

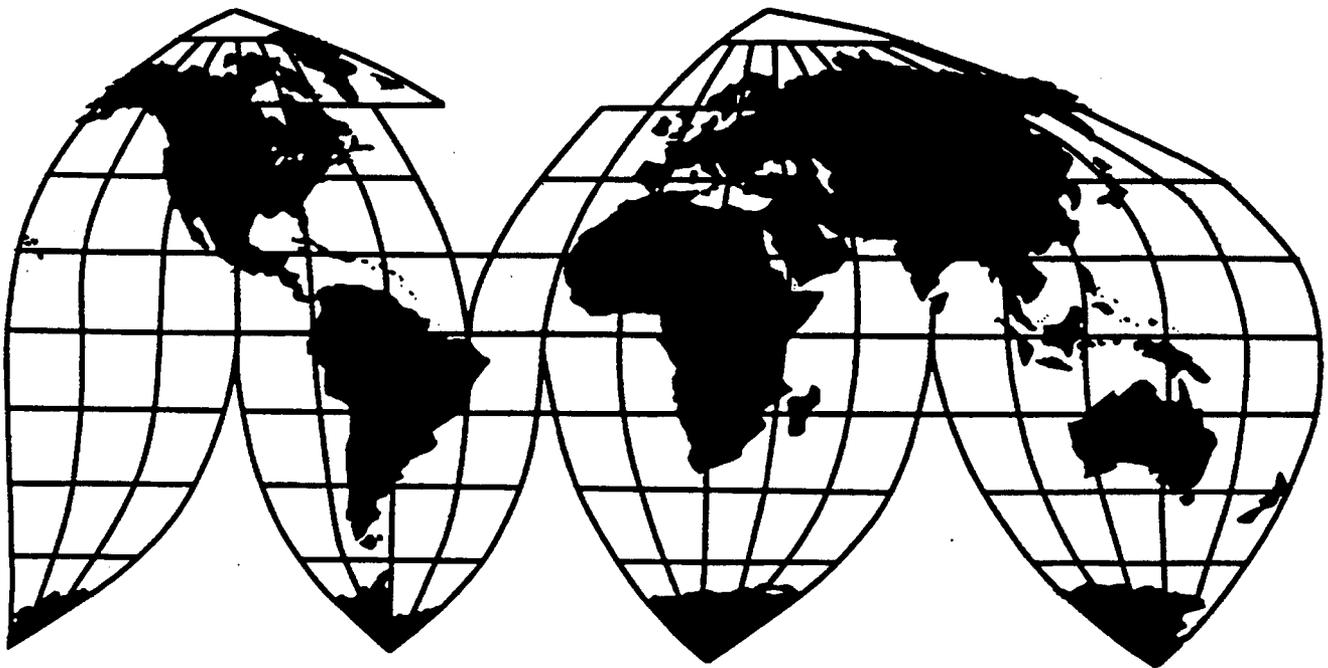
In the Matter of
**Certain Neodymium-Iron-Boron Magnets,
Magnet Alloys, and
Articles Containing Same**

Investigation No. 337-TA-372
ENFORCEMENT PROCEEDING

Publication 3073

November 1997

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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Washington, DC 20436**

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| CERTAIN NEODYMIUM-IRON-BORON) | |
| MAGNETS, MAGNET ALLOYS, AND) | Investigation No. 337-TA-372 |
| ARTICLES CONTAINING SAME) | ENFORCEMENT PROCEEDING |
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COMMISSION DETERMINATION ON VIOLATION OF CONSENT ORDER

On October 11, 1995, the Commission issued a consent order in the above-captioned investigation. The consent order provides that respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. (collectively the "San Huan respondents"):

shall not sell for importation, import into the United States or sell in the United States after importation or knowingly aid, abet, encourage, participate in, or induce the sale for importation, importation into the United States or sale in the United States after importation of neodymium-iron-boron magnets which infringe any of claims 1-3 of [U.S. Letters Patent 4,588,439 (the "439 patent")], or articles or products which contain such magnets, except under consent or license from Crucible.

On March 4, 1996, complainant Crucible Materials Corporation ("Crucible") filed a complaint seeking institution of formal enforcement proceedings against the San Huan respondents for alleged violations of the consent order. On May 16, 1996, the Commission issued a notice instituting this enforcement proceeding based on Crucible's enforcement complaint. The following were named as parties to the formal enforcement proceeding: (1) Crucible Materials Corporation, State Fair Boulevard, P.O. Box 977, Syracuse, New York

13201-0977 (complainant in the original investigation and requester of the formal enforcement proceeding); (2) San Huan New Materials High Tech, Inc., No. 8 South 3rd Street, Zhong Guan Cun Road, Beijing, Peoples Republic of China 100080 (enforcement proceeding respondent); (3) Ningbo Konit Industries, Inc., Ningbo Economic and Technical Development Zone, Zhejiang Province, People's Republic of China (enforcement proceeding respondent); (4) Tridus International, Inc., 8527 Alondra Boulevard, Suite 205, Paramount California 90723 (enforcement proceeding respondent); and (5) a Commission investigative attorney to be designated by the Director, Office of Unfair Import Investigations.

