and that one reason the margin may have been low is that the Ninestar respondents have been violating complainants' intellectual property rights and undercutting complainants' own sale prices. (SEBr at 11.) The staff also argued that arguments of the Ninestar respondents concerning their modest financial means conflict with the record which shows that Ninestar China has sales in excess of \$80 million per year (CX-1317 at 54; Lu, Tr. at 810); that Ninestar US has sales in excess of \$27 million per year (CX-E627 at CGU_000024); and that Town Sky

has sales in excess of{ } per year (CX-E835C at TownSky_000485). (SERBr at 4.)

The administrative law judge finds 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 audited records. (CFF IX.A.80-81 (all undisputed).) Instead, the Ninestar respondents presented testimony of 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. (CFF IX.A.82-83 (all undisputed).) For example, Ninestar US' expenses were "allocated" between Epson-related products and other products, yet the calculations of Dai fail 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. (CFF IX.A.84 (undisputed).)

The lack of available documents was highlighted at the evidentiary hearing by the testimony of Lu of Ninestar China:

Q. Sir, I have not seen, in the documents produced by Ninestar China, any report on the annual sales. Can you point me to such a document here?

A. I don't remember now, but it's contained in the production we exchanged or handed to you, so you can just go back and check your records.

Q. I've done that. Would you like to ask your counsel to see if he can produce to you such a document that was produced in this litigation?

MR. O'CONNOR: Your Honor, I object to counsel making statements and representations to the witness.

MR. BARZA: In order to speed this up, I'd like to ask Mr. O'Connor if he can show me any such documents that were produced to us in this litigation.

JUDGE LUCKERN: Mr. O'Connor is not on the witness stand.

MR. O'CONNOR: Absolutely not, Your Honor.

JUDGE LUCKERN: So do you want to cooperate? You've cooperated a lot. How do you want to respond in any way, Mr. O'Connor?

MR. O'CONNOR: I'm not -- I'm here to object to questions, I'm not here to take part in these proceedings, other than as a lawyer.

JUDGE LUCKERN: That's your answer you got, Mr. Barza.

MR. BARZA: That's fine, Your Honor. I think it establishes what I'm trying to establish.

(Tr. at 811-813 (emphasis added).) The administrative law judge finds that 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, weighs against said respondents in the determination of their ability to pay. See, e.g., Tractors, Final Initial and Recommended Determinations, Apr. 28, 1999, at 52 (finding financial statements concerning losses "questionable" where statements were not audited and data from which statements were allegedly generated were not available); Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1573 (Fed. Cir. 1996) (finding that "if evidentiary imprecision is due to inadequacy of the infringer's records, uncertainty is resolved against the wrongdoer"). Thus, the administrative law judge rejects the arguments of the Ninestar respondents regarding inability to pay due to the lack of evidence from the Ninestar

respondents, e.g., documentation of financial statements and lack of audit.

The administrative law judge has further found, supra, that Ninestar China is responsible for and exercises substantial control over the actions of its subsidiaries Ninestar US and Town Sky and that each of the Ninestar respondents is jointly and severally liable. The administrative law judge also finds that Lu of Ninestar China testified that “the total annual sales of Ninestar is only in the neighborhood of, as I said,{ } (Tr. at 811 (emphasis added))), which testimony preceded the cited testimony supra (Tr. at 811-813) relating to absence of documentation. Based on the foregoing, the administrative law judge finds that the ability to pay a civil penalty factor weighs against the Ninestar respondents.

4. EPROMs Factor Four: Respondents’ Benefit From The Violations Of The Remedial Orders

Complainants argued that Ninestar US’ own records demonstrate that it sold at least { } cartridges that violate the Cease and Desist Order on 109 different days for a revenue of { } while Town Sky’s records demonstrate that it sold at least { } cartridges in violation of the Remedial Orders on 78 different days for revenue of { } and that the value of these cartridges to Epson, based upon the price of Epson OEM cartridges for Ninestar US’ and Town Sky’s sales, respectively were over { } and { } (CEBr at 102.) Complainants further argued that the Ninestar respondents reported revenue of over { } on their sales of infringing cartridges (CFF IX.A.76 (undisputed in relevant part as to the asserted facts); and that the true magnitude of the violations is almost certainly much greater because these calculations did not include the { } compatible cartridges Ninestar US sold on Sunday, October 7, 2007 (CFF VI.B.26-28 (undisputed as to the asserted facts)), nor does it

include the unknown violations that were expunged to never entered into Ninestar US' accounting system, or the violations by the New Jersey office of Ninestar US due to the failure of the Ninestar respondents to produce any purchase orders, invoices or accounting records for said office which is responsible for approximately{ } of respondents' total sales. (CEBr at 102-03, CFF VI.B.43-48 (all undisputed as to the asserted facts).) Complainants also argued that taking into account these additional violations would increase the number of violation days by at least three; and that the administrative law judge should consider the incompleteness of respondents' records when calculating the damages. (CEBr at 103, CFF IX.A.79 (undisputed as to the asserted facts).) Complainants further argued that Ninestar China's evidence of "net losses" is insufficient because the only document that it provided in support of said evidence was "specially" prepared by its financial department and was not even offered as evidence, nor was any testimony regarding the methodologies employed to calculate the "net loss"; that the Ninestar respondents offered similarly suspect documents to support their claim that Town Sky only enjoyed a{ } profit from sales of remanufactured cartridges; and that the Ninestar respondents' "losses" were relative because their existing inventory was region-specific and essentially unusable elsewhere, thus, selling cartridges at a loss was more profitable than not selling them at all. (CEBr at 39-40, CFF IX.A.89 (undisputed as to the asserted facts).)

The Ninestar respondents argued that complainants' argument that Ninestar China must have been selling compatible cartridges because it did not have enough empty cartridges is contradicted by testimony of Lu of Ninestar China, as well as packing slips and invoices which demonstrate that Ninestar China had sufficient empty cartridges. (REBr at 14; Lu, Tr. at 765-771; RX-E1047C; RX-E1063C; RX-E1064C; RX-E1065C; RX-E1066C.) The Ninestar respondents

further argued that there is no evidence that Ninestar China sold any “compatible” cartridges subsequent to the entry of the exclusion orders. (REBr at 14.) The Ninestar respondents also argued that regardless of the{ } compatible cartridges that complainants contend Ninestar US “sold” on October 7, 2007, the total gross sales from both Ninestar US and Town Sky is less than{ }dollars total, far less than the \$12 million being sought by complainants; and that there is no evidence of sales by the New Jersey company aside from one order that Ninestar US indicated was supplied by the New Jersey office. (RERBr at 39.)

