

No. 2009-1549

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

NINESTAR TECHNOLOGY CO., LTD.,
NINESTAR TECHNOLOGY COMPANY, LTD., and TOWN SKY INC.,
Appellants,

and

DATAPRODUCTS USA, LLC,
Appellant,

v.

INTERNATIONAL TRADE COMMISSION,
Appellee,

and

EPSON PORTLAND INC., EPSON AMERICA, INC.,
and SEIKO EPSON CORPORATION,
Intervenors.

Appeal from the United States International Trade
Commission in Investigation No. 337-TA-565

NON-CONFIDENTIAL PETITION FOR REHEARING EN BANC

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March 26, 2012

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CERTIFICATE OF INTEREST

Counsel for Appellants Ninestar Technology Co., Ltd., Ninestar Technology Company, Ltd., and Town Sky, Inc. certifies the following:

1. The full name(s) of every party or amicus represented by us are:

Ninestar Technology Co., Ltd.,
Ninestar Technology Company, Ltd.,
Town Sky, Inc.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by us is:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by us are:

Not applicable.

4. The names of all law firms and the partners and associates that appeared for the appellants in the trial court or are expected to appear in this Court are:

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Dated: March 26, 2012

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The material omitted on pages 2 and 11 describes the sales value of Ninestar’s products in the United States. That information is subject to the protective order issued by the ITC.

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FEDERAL CIRCUIT RULE 35(B) STATEMENT

1. Based on my professional judgment, I believe the panel decision is contrary to the following decision of the U.S. Supreme Court:

- *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008)

2. Based on my professional judgment, I believe this appeal requires an answer to precedent setting questions of exceptional importance:

- Whether patent exhaustion attaches to a sale of goods authorized by a U.S. patentee outside the United States.
- Whether 19 U.S.C. § 1337(f)(2) proceedings are sufficiently punitive such that constitutional protections afforded criminal defendants attach.


Andrew J. Pincus

INTRODUCTION

This case involves two, independent questions of substantial importance that require consideration by the *en banc* Court. First, the Court should overturn *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001). Second, the *en banc* Court should find that Section 337(f)(2) proceedings are criminal, and thus constitutional protections apply.

STATEMENT

Ninestar Technology Co., Ltd., Ninestar Technology Company Ltd., and Town Sky, Inc. (collectively, “Ninestar”), import ink printer cartridges

into the United States. In the proceeding giving rise to this action, the International Trade Commission (“ITC”) found that Ninestar violated certain cease and desist orders relating to ink printer cartridges by infringing Epson’s patents, importing approximately [REDACTED] of product. A0.45. The ITC entered a total penalty of \$11,110,000. A6. Ninestar imports two types of products: “compatible” ink cartridges and “remanufactured” (“reman”) cartridges. A0.9-0.10. The latter, which are genuine Epson cartridges whose ink has been refilled, are predominately at issue here. A65-71.

Ninestar contended that its remanufactured cartridges could not infringe, and thus the penalty was inappropriate, because “national patent rights are exhausted by the manufacture and sale in a foreign country of a product covered by a national patent, and thus the importation of that product cannot violate the national patent.” App. 6. The panel, however, disagreed, relying on *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), and *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010), to conclude that “United States patents are not exhausted as to products that are manufactured and sold in a foreign country.” App. 7.

Additionally, Ninestar argued that the penalty mechanism is criminal in nature, and thus constitutional protections attach. App. 15. The panel also

rejected this argument, finding that Section 337(f)(2) proceedings are “within regulatory authority” and are “appropriately assigned to the administrative agency.” App. 19.