On July 1, 1996, the Commission referred the formal enforcement proceeding to an administrative law judge ("ALJ") for issuance of a recommended determination ("RD") regarding whether the San Huan respondents violated the consent order and what enforcement measures, if any, are appropriate, in light of the nature and significance of any such violations. The ALJ conducted an evidentiary hearing in the enforcement proceeding from November 4 through November 8, 1996. Post-hearing briefs were submitted, and closing arguments were made before the ALJ on December 12, 1996. On December 24, 1996, the ALJ issued his RD in which he recommended that the Commission find that the San Huan respondents have violated the consent order, and that a penalty of \$1,625,000 be assessed against them. In order to allow the parties to express their views concerning the RD prior to Commission action, the Commission provided the parties with the opportunity to file exceptions to the RD and proposed alternative findings of fact and conclusions of law. Exceptions and proposed alternative findings of fact and conclusions of law were filed by all parties.

Having considered the RD, the exceptions thereto, and proposed alternative findings of

fact and conclusions of law, as well as the entire record in this proceeding, the Commission determines that respondents violated the consent order by importing and selling infringing neodymium-iron-boron magnets between October 11, 1995, and September 10, 1996. The Commission adopts the RD with respect to the ALJ's determinations concerning (1) whether to rely on Crucible's in-house testing to determine whether respondents' sales of imported magnets infringed Crucible's patent; (2) whether respondents' sales of certain magnets containing cobalt infringed Crucible's patent and therefore violated the consent order; and (3) whether Crucible met its burden of proving that certain other magnets in evidence in this proceeding were imported and sold in violation of the consent order. The Commission declines to adopt the RD with respect to the ALJ's determinations concerning (1) the effect that the Federal Circuit decision in *Maxwell v. J. Baker*, 86 F.3d 1098 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined, petition for cert. filed* (1996), should have on the enforcement proceeding and on the Commission's outstanding remedial orders in this investigation; (2) whether respondents' sales of certain magnets with elevated levels of rare earth elements infringed Crucible's patent and therefore violated the Commission's consent order; and (3) the date from which it is appropriate to find that respondents' importations and sales of magnets that infringe under the doctrine of equivalents violated the consent order. The Commission will issue an opinion shortly concerning those issues as to which it disagrees with the RD.

In summary, the Commission has relied on Crucible's tests to determine whether respondents' sales of imported magnets infringed Crucible's patent. It has determined that respondents' magnets containing cobalt infringed Crucible's patent and therefore violated the

Commission's consent order. It has determined not to apply *Maxwell* to the enforcement proceeding, concluding instead that the doctrine of equivalents analysis in the Final ID governed interpretation of the consent order. The Commission will apply *Maxwell* prospectively in interpreting the remedial orders issued at the conclusion of the original investigation. The Commission also has determined that magnets with elevated levels of rare earth elements do not infringe claim 1 of Crucible's patent. Finally, the Commission has determined that the date from which respondents were required to cease importation and sales of magnets which infringed under the Commission's doctrine of equivalents analysis is February 5, 1996, the date on which the public version of the ALJ's Final ID in the original investigation was issued. Thus, the Commission has determined that respondents have violated the consent order on a total of thirty-one (31) of the thirty-three (33) days listed in Table 5 on pages 88-89 of the RD. The Commission finds that respondents did not violate the consent order on November 6, 1995, or on July 7, 1996, the fourth and twenty-sixth entries in Table 5 of the RD.

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: April 8, 1997

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

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In the Matter of)
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CERTAIN NEODYMIUM-IRON-BORON)
MAGNETS, MAGNET ALLOYS, AND)
ARTICLES CONTAINING SAME)
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Investigation No. 337-TA-372
ENFORCEMENT PROCEEDING

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NOTICE OF COMMISSION DETERMINATION CONCERNING VIOLATION
OF CONSENT ORDER; DENIAL OF REQUEST FOR ORAL ARGUMENT;
AND SCHEDULE FOR THE FILING OF WRITTEN SUBMISSIONS ON REMEDY,
THE PUBLIC INTEREST, AND BONDING.

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined that the respondents in the above-captioned formal enforcement proceeding have violated the Commission consent order issued to them on October 11, 1995.