The Ninestar respondents further argued that Ninestar China suffered a net loss from the refilled cartridges, making a substantial penalty inappropriate. (REBr at 14, citing Lu, Tr. at 775-776; RX-E1044C.) The Ninestar respondents also argued that Ninestar China’s importation was de minimis and its benefit was almost nonexistent; and that if there is any penalty at all imposed against Ninestar China for these minuscule importations, it should be minimal. (Id.) The Ninestar respondents further argued that Ninestar US made no profit and suffered a net loss of { } exclusive of legal expenses; that many, if not most, of the accused products that were sold were returned to Ninestar US by Ninestar US’ customer’s and returned by Ninestar US to Ninestar China (Id. at 16); and that Town Sky received virtually no benefit from the accused sales, with a total profit of only{ } from the sale of accused refill products. (Id. at 17.)

The staff argued that the evidence indicates that Ninestar US elected to take short-cuts for its gain rather than comply with the remedial orders and, thus, benefitted from the violation. (SEBr at 11.) The staff also argued that the Ninestar respondents’ arguments that the infringing sales in violation of the Commission remedial orders yielded little profit are misleading because the Ninestar respondents purposefully aim for high volume, low price, low margin sales, which

undisputedly compete with complainants in the market, infringe complainants' patent rights, and violate the Commission's remedial orders. (SERBr at 4-5.) The staff further argued that a civil penalty greater than the profit margin of the alleged infringer is not prohibited where the infringer purposefully undercuts the patent holder's sales by a substantial amount because the civil penalty should take in to account the harm caused by the violation. (Id at 5.)

Section 337(f)(2) mandates the imposition of a civil penalty for each day of violation of a cease and desist order, and sets a ceiling of the greater of \$100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order. In applying the six-factor test, supra, the Commission takes into account "the three overarching considerations enumerated by Congress in the legislative history [of Section 337(f)(2)], viz., the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest." San Huan, 161 F.3d at 1362. The fourth factor does not "require[] the Commission to establish with precision the extent of the benefit derived by respondents," but rather "determin[e] the general magnitude of the infringing conduct" Magnets Comm'n Determination at 28. Moreover, the Commission has noted that a respondent's benefit from violations "may be measured in a number of ways, including...revenues from sales of related products where those sales would not have occurred but for the sales of the infringing goods." (CEBr at 101-02; Tractors, Final Initial and Recommended Determinations, at 62 (Apr. 28, 1999.) Further, the Commission, in EPROMs, in addressing the extent of the respondent's benefit from its violation of the Commission Order stated "[the administrative law judge] also found that substantial competitive advantages accrued to Atmel as a result of its sales of the infringing 27C010 and 27HC641 EPROMs." EPROMs, Comm'n Opinion at 25.

The administrative law judge finds that as of March 30, 2007, the Ninestar respondents were on notice of the administrative law judge's infringement findings. The record supports a finding that rather than shy away from further infringement in the event the administrative law judge's findings were affirmed, the Ninestar respondents simply stepped up their marketing efforts. For example, by telling resellers that "all Ninestar customers can continue to sell all Epson compatible inkjet" cartridges that they had purchased from Ninestar US prior to the entry of the Remedial Orders, the Ninestar respondents misled its resellers to believe that the sale of compatibles was lawful, even though it could expose them to liability for patent infringement. (CFF IX.A.86 (undisputed).) Additionally, Dai of Ninestar US told Ninestar US customers that "We can continue to sell all Epson Remanufactured Inkjet Cartridges... We have enough quantity to supply our valued customers like you." (CX-E409C at { }). As Lu of Ninestar China conceded, {

}

Q: {

}

A: {

}

(CFF IX.A.90-91 (all undisputed).) The administrative law judge finds that if the Ninestar respondents was 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; and that an appropriate penalty amount should also reflect this

unquantifiable benefit of customer retention.

As further found, infra, in the Violation section, the administrative law judge finds that between October 23, 2007 and May 5, 2008, Ninestar US sold at least{ } cartridges on 109 different days for revenue of{ } (CX-E917C at 3)²³; and that the value of said cartridges based on the average price for Epson OEM product sales, as determined by the administrative law judge in the Violation proceeding, is{ } per unit and, thus over{

} may have been lost as a result of these violations of the cease and desist order. (ID at 366-67.) The administrative law judge also finds that between October 23, 2007 and March 7, 2008 Town Sky sold at least{ } cartridges on 78 different days for a revenue of { } (CX-E914C at 2)²⁴; and that the value of these cartridges, based upon the average price of Epson OEM cartridges exceeds{ } (ID at 366-67.) The Commission issued a Cease and Desist order on October 19, 2007 and, therefore, the administrative law judge finds that all of the aforementioned sales occurred in violation of said order. Thus, the administrative law judge finds that the extent of benefit of the Ninestar respondents is equivalent to the profit made on the sale of the accused Epson cartridges, which totals{ } Hence, he finds that EPROMs factor four weighs against the Ninestar respondents.

5. EPROMs Factor Five: The Need To Vindicate The Authority Of the Commission

Complainants argued that the Ninestar respondents demonstrated contempt for the Commission's authority and orders to protect US industry and patent rights; and that the most

²³ Respondents did not object to the admission of this exhibit. See Tr. at 745-46.

²⁴ Respondents did not object to the admission of this exhibit. See Tr. at 745-46.

telling sign of the Ninestar respondents' disregard for the Commission's authority is their continued sales of remanufactured cartridges until at least June 2008, eight months after the Remedial Orders were enacted that prohibited the sale and importation of said cartridges. (CEBr at 96-97; CFF IX.A.28 (undisputed as to the asserted facts).) Complainants also argued that Ninestar US continued selling remanufactured cartridges after it was "indisputably on notice" that such sales violated the Commission's Remedial Orders in January 2008 (CFF IX.A.16-17, 19-23 (all undisputed)), after Epson filed an enforcement complaint against Ninestar US in February 2008 (CFF II.33 (undisputed as to the asserted facts)), and even after the Commission instituted this enforcement proceeding against Ninestar US based in part on such sales in May 2008 (CFF II.39 (undisputed as to the asserted facts)); and that the Ninestar respondents were fully aware of the first sale requirement in the spring of 2007 when the administrative law judge issued the Initial Determination in the Violation Phase (CFF IX.A.8-10 (all undisputed as to the asserted facts)). (CEBr at 97.) Complainants further argued that despite US Customs' enforcement of the General Exclusion Order making further importation all but impossible, Ninestar US continued to unload compatible cartridges under the guise of filling prearranged conditional orders; and that such attempts to outsmart the Commission alone warrant a high penalty. (CEBr at 97.) Complainants also argued that the Ninestar respondents' disregard for the Commission's authority is evidenced by the frequency with which Ninestar US and Town Sky violated the Cease and Desist Order, 109 days and 78 days respectively, and that, thus, substantial penalties are required to vindicate the Commission's authority. (CEBr at 98.)