REASONS FOR GRANTING THE PETITION

I. THE COURT SHOULD OVERTURN *JAZZ PHOTO*.

“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). In *Jazz Photo Corp.*, 264 F.3d at 1105, a panel of this Court concluded that “United States patent rights are not exhausted by products of foreign provenance.” Rather, “[t]o invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.” *Id.*

Jazz Photo’s U.S.-sales limitation on patent exhaustion is incorrect. That decision, which has engendered substantial confusion in the lower courts and substantially hinders modern commerce, requires further review.¹

¹ Appellees contended that Ninestar waived this argument in the agency, but the panel resolved the case on the merits. App. 6-7. And the Court has “the discretion to decide when to deviate from this general rule of waiver.” *Interactive Gift Express, Inc. v. Compuserve Inc.*, 256 F.3d 1323, 1344 (Fed. Cir. 2001). *See also Cemex, S.A. v. United States*, 133 F.3d 897, 902 (Fed. Cir. 1998). The issue is thus properly presented here.

A. *Jazz Photo Is Wrong.*

1. *Jazz Photo* is inconsistent with the first sale (*i.e.* patent exhaustion) doctrine, which turns on “whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article.” *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). That is, the patent exhaustion doctrine is “triggered ... by a sale *authorized* by the patent holder.” *Quanta Computer*, 553 U.S. at 636 (emphasis added). Under this patent reward approach, it does not matter whether the authorized sale occurs domestically or abroad.

Prior to *Jazz Photo*, this was the law. *Holiday v. Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), considered “whether the owner of a patent in the United States ..., who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can restrain him from using or selling the article here.” Irrespective of the location of the purchase, the court found that the purchaser “acquire[d] the right of unrestricted ownership in the article he buys as against the vendor,” which includes “the right to use and enjoy it, and to transfer his title to others.” *Id.* at 186.

Courts followed *Holiday* for over a century. The Second Circuit, in *Dickerson v. Matheson*, 57 F. 524, 527 (2d Cir. 1893), concluded that “[a]

purchaser in a foreign country, of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country.” *See also Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988).

In reversing this longstanding law, *Jazz Photo*, 264 F.3d at 1105, relied *solely* on *Boesch v. Graff*, 133 U.S. 697, 701-03 (1890). But *Boesch* (expressly considered by decisions like *Dickerson*, 57 F. at 527) does not support *Jazz Photo*. There, plaintiffs alleged that defendants imported infringing lampburners. 133 U.S. at 698. Patentees held both U.S. and German patents and had licensed the U.S. rights to plaintiffs. *Id.* at 698-99. Defendants purchased some of the burners in Germany from Hecht. *Id.* at 701. Hecht was neither a patentee nor a licensee of either patent; instead, his sales in Germany were lawful because he “had made preparations to manufacture the burners prior to the application for the German patent” and thus was allowed to manufacture the burners under German law. *Id.* at 701-02. The issue, accordingly, was “whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized

to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent.*” *Id.* at 702 (emphasis added). The Court found that because Hecht was neither a U.S. patentee nor licensee, “purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights [of] patentees under a United States patent.” *Id.* at 703.

Boesch’s unremarkable holding, accordingly, is that a foreign sale *unauthorized* by the U.S. patentee (or licensee) does not exhaust U.S. patent rights. *Boesch* says *nothing* about a foreign sale *authorized* by a U.S. patentee or licensee. See John Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1211 (2011) (*Boesch* “does not stand for the proposition that a sale overseas can never exhaust U.S. patent rights, but only that no exhaustion occurs when the first sale did not result in a patent-based reward.”).

2. Any doubt on this point was resolved by *Quanta*, 553 U.S. at 636. That case actually dealt with products sold abroad: in the Federal Circuit, LGE contended that “[a] significant portion of the chips Intel sells are manufactured and sold abroad.” Br. for Appellant at 31 n.5, *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), 2005 WL 139782. As the district court later concluded, “the fact that the Court was aware of foreign sales of the Intel parts, yet declined to limit its holding to sales in the United

States, suggests that interpreting *Quanta* so as to impose such a limitation would be incorrect.” *LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009). This Court previously, in *Fujifilm Corp. v. Benum*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (per curiam), found that *Quanta* did not undermine *Jazz Photo* because *Quanta* “did not involve foreign sales.” That finding appears inaccurate.