FOR FURTHER INFORMATION CONTACT: Jay H. Reiziss, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3116.

SUPPLEMENTARY INFORMATION: On October 11, 1995, the Commission issued a consent order in the above-captioned investigation. The consent order provides that respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. (collectively the "San Huan respondents"):

shall not sell for importation, import into the United States or sell in the United States after importation or knowingly aid, abet, encourage, participate in, or induce the sale for importation, importation into the United States or sale in the United States after importation of neodymium-iron-boron magnets which infringe any of claims 1-3 of [U.S. Letters Patent 4,588,439 (the "439 patent"), or articles or products which contain such magnets, except under consent or license from Crucible.

On March 4, 1996, complainant Crucible Materials Corporation ("Crucible") filed a complaint seeking institution of formal enforcement proceedings against the San Huan

respondents for alleged violations of the consent order. On May 16, 1996, the Commission issued a notice instituting this enforcement proceeding based on Crucible's enforcement complaint. The following were named as parties to the formal enforcement proceeding: (1) Crucible Materials Corporation, State Fair Boulevard, P.O. Box 977, Syracuse, New York 13201-0977 (complainant in the original investigation and requester of the formal enforcement proceeding); (2) San Huan New Materials High Tech, Inc., No. 8 South 3rd Street, Zhong Guan Cun Road, Beijing, Peoples Republic of China 100080 (enforcement proceeding respondent); (3) Ningbo Konit Industries, Inc., Ningbo Economic and Technical Development Zone, Zhejiang Province, People's Republic of China (enforcement proceeding respondent); (4) Tridus International, Inc., 8527 Alondra Boulevard, Suite 205, Paramount, California 90723 (enforcement proceeding respondent); and (5) a Commission investigative attorney to be designated by the Director, Office of Unfair Import Investigations.

On July 1, 1996, the Commission referred the formal enforcement proceeding to an administrative law judge ("ALJ") for issuance of a recommended determination ("RD") regarding whether respondents violated the consent order and what enforcement measures, if any, are appropriate in light of the nature and significance of any such violations. The ALJ conducted an evidentiary hearing in the enforcement proceeding from November 4 through November 8, 1996. Post-hearing briefs were submitted, and closing arguments were made before the ALJ on December 12, 1996. On December 24, 1996, the ALJ issued his RD in which he recommended that the Commission find that the San Huan respondents have violated the Commission's consent order, and that a penalty of \$1,625,000 be assessed against them. In order to allow the parties to express their views concerning the RD prior to Commission action, the Commission provided the parties with the opportunity to file exceptions to the RD and proposed alternative findings of fact and conclusions of law. Exceptions and proposed alternative findings of fact and conclusions of law were filed by all parties.

Having considered the RD, the exceptions thereto, and proposed alternative findings of fact and conclusions of law, as well as the entire record in this proceeding, the Commission determined that the San Huan respondents had violated the Commission's consent order by importing and selling infringing neodymium-iron-boron magnets on thirty one (31) days between October 11, 1995, and September 10, 1996. The Commission adopted the RD with respect to the ALJ's determinations concerning (1) whether to rely on Crucible's in-house testing to determine whether respondents' sales of imported magnets infringed Crucible's patent; (2) whether respondents' sales of certain magnets containing cobalt infringed Crucible's patent and therefore violated the consent order; and (3) whether Crucible met its burden of proving that certain other magnets in evidence in this proceeding were imported and sold in violation of the consent order.

The Commission declined to adopt the RD with respect to the ALJ's determinations concerning (1) the effect that the Federal Circuit decision in *Maxwell v. J. Baker*, 86 F.3d 1098 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined, petition for cert. filed* (1996), should have on the enforcement proceeding and on the Commission's outstanding

remedial orders in this investigation; (2) whether respondents' sales of certain magnets with elevated levels of rare earth elements infringed Crucible's patent and therefore violated the consent order; and (3) the date from which it is appropriate to find that respondents' importations and sales of magnets that infringe under the doctrine of equivalents violated the consent order. Finally, the Commission denied complainant's request for an oral argument.

The Commission issued its determination on violation concurrently with issuance of this notice. A Commission opinion concerning certain issues addressed in the RD will be issued shortly.

In connection with final disposition of this investigation, the Commission may revoke the consent order and issue (1) an order that could result in the exclusion of the subject articles from entry into the United States, and/or (2) cease and desist orders that could result in respondents being required to cease and desist from engaging in unfair acts in the importation and sale of such articles. Accordingly, the Commission is interested in receiving written submissions that address the form of remedy, if any, that should be ordered. If a party seeks exclusion of an article from entry into the United States for purposes other than entry for consumption, the party should so indicate and provide information establishing that activities involving other types of entry either are adversely affecting it or are likely to do so. For background, see the Commission Opinion, *Certain Devices for Connecting Computers via Telephone Lines*, Inv. No. 337-TA-360.

