***Ninestar*: Is the ITC's Statute "an Unconstitutional Monstrosity"?**

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The Federal Circuit answers constitutional challenges to the ITC's ability to levy multimillion dollar civil penalties.

In 2007, the ITC found Ninestar to infringe several Epson patents by importing refilled ink cartridges first sold abroad. It issued an exclusion order. Two years later, after a second formal hearing, an ALJ concluded that Ninestar had willfully evaded the order and imposed a civil penalty of $100,000 per day, the maximum set out in 19 U.S.C. § 1337(f)(2). On intramural review, the ITC concluded that $55,000 per day "should be sufficient to deter future violations by the Ninestar Respondents and others considering violating the Commission's orders." Ninestar Technology Co., Ltd. v. ITC, 667 F.3d 1373, 1380 (2012).

After per diem charges were tallied, the Chinese company and its two U.S. subsidiaries were liable for civil penalties of $11,110,000. Despite their size, the Federal Circuit affirmed in all respects.

With regard to liability, Jazz Photo Corp. v. ITC, 264 F.3d 1094 (Fed. Cir. 2001), and Boesch v. Graff, 133 U.S. 697 (1890), upon which it relies, hold that foreign sales do not exhaust domestic patent rights. Conceding that, Ninestar nevertheless argued that it believed that Quanta Computer, Inc. v. LG Elecs., Inc., 553 U.S. 617 (2008), trumps those opinions and stands for the proposition that authorized sales anywhere exhaust patentees' rights. Indeed, in a brief, it speculated that the Supreme Court would soon so rule in a copyright case. 2010 WL 4310704, at 24 n. 6. As we have seen, however, that did not happen. *See* Wiley v. Kirtsaeng: The Right to Sell Nonpiratical Imported Goods

(2012).

Moreover, the Federal Circuit has since ruled that *Quanta* has no bearing on whether rights are exhausted by sales first made abroad. Fujifilm Corp. v. Benun, 605 F.3d 1366, 1371 (Fed. Cir. 2010). *Ninestar* therefore upholds the ITC's finding that its earlier order had been "violated with knowledge and in bad faith." 667 F.3d at 1339. Given that, the court finds the amount of the penalty to be reasonable. *Id*. at 1380. It also finds the parties to be jointly and severally liable. *Id*. at 1382.

To this point, the opinion seems unremarkable. Some may be startled, however, by the resolution of remaining issues. They center on constitutional concerns raised for the first time in the Federal Circuit.

The first question is whether they should be considered at all. Ninestar did not air them before the ITC "because the Commission has no authority to declare its governing statute unconstitutional." It is best to make a record, but courts usually find that explanation acceptable. "A reviewing court may [] set aside agency action that is 'patently in excess of [the agency's] authority,' and may in some cases consider arguments that it would have been futile to raise before the agency." Washington Ass'n for Television and Children v. FCC, 712 F.2d 677, 682 (D.C. Cir. 1983) (notes omitted). Without citing such practices or explicitly accepting Ninestar's excuse, the court nevertheless considers its arguments, noting, "constitutional challenges should not be deemed waived when they relate to the foundations of governmental process." 667 F.3d at 1382.

The court then considers an argument that, if for no other reason than the inability to provide a jury trial, an entity such as the ITC "cannot be assigned authority to issue a

punitive penalty for violation of an administrative order." *Id*. More narrowly it considers whether the penalty offends the Sixth Amendment and would warrant use of other "safeguards to which criminal defendants are entitled." *Id*. Section 1137(f)(2), however, reads in relevant part, "Any person who violates an order… shall forfeit and pay to the United States a *civil* penalty…" (emphasis added). Refusing to regard that penalty as criminal, the court finds "only the clearest proof" adequate to "override legislative intent and transform what has been denominated a civil remedy into a criminal penalty. We do not discern such proof in this case." *Id*. at 1383-84 (citing U.S. v. Ward, 448 U.S. 242, 249 (1980)).

Alternatively, Ninestar argued that it was entitled to a jury trial under the Seventh Amendment. Calling the ITC's enabling legislation "an unconstitutional monstrosity," it asked the court to "strike down the ability of the ITC to impose financial punishments on those who violate their orders." *Id*. at 1383. The court begins to answer that argument by quoting Granfinanciera, S.A. v. Nordberg, 492 U.S. 33, 55 n. 10 (1989): "Those cases in which Congress may decline to provide jury trials are ones involving statutory rights that are integral parts of a public regulatory scheme and whose adjudication Congress has assigned to an administrative agency or specialized court of equity." 667 F.3d at 1384 (external quotation marks omitted).

Turning to the ITC specifically, the court quotes Akzo N.V. v. ITC, 808 F.2d 1471, 1488 (Fed.Cir.1986): "Although it is true that private rights may be affected by section 337 determinations, the thrust of the statute is directed toward the protection of the public interest from unfair trade practices in international commerce." 667 F.3d at 1384 (external quotation marks omitted). Indeed, although possible injury to Epson was said to be a consideration in assessing the penalty, *id*. at 1380, it received no unique benefit. Rather, the threat of significant penalties serves the interests of all who could be

adversely affected by blatant disregard of ITC exclusion orders.

That the ITC's initial order failed to identify excluded products with adequate precision was also asserted as a third constitutional defense. The court's rejection of that argument is less surprising, however. The evidence showed, for example, that Ninestar had manipulated transaction dates, misdescribed products and filed false affidavits of compliance. *Id*. at 1377-78. The court thus agrees with the ITC's conclusion that, rather than seek clarification, Ninestar, fully aware that its conduct was prohibited (and not plausibly justified by *Quanta*), deliberately evaded enforcement. *Id*. at 1384-85.

Indeed, absent such evidence that Ninestar's defenses generally consisted of post hoc rationalizations, the Federal Circuit might have evidenced more respect for its other constitutional arguments. Aside from possibly questioning the size of the penalty, however, the bottom line is sure to have been the same.