The Ninestar respondents argued that Ninestar US was on notice that there was an assertion that its remanufactured cartridges violated the Commission's orders, but that mere

assertions or allegations do not become facts and that the remanufactured cartridges were not part of the original proceedings or the exclusion orders; and that, thus, said cartridges cannot be the subject of penalties in these proceedings. (RERBr at 36.) The Ninestar respondents also argued that the activities of Ninestar US were not an attempt to outsmart the Commission; that nothing was concealed from the Commission in terms of the continued sale of these products; and that Dai of Ninestar US believed he had a legal right to sell the remanufactured products. (Id.)

The staff argued that the record is clear that Ninestar US purposefully attempted to evade the remedial orders and continued to do so, stopping only when Customs shut down further importation attempts; and that the improper importations and a large percentage of the sales occurred immediately after the Commission issued its remedial order. (SEBr at 11.) The staff also argued that while Ninestar US could have submitted a bond to continue its activities during the Presidential review period, it instead ignored the Commission's remedial orders. (Id. at 12.) The staff further argued that the EPROMs factors considered for Ninestar US are the same for Town Sky. (Id. at 14.) The staff also argued that the record shows a willful disregard for the remedial orders in terms of Ninestar US' backdating sales of compatible cartridges (CX-E919C) and Ninestar US' inventory records demonstrating that Ninestar US was filling orders for remanufactured ink cartridges with compatible ink cartridges; and that the considerable, sustained and willful violations militate against a finding of "minimal" transgressions. (SERBr at 7-8.)

The administrative law judge finds that factor five weighs against a finding in favor of the Ninestar respondents, because the evidence demonstrates that the Ninestar respondents blatantly disregarded the Commission Orders, even after they were on notice that there were legal issues

with both Ninestar China and Ninestar US' remanufactured Epson cartridges; and that the main reason the Ninestar respondents stopped selling the remanufactured Epson products was because they could no longer get said products through the US border, as demonstrated by said respondents continued sale of remanufactured cartridges for eight months after the Remedial Orders were enacted. (CFF IX.A.16-18, 28 (all undisputed); Lu, Tr. at 723, see Section VI.A.1, supra, (finding that respondents understood in December 2007, after Customs' seizure, that there was a legal issue about the remanufactured Epson cartridges that Ninestar China was making, citing testimony by Lu); Dai, Tr. at 854-55, 891, see Section VI.A.1, supra, (finding that Dai admitted that he understood that if the Ninestar respondents lost the ITC case they would no longer be able to sell the Epson compatible products); see Tractors at 64 (finding "need to vindicate the Commission's authority" was an "aggravating factor with respect to the penalty amount" where "respondents engaged in a pattern of activity intended to circumvent the Commission's orders"); see also Lens-Fitted Film Packages, Enforcement Initial Determination, Apr. 6, 2004, at 17 ("The cease and desist order's proscription, however, did not contemplate a margin of error, much less one involving one million-plus illegal sales.")) The administrative law judge also finds that any issues regarding the clarity of the Commission's Orders were addressed with respect to factor one, supra, under which the administrative law judge found that if the Ninestar respondents were unsure what was covered under the Commission's Orders they should have requested clarification or sought the advice of legal counsel. Thus, the administrative law judge finds that EPROMs factor five weighs against the Ninestar respondents.

Based on the foregoing, the administrative law judge finds 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.

VII. Violations Of the Remedial Orders

A. Ninestar Respondents

Complainants provided the following table of calculations based upon the methodology, of complainants' accounting expert Jeff Kinrich,²⁵ but without a discount for remanufactured cartridge-related violations. Said table displays calculations for daily rates starting with the \$100,000 statutory maximum and -decreasing in \$10,000 increments:

Daily Penalty

	\$100,000	\$90,000	\$80,000	\$70,000	\$60,000
Ninestar US Sales	\$10,956,694	\$9,886,694	\$8,820,626	\$7,771,365	\$6,732,131
Ninestar US Imports	\$767,816	\$746,996	\$726,996	\$706,996	\$686,996
Town Sky Sales	\$7,800,000	\$7,020,000	\$6,240,000	\$5,460,000	\$4,680,000
Town Sky Imports	\$980,465	\$900,465	\$820,465	\$746,304	\$676,304
	\$20,504,974	\$18,554,155	\$16,608,088	\$14,684,655	\$12,775,431

²⁵ Kinrich is an expert in the field of accounting. (Tr. at 278-283.)

Daily Penalty

	\$50,000	\$40,000	\$30,000	\$20,000	\$10,000
Ninestar US Sales	\$5,703,964	\$4,685,371	\$3,717,842	\$2,862,922	\$2,135,737
Ninestar US Imports	\$667,936	\$657,936	\$650,175	\$650,175	\$650,175
Town Sky Sales	\$3,900,000	\$3,120,000	\$2,340,000	\$1,577,264	\$923,070
Town Sky Imports	\$606,304	\$541,932	\$481,932	\$430,829	\$382,092
	\$10,878,204	\$9,005,239	\$7,189,949	\$5,521,189	\$4,091,074

(Id. at 108.) Complainants also argued that applying a substantial percentage of the maximum statutory penalty to the relevant violations days is warranted in light of Ninestar’s “outrageous and lengthy campaign of violations.” (Id. at 109.) Complainants further argued that in light of the “bad faith and disregard for the Commission’s authority manifested by respondents at every juncture since the imposition of the Remedial Orders,” the administrative law judge should consider a daily penalty amount approaching or equal to the \$100,000 statutory maximum; that the administrative law judge should consider the total penalty of \$15,862,798 recommended by the staff to be a minimum enforcement penalty from which the administrative law judge may “freely depart upward based upon Ninestar’s egregious conduct”; and that a penalty as high as \$20,504,974 would be appropriate. (CERBr at 33-34.)

The Ninestar respondents argued that there were a total of six shipments of refilled products worth{ } imported in the United States from Ninestar China subsequent to

October 19, 2007, the effective date of the exclusion orders in issue, as evidenced by the shipping documents and supporting invoices in RX-E1026C through RX-E1034C. (REBr at 13.) The Ninestar respondents also argued that there were more than enough spent cartridges purchased and obtained by Ninestar China to provide the number of refilled cartridges purchased and obtained by Ninestar China to provide the number of refilled cartridges shown on the packing slips and invoices, contradicting complainants' assertion that the Ninestar respondents must have been selling compatible cartridges because Ninestar China did not have enough empty cartridges. (*Id.* at 14.) It was further argued that no penalty should be imposed on any of the Ninestar respondents for sales of refilled products because the only evidence concerning any possible sale of compatible cartridges has to do with the solicitation of orders prior to the entry of the exclusion orders by Ninestar US; and that if any penalties are to be imposed on the Ninestar respondents, they should be de minimis, particularly in light of the fact that any sales only involve a small number of refilled cartridges imported into the United States by Ninestar China. (*Id.* at 20.) The Ninestar respondents also argued that the staff's assertion that Ninestar China should be responsible for 14 days of importation is invalid and that there were only six days worth of shipments made by Ninestar China subsequent to the issuance of the exclusion orders. (RERSBr at 3.)