Moreover, *Jazz Photo* is inconsistent with the basis of *Quanta*. The Court explained that, for patent exhaustion, the “question is whether the product is ‘capable of use only in *practicing* the patent,’ not whether those uses are infringing.” *Quanta*, 553 U.S. at 632 n.6 (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942)). And *Quanta* made clear that, even if “outside the country,” a good “would still be *practicing* the patent, even if not infringing it.” *Id.* Thus authorized sales outside the U.S. may exhaust a U.S. patentee’s rights as the goods practice the patent.

In *Fujifilm*, 605 F.3d at 1372, this Court contended that “*Univis* required the product’s only use be for practicing—not infringing—the patent.” But this is not correct, because patent exhaustion, under *Univis* and *Quanta*, turns simply on whether the U.S. patentee has sold a good that could *practice* the patent, regardless of whether that use is—or is not—*infringing*. Foreign sales trigger exhaustion no differently than domestic

ones. Commentators have thus viewed *Jazz Photo* as “inconsistent with *Quanta*.” Melvin F. Jager, *Licensing Law Handbook* § 1:23 (2011).

And this criticism of *Jazz Photo* is not limited to commentators; a district court also found that *Jazz Photo* is “inconsistent with *Quanta*.” *LG Elecs.*, 655 F. Supp. 2d at 1046. The court “conclude[d] that *Quanta*’s holding—that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent—applies to authorized foreign sales as well as authorized sales in the United States.” *Id.* at 1047. *See also Static Control Components, Inc. v. Lexmark Int’l, Inc.*, 615 F. Supp. 2d 575, 588 (E.D. Ky. 2009). The disagreement over the teaching of *Quanta* underscores the need for this Court to address the issue *en banc*.

B. *Jazz Photo* Is Not Consistently Followed.

Review is particularly appropriate as it appears that cases considered by this Court have not consistently applied *Jazz Photo*. In related cases, Tessera licensed its U.S. patent rights relating to the manufacture of semiconductors to several licensees, including to Powertech Technology Inc. (“PTI”). *Tessera, Inc. v. Int’l Trade Comm’n*, 646 F.3d 1357, 1362-63 (Fed. Cir. 2011). PTI is a Taiwanese company that packages chips for its customers. *Powertech Tech. Inc. v. Tessera, Inc.*, 660 F.3d 1301, 1303 (Fed. Cir. 2011). After PTI sold chips to Elpida, Tessera brought judicial and ITC ac-

tions against Elpida’s importation of these chips into this country. *Id.*; *Tessera*, 646 F.3d at 1362.

The Court concluded that, because “Elpida acquired 100% of its accused ... products from ... [licensees], patent exhaustion serves as a complete defense for Elpida.” *Tessera*, 646 F.3d at 1369-71. Likewise, the Court found that the same exhaustion doctrine barred any direct claims against PTI for Elpida’s importation of product into the United States. *Power Tech.*, 660 F.3d at 1307-08. But as PTI is a Taiwanese company that manufactured and sold the accused product abroad, neither the patentee Tessera nor the licensee PTI made an authorized sale *in the United States*. The *only* authorized sale occurred abroad, yet this Court necessarily concluded that the foreign sale by a licensee triggered patent exhaustion. Although it does not appear that the parties argued the issue, this result is irreconcilable with *Jazz Photo*.

C. The Viability Of *Jazz Photo* Is Of Substantial Importance.

Jazz Photo has substantial implications for international trade. Dozens of district court and ITC proceedings have relied on it. Yet this doctrine has severe negative repercussions. For example, it permits sellers to engage in “an ‘end-run’ around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement.” *LG Elecs.*, 655 F. Supp. 2d at 1046. Moreover, *Jazz Pho-*

to is contrary to “free trade policies embodied in TRIPs and the WTO” and is “inconsistent with the position adopted by the Japanese Supreme Court.” Daniel Erlichman, Note, *Jazz Photo & the Doctrine of Patent Exhaustion*, 25 Hastings Comm. & Ent. L.J. 307, 341-42 (2003). See also Rothchild, 51 Santa Clara L. Rev. at 1239 (“[T]here is no reason in law or policy why an authorized sale abroad should not result in exhaustion of rights granted by the U.S. patent ... laws.”). This Court should thus reverse *Jazz Photo* and conclude that foreign sales by a U.S. patentee exhaust patent rights.