The staff argued that, with respect to Ninestar US, the EPROMs factors, supra, weigh in favor of a substantial civil penalty because the record lacks evidence of any significant good faith effort to comply with the Commission Orders; that Ninestar US did not take any steps to avoid violating the remedial orders; that the importations and sales were voluminous and only stopped because Customs stopped further attempts at importation; that evidence of back-dated sales

demonstrates a “premeditated effort to skirt the Commission’s remedial orders”; and that incorrect inventory orders suggest manipulation of sales records in an attempt to mask “compatible” sales. (SEBr at 10.) With respect to importation in violation of the remedial order, the staff recommended that a civil penalty be imposed of not less than \$80,000 per day or{ } times twice { } the value of the imported goods, whichever amount is greater, and included the following chart of recommended civil fines:

Day	Value in dollars	Recommended Fine in dollars
October 25, 2007	{ }	80,000
November 8, 2007	{ }	146,405
November 15, 2007	{ }	80,000
November 28, 2007	{ }	101,258
December 3, 2007	{ }	126,588
December 12, 2007	{ }	80,000
Total		\$614,251

(Id. at 12.) The staff also recommended, with respect to violation of the remedial order based on sales, a civil fine be imposed of \$80,000 per day of violation or twice the value of goods sold, which ever is greater; and argued that of the 109 days of violation, it appears that only November 5, December 4, January 10 and February 11 would require an upward adjustment for “twice the value”; and that including said adjustment the total fine would equal{ } (Id. at 12-13.) The staff argued that, with respect to mitigation, Ninestar US did cooperate and participate in the enforcement proceeding. (Id. at 14.)

The staff further argued that it supports complainants’ request that civil penalties be imposed on Town Sky; and that the bond amount that Town Sky would have had to post during the Presidential review period and for the cease and desist order bond would have been a

combined total of{ } which is helpful in determining the reasonableness of a civil penalty. (Id. at 14.) The staff further argued that Town Sky imported on 8 days and that the total penalty for importation would equal{ } (Id. at 14-15.) The staff recommended a \$50,000 per day fine for each of the 78 days where violations occurred, with a total recommended fine of \$3.9 million. (Id. at 15.)

The staff argued that it supports complainants' request that civil penalties be imposed against Ninestar China; and that the appropriate amount of penalty should be the same as for Ninestar US and Town Sky. (Id.) The staff also argued that for the 14 days of importation, the total recommended civil penalty equals \$1,627,457. (Id. at 15-16.) The staff further argued that each Ninestar respondent should be held jointly and severally liable for any penalties imposed. (Id. at 16.)

The Commission entered Cease and Desist Orders against Ninestar US and Town Sky on October 19, 2007 and served them by overnight mail on both respondents on October 22, 2007. (CFF VI.A.1 (undisputed).) As the procedural history, supra, states, the Orders to Cease and Desist against Ninestar US and Town Sky prohibit, inter alia, the sale and importation of "covered products," i.e., ink cartridges that are covered by one or more of the claims of certain patents. (CFF VI.A.2 (undisputed).)

The administrative law judge has, supra, rejected respondents' arguments regarding Fifth Amendment due process. The administrative law judge has also rejected, supra, respondents' affirmative defenses. Therefore, regarding importation of covered products by Ninestar US, it is undisputed that on October 25, 2007, Ninestar US imported{ } covered products into the United States at a price of{ } (CX-E9 16C; CX-E616C; CX-E909C); that on November

8, 2007, Ninestar US imported{ } covered products into the United States at a price of { } (CX-E9 16C; CX-E6 16C; CX-E909C); that on November 15, 2007, Ninestar US imported{ } covered products into the United States at a price of{ }(CX-E916C; CX-E616C; CX-E909C); that on November 28, 2007, Ninestar US imported{ } covered products into the United States at a price of{ } (CX-E916C; CX-E616C; CX-E909C); that on December 3, 2007, Ninestar US imported{ } covered products into the United States at a price of{ } (CX-E916C; CX-E616C; CX-E909C); and that on December 12, 2007, Ninestar US imported{ } covered products into the United States at a price of{ } (CX-E916C; CX-E616C; CX-E909C). (CFF VI.A.5-10 (all undisputed in relevant part).)²⁶

Regarding sales violations by Ninestar US, it is undisputed that on October 23, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on October 24, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on October 25, 2007, Ninestar US sold{ } covered products in the United States at a price of{ }(CX-E917C; JX-E1C; CX-E909C); that on October 26, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on October 29, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on October 30, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on October 31, 2007, Ninestar US sold{ } covered products in the United States at a price of

²⁶ The only objection that respondents raise as to each of CFF VI.A.5-10 is their Fifth Amendment due process argument, which has been rejected by the administrative law judge, supra.

{ } (CX-E917C; JX-E1C; CX-E909C); that on November 1, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 2, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 5, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 6, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 7, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 8, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 9, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 12, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 13, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 14, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 15, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 16, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 19, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on November 20, 2007, Ninestar US sold { } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C);

States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on November 21, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on November 26, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on November 27, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on November 28, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on November 29, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on November 30, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 3, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 4, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on December 5, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on December 6, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on December 7, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 10, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 11, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on December 12, 2007, Ninestar US sold

{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 13, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 14, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 17, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 18, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 19, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 20, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 21, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 26, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 27, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on December 28, 2007, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 2, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 3, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 4, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on

January 7, 2008, Ninestar US sold{ } covered products in the United States at a price of { }(CX-E917C; JX-E1C; CX-E909C); that on January 8, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 9, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 10, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 11, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 14, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 15, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 16, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on January 17, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 18, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 21, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 22, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 23, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 24, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on

January 25, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1 C; CX-E909C); that on January 27, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 28, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 29, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 30, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on January 31, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 1, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 4, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on February 5, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 6, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 7, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 8, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 11, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 12, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on

February 13, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on February 14, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1 C; CX-E909C); that on February 15, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 18, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 20, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 25, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 26, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on February 27, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on February 28, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E9 17C; JX-E1 C; CX-E909C); that on February 29, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 3, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 4, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 5, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 6, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 7, 2008, Ninestar US sold{ } covered

products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 10, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 11, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 14, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 17, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 18, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 19, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 20, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 21, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 24, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 25, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on March 26, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on March 28, 2008, Ninestar US sold { } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C); that on April 1, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); that on April 2, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C);

that on April 7, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1 C; CX-E909C); that on April 10, 2008, Ninestar US sold{ } covered products in the United States at a price of{ }(CX-E917C; JX-E1C; CX-E909C.); that on April 14, 2008, Ninestar US sold{ } covered products in the United States at a price of { } (CX-E917C; JX-E1C; CX-E909C); and that on May 5, 2008, Ninestar US sold{ } covered products in the United States at a price of{ } (CX-E917C; JX-E1C; CX-E909C). (CFF VI.A.14-122 (all undisputed in relevant part)).²⁷

Regarding importation of covered goods by Town Sky, it is undisputed that on October 23, 2007, Town Sky imported{ } covered products into the United States at a price of { } (CX-E912C; CX-E408C; CX-E910C); that on November 19, 2007, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E912C; CX-E408C; CX-E910C); that on November 20, 2007, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E912C; CX-E408C; CX-E910C); that on November 21, 2007, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E912C; CX-E507AC at TownSky_000448-449; CX-E910C); that on November 27, 2007, Town Sky imported{ } covered products into the United States at a price of { } (CX-E912C; CX-E408C; CX-E910C); that on December 17, 2007, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E912C; CX-E408C; CX-E910C); that on January 2, 2008, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E912C; CX-E408C; CX-E910C); and that on

²⁷ The only objection that respondents raise as to each of CFF VI.A.14-123 is their Fifth Amendment due process argument, which has been rejected by the administrative law judge, supra.

January 14, 2008, Town Sky imported{ } covered products into the United States at a price of{ } (CX-E9 12C; CX-E408C; CX-E910C). (CFF VI.A.125-132 (all undisputed in relevant part).)²⁸ Also, complainants further alleged that, on May 5, 2008, Town Sky imported { } covered products into the United States at a price of{ } (See CFF VI.A.133; see also CX-E912C; CX-E509C; CX-E910C.) Besides the Fifth Amendment due process argument, which the administrative law judge has rejected, supra, the Ninestar respondents also object to CFF VI.A.133 on the ground that the “allegations concerning the May 5, 2008 importation were contradicted by Mr. Li. (Li, Tr. 935122-936:1 5).” (RR/OCFF133 at 101.) Li, whose title is Office Manger of Town Sky (Tr. at 929), however, testified:

MR. O’CONNOR: Your Honor, with the grateful assistance of Epson’s counsel, we pull up Exhibit CX-E912C, and I’m asking the witness if he could please look at that exhibit?

* * *

Q. Okay. Do you see any other mistakes?

A. Yes.

Q. What else do you recognize?

A. In the line with the data for May the 5th, 2008, in that line, it showed that we imported{ } units. Actually, such imports did not, never exist.

Q. Do you know what that figure represents?

A. Yeah.

Q. What does it represent?

²⁸ The only objection that the Ninestar respondents raise as to each of CFF VI.A.125-132 is their Fifth Amendment due process argument, which has been rejected by the administrative law judge, supra.

A. It's a mistake, it's a mistake.

Q. What should it be?

A. Because after the C&D order or the issuance of that order, we've never imported Epson compatibles.

Q. Okay. Do you have any idea where that number came from?

A. We don't have such a figure, I don't know. We did not submit any document showing that figure.

(Tr. at 935-36.) Thus, Li testified that, because Town Sky did not import any Epson compatibles after the cease and desist orders issued, the document in question, CX-E912C must be wrong. Li also purports to not understand where that number came from. CX-E912C, however, is based, inter alia, on CX-509, which is a commercial invoice dated May 5, 2008, and which lists several models of cartridges that are listed in CX-910 as models of cartridges that respondents have agreed by stipulation to be infringing. Based on the foregoing, the administrative law judge overrules respondents' objection to CFF VI.A.133.

Regarding sales violations by Town Sky, it is undisputed that on October 23, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on October 24, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on October 25, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on October 26, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on October 29, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C;

CX-E905C; CX-E910C); that on October 30, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on October 31, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 1, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 2, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 5, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 6, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 7, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 8, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 9, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 12, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 13, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 14, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 15, 2007, Town Sky sold{ } covered products in the United States at a price of{ }

{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 16, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 19, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 20, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 21, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 26, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 27, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 28, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 29, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on November 30, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 3, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 4, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 5, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 6, 2007, Town Sky sold

{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 7, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 10, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 11, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 12, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 13, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 14, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 17, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 18, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 19, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 20, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 21, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 26, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that

on December 27, 2007, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on December 28, 2007, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 2, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 3, 2008, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 4, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 7, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 8, 2008, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 9, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 10, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 11, 2008, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 14, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 15, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 16, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 17,

2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 18, 2008, Town Sky sold { } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 21, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 22, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 23, 2008, Town Sky sold { } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 24, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 25, 2008, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 28, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 29, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 30, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on January 31, 2008, Town Sky sold{ } covered products in the United States at a price of { } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 1, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 4, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C;

CX-E910C); that on February 5, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 6, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 7, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 8, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 13, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 19, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 22, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on February 27, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C); that on March 7, 2008, Town Sky sold{ } covered products in the United States at a price of{ } (CX-E914C; CX-E902C; CX-E905C; CX-E910C). (CFF VI.A.136-213 (all undisputed in relevant part).)²⁹

Thus, Ninestar US imported covered products on 6 days on or between October 25, 2007 and December 12, 2007 (CFF VI.A.5-13 (all undisputed in relevant part)); Ninestar US sold covered products on 109 days on or between October 23, 2007 through May 5, 2008 (CFF VI.A.14-124 (all undisputed in relevant part)); Town Sky imported covered products on 9 days

²⁹ The only objection that the Ninestar respondents raise as to each of CFF VI.A.136-213 is their Fifth Amendment due process argument, which has been rejected by the administrative law judge, supra.

on or between October 23, 2007 and May 5, 2008 (all CFF VI.A.125-135 (all undisputed in relevant part)); and Town Sky sold covered products on 78 days on or between October 23, 2007 through March 7, 2008 (CFF VI.A.214 (undisputed in relevant part); see also CFF VI.A.136-213 (undisputed in relevant part)).

Section 337(f)(2) mandates the imposition of a civil penalty for each day of violation of a cease and desist order, and sets a ceiling of 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 Commission has applied a six-factor test in determining the appropriate penalty amount. See EPROMs, Commission Opinion at 23-24, 28 (Aug. 1991).