II. THE ITC PENALTY MECHANISM IS UNCONSTITUTIONAL.

The Court should also hold, *en banc*, that Section 337(f)(2)’s penalty provision is unconstitutional. Because it is, in effect, a criminal contempt proceeding, constitutional protections—including the right to a jury trial—attach. *United Mine Workers v. Bagwell*, 512 U.S. 821 (1994), thus compels the view that the penalty mechanism, as it was used here, is unconstitutional.

A. Because A Penalty Under Section 337(f)(2) Is Criminal—On Its Face And As Applied Here—Constitutional Rights Attach.

Pursuant to 19 U.S.C. § 1337(f)(2), the ITC may issue a penalty against any entity that violates a cease and desist order; that penalty, *for each day*, may be up to the “greater of \$100,000 or twice the domestic value of the articles entered or sold on such day.” Thus the ITC may issue a *daily*

fine of \$100,000 irrespective of the value of goods imported, or much more, depending on the import values. The ITC “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, & Articles Containing Same*, Inv. No. 337-TA-372, Comm’n Op. at 21 (Oct. 28, 1997)).

Here, the ALJ, in the Enforcement Initial Determination, first imposed a total sanction of \$20,504,974.16 on Ninestar. A135. This was based on a daily sanction rate of \$100,000 (A134-35), with upward adjustments for certain days with high importation volumes (A114-35). On review, the ITC reduced the penalty to a flat \$55,000 violation per day, for a total penalty of \$11,110,000. A0.45. It did so because it recognized that the penalty selected by the ALJ is “over [REDACTED] the sales value [REDACTED] of the goods sold in violation of the cease and desist orders,” noting “that the Excessive Fines Clause of the Eighth Amendment may, under some circumstances, limit the Commission’s authority to impose penalties of 100,000 per day.” A0.43. Thus, the ITC’s fine is [REDACTED] times the value of the goods at issue.

This fine is so punitive that it constitutes a criminal sanction, meaning that criminal safeguards—namely a jury trial—attach; “criminal penalties

may not be imposed on someone who has not been afforded the protections that the Constitution requires of such criminal proceedings.” *Bagwell*, 512 U.S. at 826 (quotation omitted). And because it is, in effect, the exercise of criminal power, the statute impermissibly delegates authority to an agency.

The critical question is whether the penalty is civil (that is “if it is remedial, and for the benefit of the complainant”) or if it is criminal (where it “is punitive, to vindicate the authority of the court”). *Bagwell*, 512 U.S. at 827-28 (quotation omitted). This turns on “an examination of the character of the relief itself.” *Id.* at 828 (quotation omitted). Thus, even where Congress has deemed a penalty mechanism to be civil, a fine that is “so punitive either in purpose or effect” may “transform what was clearly intended as a civil remedy into a criminal penalty.” *Hudson v. United States*, 522 U.S. 93, 99 (1997) (quotations and alteration omitted). Several factors support the conclusion that Section 337(f)(2), both on its face and as applied to the facts of this case, is criminal rather than civil.

First, the retrospective nature of the fine confirms it is criminal. A contempt sanction is “criminal if it is imposed retrospectively for a completed act of disobedience.” *Bagwell*, 512 U.S. at 828 (quotation omitted). Civil fines, on the other hand, must either be “compensatory” or the contemnor must be “afforded an opportunity to purge.” *Id.* at 829. Here, the purpose

of the penalty is to punish Ninestar, not to compensate Epson. Indeed, any civil penalty recovered goes to the U.S. Treasury, not Epson, and the amount of the penalty is not related or dependent on any lost profits or harm to Epson. The ITC's sanction was not simply an "attempt to calibrate the fines to damages caused by the ... contumacious activities." *Id.* at 834. Instead, the ITC expressly imposed the sanction, in part, because "there is a need to vindicate the Commission's authority in this investigation." A0.37. That the ITC views its sanction as punitive, to create a deterrent effect, is substantial evidence that the sanctions here are criminal.