Based upon the administrative law judge's application of the six-factor test laid out in EPROMs, see Section VI, supra, the administrative law judge finds that the mandatory statutory maximum civil penalty should be applied for each day on which an importation or sale of the accused articles occurred in violation of the cease and desist order. Said penalty is the greater of \$100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order. See, e.g., Magnets, Comm'n Determination at 21 (Oct. 28, 1997) ("The Commission has indicated a preference for a daily penalty, as opposed to a penalty based on the domestic value of the infringing articles, 'unless the domestic value of the articles sold on a given day makes the daily maximum insufficient to serve as a deterrent to violation.'"); EPROMs, Inv. No. 337-TA-276, Comm'n Op. at 28 (Aug. 1, 1991) ("The legislative history of the civil penalty provision suggests that the penalty of \$100,000 per day is intended for most violations, with the penalty of twice the domestic value of the articles concerned intended for those situations where sales or importations on a given day exceed \$100,000 in value."); Tractors, Comm'n Op., 1999

ITC LEXIS 260, at 83 (Aug. 18, 1999) (finding that “The legislative history confirms that the Commission has discretion to impose a civil penalty up to the applicable maximum amount.”).

In applying the EPROMs test, the Commission takes into account “the three overarching considerations enumerated by Congress in the legislative history [of Section 337(f)(2)], viz., the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest.” San Huan, 161 F.3d at 1362 (finding that a penalty of \$50,000 per violation day was not abuse of Commission discretion “in view of (1) the Commission’s determination that the penalty was a small multiple of the sales value of magnets sold in violation of the Consent Order, (2) the statutory maximum allowable of \$100,000 per violation day, and (3) the bad faith of [respondent]”). The present Investigation is distinguishable from San Huan in which the Commission found that San Huan made “some efforts” to comply with the Consent Order and, thus, warranted a lesser penalty. Id.

Thus, if the Commission finds that the violations of the cease and desist order by the Ninestar respondents in the present Enforcement were egregious, consistent with the administrative law judge’s findings, supra, the administrative law judge recommends the maximum civil penalty allowed under 19 U.S.C. § 1337(f)(2), such that the daily penalty is the greater of \$100,000 or double the value of the goods at issue on the day in question. Therefore, Ninestar US has violated the cease and desist orders by importing covered products on six different days. On November 8, 2007, November 28, 2007, and December 3, 2007, Ninestar US imported covered products valued at{ } respectively, and those days are assessed a penalty of double the value of the products at issue (that is, { } respectively) and each of the other three days is

days via both their own website and an electronic storefront on “amazon.com.” (CEBr at 67-68.) Complainants further argued that, because of respondent Mipo International’s failure to respond to the Enforcement Complaint against it, the allegation that Mipo International has continued to import and sell covered cartridges into the United States in violation of the Remedial Orders may be deemed true. (CEBr at 69.) Thus, complainants argued, although the Mipo Respondents’ own business records would have likely revealed far more violations, the available evidence shows that the Mipo Respondents violated the Commission’s Remedial Orders by importing covered products on two days and selling covered products on 95 days, for a total of 97 violation days. (CEBr at 69.)

The staff argued that Mipo America is subject to the Commission’s general exclusion order, a limited exclusion order, and a cease and desist order issued in the underlying investigation; that Mipo International is subject to the Commission’s general exclusion order and a limited exclusion order; that both Mipo entities defaulted in the underlying investigation; that in this enforcement proceeding, Mipo America participated minimally by filing a late response to the complaint and seeking an extension of time to respond to discovery, but thereafter it has failed to participate; that both Mipo entities have been found to be in default; and that the evidence shows that subsequent to the entry of the orders, Mipo America repeatedly sold ink cartridges covered by the orders. (SEBr at 16.) Thus, the staff supported complainants’ request that civil penalties be imposed on Mipo America and that the two Mipo entities be held jointly and severally liable. (SEBr at 16.) The staff further argued that, at the hearing, the evidence showed at least 95 days of sales in violation of the orders and that a civil fine of \$50,000 per day of violation is warranted for a total fine of \$4.75 million. (SEBr at 16-17.)

On May 1, 2008, the Commission instituted an enforcement proceeding against, inter alia, the Mipo Respondents, and the record reflects that the Commission served, inter alia, the Mipo respondents a Notice of Institution of Formal Enforcement Proceeding that date. The record does not reflect that said Notice was returned or refused. On July 1, 2008, Mipo America filed an answer to the enforcement complaint. On August 13, 2008, Mipo America filed a Response to Interrogatories and Motion for Extension of Time for Further Response. (Motion Docket No. 565-74.) Said Motion 565-74 was denied. Mipo America made no further filings in this Enforcement action. On January 9, 2009, the administrative law judge issued Order No. 48, finding Mipo International Ltd. in default. On January 13, 2009 the administrative law judge issued Order No. 51 finding Mipo America in default. Thus, the Mipo Respondents have both received notice of this enforcement action, and have both been found to be in default.

Complainants have presented un rebutted evidence that the Mipo Respondents have imported covered products on two days, and have sold covered products on 95 separate days. (See CEBR at 67-69; see also CFF VII.A.1-15 (all undisputed).) Therefore, complainants have established that the Mipo Respondents worked in concert to import infringing Mipo brand cartridges into the United States on two days and sell them in violation of the Cease and Desist Order against Mipo America on 95 separate days. Based on the evidence presented, the administrative law judge recommends the maximum civil penalty allowed under 19 U.S.C. § 1337(f)(2), such that the daily penalty is the greater of \$100,000 or double the value of the goods at issue on the day in question. Thus, he recommends that Mipo International³⁰ and Mipo

³⁰ Service on Mipo International of at least Order No. 48, sent via Federal Express, has been refused for the stated reason that Mipo International does not exist and has been renamed Mipo Limited. (Tr. at 160:9-18.) However, there is no indication that the copy of Order No. 46

America be found jointly and severally liable for a \$9,700,000 penalty.

2. Respondents Ribbon Tree USA And Apex

Complainants argued that the Apex Respondents have also routinely violated the Consent Order into which they voluntarily entered on February 12, 2007, and that complainants have confirmed violations of the Consent Order on seven separate days. (CEBr at 69-70.)

Complainants further argued, between the sales of covered cartridges to Epson's investigator and Media Street on July 23, 2007, November 14, 2007, and January 30, 2008 and the four documented importations of cartridges on September 27, 2007, November 8, 2007, December 24, 2007 and June 12, 2008, the Apex Respondents violated the Consent Order on at least seven separate days. (CEBr at 72.)

sent to Mipo International has been returned to the Commission as undeliverable, and a printout of the contact section of Mipo International's website, made almost two weeks after Order No. 46 was sent for delivery, lists the same name and address used for service of Order No. 46. (CFF III.B.44-45,47 (all undisputed).) The fact that Order No. 46 was not returned to the Commission as undeliverable is a sufficient indicator of receipt of that Order. See Certain Cigarettes and Packaging Thereof, Inv. No. 337-TA-643, Order No. 6 at 3 n.1 (July 15, 2008) (Lack of return of complaint and notice of investigation "has been found to be a sufficient indicator of receipt of the complaint and notice of investigation to support a show cause order."); see also Certain Ink Markers and Packaging Thereof, Inv. No. 337-TA-522, Order No. 11 at 2 (Dec. 16, 2004) ("The certificate of service indicates that the complaint and notice of investigation were served on said respondent. . . . This fact has been found to be a sufficient indicator of receipt of the complaint and notice of investigation to support a show cause order."). Further, based on Mipo International's website, it is reasonable to infer that Mipo America Ltd. is a U.S. subsidiary of Mipo International. (CFF III.B.49-50 (all undisputed).) In addition, the fact that delivery of Order No. 48 was returned does not mean that Mipo International is no longer in existence. Epson was able to successfully deliver correspondence to Mipo International as late as October 13, 2008. (CFF III.B.43 (undisputed).) Also, Mipo International's website has been up and running, and listed the same name and address used for the attempted delivery of Order No. 48. (CFF III.B.48 (undisputed).) Finally, Mipo International's U.S. affiliate, Mipo America, Ltd., which is listed as a contact on Mipo International's website, has actively participated in these proceedings and can be reasonably presumed to have notified Mipo International of Order No. 48. (CFF III.B.51 (undisputed).)

The staff argued that respondents Ribbon Tree USA and Apex are subject to both the Commission's general exclusion order and a consent order issued in the underlying investigation; that neither Ribbon Tree USA nor Apex has responded to the complaint and each has been held in default; and that the evidence shows that Ribbon Tree USA and Apex sold ink cartridges covered by the orders subsequent to entry of those orders. (SEBr at 17.) Thus, the staff supported complainants' request that civil penalties be imposed on Ribbon Tree USA and Apex; and further supported a \$100,000 per day civil fine, stating that the failure to abide by the consent order is particularly egregious given that the respondents voluntarily sought entry of the order in order to be terminated from the underlying investigation. (SEBr at 17-18.)

On June 23, 2008, the Commission instituted an enforcement proceeding against the Ribbon Tree USA and Apex respondents, and the record reflects that the Commission served, inter alia, said respondents a Notice of Institution of Formal Enforcement Proceeding that date. The record does not reflect that said Notice was returned or refused. On January 9, 2009, the administrative law judge issued Order No. 48, finding, inter alia, Ribbon Tree USA and Apex in default.

The Ribbon Tree USA and Apex respondents were terminated from the violation phase of Inv. No. 337-TA-565 based on a Consent Order that prohibited them from continuing to import or sell cartridges that infringe specified patent claims, including the claims at issue in this enforcement action. The violations of the Consent Order established in Section VII.B, supra, subject Apex and Ribbon Tree USA to the same monetary penalties applicable to violations of Commission cease and desist orders. See, e.g., San Huan, 161 F.3d at 1356 ("According to the Commission, the only pertinent difference between [a] Consent Order and [a] cease and desist

order [i]s that [the respondent] avoided the investigation and therefore the Commission made no determination of violation in the original investigation.”). The Federal Circuit has affirmed the Commission’s view that civil penalties apply equally to violations of Commission consent orders:

A consent order whereby the Commission terminates its investigation upon agreement of the respondent to cease its infringing activities invokes the restraint of federal power, upon the respondent’s undertaking to comply with the law; thus its violation is subject to federal remedy, by penalty and enforcement in accordance with statute and regulation. The consent order is far from an informal expedient The Commission’s long-standing interpretation of 337(f)(2) has been that consent orders may be enforced through civil penalties; this interpretation is correct; and even if there were ambiguity, the Commission’s interpretation is reasonable and warrants appropriate deference. . . . We affirm the Commission’s ruling that a consent order is enforceable by civil penalty, imposed by the Commission and recoverable in the district court in the event of nonpayment.

Id., 161 F.3d at 1356-57; see also Magnets at 34 (“If the Commission were unable to sanction parties, including respondents here, for violations of consent orders, which are substantively identical to cease and desist orders, there would be no point in issuing them.”). Complainants have presented un rebutted evidence that Apex and Ribbon Tree USA have sold covered cartridges on three separate days and imported covered cartridges on four separate days. (See CEBr at 69-72; see also CFF VII.B.1-37 (undisputed).) Therefore, based on the evidence presented, the administrative law judge recommends the maximum civil penalty allowed under 19 U.S.C. § 1337(f)(2), such that the daily penalty is the greater of \$100,000 or double the value of the goods at issue on the day in question. Thus, he recommends that respondents Apex³¹ and

³¹ The administrative law judge notes that complainants have alleged that Apex dissolved in April 2008; that Apex has relocated to Canada; and that Apex has operations in Florida. (CFF

Ribbon Tree USA³² be found jointly and severally liable for a \$700,000 penalty.

III.B.61-62 (undisputed).)

³² The administrative law judge notes that complainants have alleged that Ribbon Tree USA dissolved in April 2008; continues to have a place of business in Canada; and is registered with the Florida Secretary of State as a foreign corporation. (CFF III.B.55-57 (undisputed).)

CONCLUSIONS OF LAW

1. The Commission has in rem jurisdiction over the products at issue in this matter.
2. The Commission has in personam jurisdiction over each of the Enforcement Respondents in this matter.
3. The Commission has subject matter jurisdiction over this matter.
4. Respondents Ninestar China, Ninestar US, and Town Sky are affiliated and are jointly and severally liable for any penalty in this enforcement proceeding.
5. All of the products at issue sold or imported by the Ninestar Respondents infringe at least one of the following asserted claims of Complainants' Epson's patents: claim 81 of the '439 patent, claim 9 of the '917 patent, claim 1 of the '053 patent.
6. Respondent Ninestar US' compatible cartridges at issue are "covered products" under the Cease and Desist Order issued against it by the Commission on October 19, 2007 (Corrected on October 30, 2008).
7. Respondent Town Sky's compatible cartridges at issue are "covered products" under the Cease and Desist Order issued against it by the Commission on October 19, 2007 (Corrected on October 30, 2008).
8. Respondent Ninestar US' remanufactured cartridges at issue are "covered products" under the Cease and Desist Order issued against it by the Commission on October 19, 2007 (Corrected on October 30, 2008).
9. Respondent Town Sky's remanufactured cartridges at issue are "covered products" under the Cease and Desist Order issued against it by the Commission on October 19, 2007 (Corrected on October 30, 2008).