Moreover, there was no ability to purge the fine. Fines that are based on flat amounts, untethered to the amount of harm caused by the conduct, are "criminal if the contemnor has no subsequent opportunity to reduce or avoid the fine through compliance." *Bagwell*, 512 U.S. at 829. Just this sort of set, per-day fine imposed by the ITC is exactly what identifies a criminal sanction. That the sanctions were capped by statute in advance is of no matter, as the "ability to avoid the contempt fines [is] indistinguishable from the ability of any ordinary citizen to avoid a criminal sanction by conforming his behavior to the law." *Id.* at 837.

Second, the penalty at issue here turns, in large part, "only on a finding of *scienter*." *Hudson*, 522 U.S. at 99 (quotation omitted). The first factor

considered by the ITC was exactly that—whether Ninestar acted in good or bad faith. A0.18-0.25. The ITC concluded that Ninestar “acted in bad faith” (A0.25), and relied substantially in its view that “the misconduct in this investigation was egregious” (A0.44), to reach the penalty established.

Taken together, these factors establish the criminal nature of the proceedings before the ITC. In coming to the contrary view, the panel relied heavily on its contention that the “public rights” doctrine permits agency adjudication of ITC enforcement orders. App. 18-19. But that addresses an entirely separate issue—whether, if the sanction *is* civil, it may be assigned to a non-Article III tribunal. That has no bearing whatsoever on what amounts to a preliminary, threshold question, whether the sanction is criminal in the first place, meaning that criminal protections attach. Moreover, the panel failed to distinguish between ITC cease and desist orders which, as injunctive, prospective relief, differ substantially from monetary fines for violations of past orders. The constitutionality of the latter, which is the sole concern here, has little to no relation to the former.

B. The Constitutionality Of Section 337(f)(2) Requires Resolution.

Whether the penalty provision of Section 337(f)(2) constitutes a criminal sanction is an issue of pressing importance. To begin, lingering questions regarding the constitutionality of a federal statute deserve close atten-

tion by the Court. When tens of millions of dollars in penalties are at stake, and where orders could have the effect of bringing financial ruin to an entity, ensuring the constitutionality of process is of the utmost importance.

Moreover, the ITC is issuing cease and desist orders with increasing frequency; as of December 31, 2010, orders were in effect for 79 investigations, and 58 additional actions were pending. ITC, *The Year in Trade 2010*, USITC Pub. 4247, at 2-9 (2011). Subsequent enforcement proceedings will continue to impose substantial sums on respondents notwithstanding significant outstanding questions of constitutionality.

CONCLUSION

The Court should grant rehearing en banc and order renewed briefing.

Respectfully submitted,



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I certify that on this 26th day of March 2012, I served two copies of the foregoing Confidential Petition for Rehearing En Banc, by over-night mail as follows:

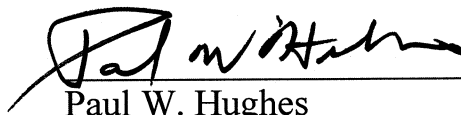
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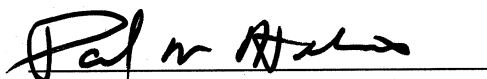
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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned counsel certifies that this brief:

- (i) complies with the page limitation of Rule 40(b); and
- (ii) complies with the typeface requirements of Rule 32(a)(5) and the type style requirements of Rule 32(a)(6) because it has been prepared using Microsoft Office Word 2007 and is set in Times New Roman font in 14 point size.

Dated: March 26, 2012



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