10. Respondent Ninestar US imported covered products on six separate days on or between October 25, 2007 and December 12, 2007 in violation of the Cease and Desist Order issued against it on October 19, 2007.
11. Respondent Town Sky imported covered products on nine separate days on or between October 23, 2007 and May 5, 2008 in violation of the Cease and Desist Order issued against it on October 19, 2007.
12. Respondent Ninestar US sold infringing ink cartridges on at least 109 days from October 23, 2007 through May 5, 2008.
13. Respondent Town Sky sold infringing ink cartridges on at least 78 days from October 23, 2007 through March 7, 2008.
14. The record supports imposition of a \$767,815.50 civil penalty against respondent Ninestar US for violation of the Cease and Desist Order by importation of covered product.
15. The record supports imposition of a \$10,956,693.54 civil penalty against respondent Ninestar US for violation of the Cease and Desist Order by sales of covered product.
16. The record supports imposition of a \$980,465.12 civil penalty against respondent Town Sky for violation of the Cease and Desist Order by importation of covered product.
17. The record supports imposition of a \$7,800,000 civil penalty against respondent Town Sky for violation of the Cease and Desist Order by sales of covered product.
18. Respondents Ninestar China, Ninestar US, and Town Sky are jointly and severally liable for violations of the Cease and Desist Orders in the amount of \$20,504,974.16.
19. The Ninestar Respondents failed to carry their burden to demonstrate that any of the

- products at issue are subject to the defense of permissible repair or patent exhaustion.
20. The Ninestar Respondents failed to carry their burden to demonstrate their affirmative defense of invalidity.
 21. The Ninestar Respondents failed to carry their burden to demonstrate their affirmative defense of lack of personal jurisdiction and non-compliance with the Hague Convention.
 22. The Ninestar Respondents failed to carry their burden to demonstrate their affirmative defense of inequitable enforcement.
 23. The enforcement of the Cease and Desist Orders against the Ninestar Respondents for their sale and importation of remanufactured cartridges does not violate due process.
 24. Respondents Mipo International and Mipo America are affiliated and are jointly and severally liable for any civil penalty in this Enforcement proceeding.
 25. The Mipo respondents sold the products at issue.
 26. The Mipo respondents have been found to be in default, but have had notice of the enforcement proceeding.
 27. All of the products at issue sold by the Mipo Respondents violate at least one of the following asserted claims of Complainants' Epson's patents: claim 81 of the '439 patent, claim 9 of the '917 patent, claim 1 of the '053 patent, and claim 21 of the '397 patent.
 28. Respondent Mipo-brand compatible and remanufactured cartridges at issue are "covered products" under the Cease and Desist Order issued to Mipo America on October 19, 2007.
 29. All of the products at issue against Respondent Mipo America are "covered products" under the Cease and Desist Order issued by the Commission on October 19, 2007

30. The Mipo Respondents violated the Cease and Desist Order on 97 separate days.
31. The record supports imposition of a \$9,700,000 civil penalty against the Mipo respondents for violation of the Cease and Desist Order issued against Mipo America on October 19, 2007.
32. The Mipo Respondents have failed to carry their burden on their affirmative defenses.
33. Respondents Ribbon Tree USA and Apex are affiliated and are jointly and severally liable for any civil penalty.
34. Respondents Ribbon Tree USA and Apex have been found to be in default, but have had notice of this enforcement proceeding.
35. Respondents Ribbon Tree USA and Apex imported and sold products at issue after February 12, 2007, the date of the Consent Order entered against them.
36. All of the products at issue sold by Respondents Ribbon Tree USA and Apex violate at least one of the following asserted claims of Epson's patents: claim 81 of the '439 patent, claim 9 of the '917 patent, claim 1 of the '053 patent, and claim 21 of the '439 patent.
37. Any compatible and remanufactured cartridges at issue sold by Respondents Ribbon Tree USA and Apex are "covered products" under the Consent Order entered on February 12, 2007.
38. All of the products at issue are covered products under the Consent Orders entered against Respondents Ribbon Tree USA and Apex on February 12, 2007.
39. Respondents Ribbon Tree USA and Apex collectively violated the February 12, 2007 Consent Order entered against them on seven separate days.
40. The record supports imposition of a \$700,000 civil penalty against Respondents Ribbon

Tree USA and Apex for violations of the Consent Order entered against them by the Commission on February 12, 2007.

ORDER

Based on the foregoing, and the record as a whole including what was found in the violation phase, it is the administrative law judge's Enforcement Initial Determination (ED) that the enforcement respondents violated the orders issued at the conclusion of Investigation No. 337-TA-565 on October 19, 2007. It is also the administrative law judge's recommendation that enforcement measures are appropriate for violation of the Commission's orders which measures are set forth in the Conclusions of Law of this ED.

The administrative law judge hereby CERTIFIES to the Commission his ED. The briefs of the parties filed with the Secretary are not certified, since they are already in the Commission's possession in accordance with Commission rules.

Further it is ORDERED that:

1. In accordance with Commission rule 210.39, all material heretofore marked in camera because of business, financial and marketing data found by the administrative law judge to be cognizable as confidential business information under Commission rule 201.6(a), is to be given in camera treatment continuing after the date this investigation is terminated.
2. Counsel for the parties shall have in the hands of the administrative law judge those portions of the ED which contain bracketed confidential business information to be deleted from any public version of said ED, no later than May 1, 2009. Any such bracketed version shall not be served via facsimile on the administrative law judge. If no such bracketed version is received from a party, it will mean that the party has no objection to removing the confidential

status, in its entirety, from said ED.

3. Pursuant to the Commission Order of May 1, 2008, petitions for review of the ED may be filed within twelve (12) days of service of the ED. Responses to any petitions for review may be filed within eight (8) days of service of any petitions for review. Notwithstanding Commission rule 210.75(b)(3), the ED shall become the Commission's final determination on violation 60 days after service of the ED, unless the Commission orders review of the ED or changes the deadline for determining whether to review it.

A handwritten signature in cursive script, reading "Paul J. Luckern", written over a horizontal line.

Paul J. Luckern
Chief Administrative Law Judge

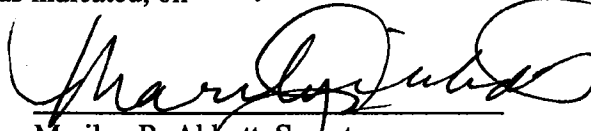
Issued: April 17, 2009

**CERTAIN INK CARTRIDGES AND
COMPONENTS THEREOF**

**Investigation No. 337-TA-565
Consolidated Enforcement Proceeding
And Enforcement Proceeding II**

PUBLIC CERTIFICATE OF SERVICE

I, Marilyn R. Abbott, hereby certify that the attached **Public Version Enforcement Initial Determination** was served by hand upon Commission Investigative Attorney, Kevin Baer, Esq. and upon the following parties as indicated, on July 14, 2009.


Marilyn R. Abbott, Secretary
U.S. International Trade Commission
500 E Street, SW - Room 112
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**CERTAIN INK CARTRIDGES AND
COMPONENTS THEREOF**

**Investigation No. 337-TA-565
Consolidated Enforcement Proceeding
And Enforcement Proceeding II**

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