If the Commission contemplates revoking the consent order and issuing some other form of remedy, it must consider the effects of that remedy upon the public interest. The factors the Commission will consider include the effect that an exclusion order and/or cease and desist orders would have on (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) U.S. production of articles that are like or directly competitive with those that are subject to investigation, and (4) U.S. consumers. The Commission is therefore interested in receiving written submissions that address the aforementioned public interest factors in the context of this investigation.

If the Commission orders some form of remedy other than the consent order, the President has 60 days to approve or disapprove the Commission's action. During this period, the subject articles would be entitled to enter the United States under a bond, in an amount determined by the Commission and prescribed by the Secretary of the Treasury. The Commission is therefore interested in receiving submissions concerning the amount of the bond that should be imposed, if remedial orders are issued.

WRITTEN SUBMISSIONS: The parties to the investigation, interested government agencies, and any other interested persons are encouraged to file written submissions on the issues of remedy, the public interest, and bonding. Complainant and the Commission investigative attorney are also requested to submit proposed remedial orders for the Commission's consideration in the event it determines to revoke the consent order. Written submissions shall

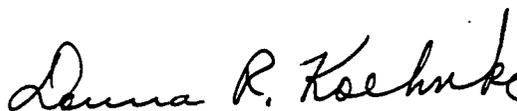
not exceed 35 pages in length. Parties are requested not to repeat any arguments made to the Commission in their exceptions to the RD and proposed alternative findings of fact and conclusions of law. The written submissions and proposed remedial orders must be filed no later than the close of business on April 22, 1997. Reply submissions shall not exceed 20 pages in length and must be filed no later than the close of business on April 29, 1997. No further submissions will be permitted unless otherwise ordered by the Commission.

Persons filing written submissions must file the original document and 14 true copies thereof with the Office of the Secretary on or before the deadlines stated above. Any person desiring to submit a document (or portion thereof) to the Commission in confidence must request confidential treatment unless the information has already been granted such treatment during the proceedings. All such requests should be directed to the Secretary of the Commission and must include a full statement of the reasons why the Commission should grant such treatment. See 19 C.F.R. § 201.6. Documents for which confidential treatment is granted by the Commission will be treated accordingly. All nonconfidential written submissions will be available for public inspection at the Office of the Secretary.

Copies of the public version of the Commission's opinion in support of this determination and all other nonconfidential documents filed in connection with this enforcement proceeding are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone 202-205-2000. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

This action is taken under the authority of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), and section 210.75 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 210.75).

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: April 8, 1997

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

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In the Matter of)
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CERTAIN NEODYMIUM-IRON-BORON)
MAGNETS, MAGNET ALLOYS, AND)
ARTICLES CONTAINING SAME)
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Investigation No. 337-TA-372
ENFORCEMENT PROCEEDING

COMMISSION OPINION ON VIOLATION OF CONSENT ORDER

Having considered the presiding administrative law judge's ("ALJ") recommended determination ("RD"), the exceptions thereto, and proposed alternative findings of fact and conclusions of law, as well as the entire record in this proceeding, the Commission has determined that respondents violated the consent order by importing and selling infringing neodymium-iron-boron magnets between October 11, 1995, and September 10, 1996. We have determined to adopt the RD with the exception of the ALJ's recommendations respecting two questions of law and a policy issue. Specifically, we decline to adopt the ALJ's interpretation of the effect of the Federal Circuit's decision in *Maxwell v. J. Baker*, 86 F.3d 1098 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*, 117 S. Ct. 1244, 65 USLW 3629 (1997) ("*Maxwell*"). We also have determined that, contrary to the ALJ's finding, magnets with elevated levels of rare earth elements do not infringe claim 1 of Crucible's patent. Finally, we have determined that the date from which respondents were required to cease importation and sales of magnets which infringed the patent at issue under

the doctrine of equivalents is the date on which the public version of the final initial determination in the original investigation was issued, viz., February 5, 1996.

Thus, the Commission has determined that respondents have violated the consent order issued in the above-investigation on a total of thirty-one (31) of the thirty-three (33) days listed in Table 5 on pages 88-89 of the RD. The Commission found that respondents did not violate the consent order on November 6, 1995, or on July 7, 1996, the fourth and twenty-sixth entries in Table 5 of the RD. This opinion explains the basis for the Commission's determinations respecting the two questions of law and one policy issue on which it did not accept the ALJ's recommendations.

I. PROCEDURAL HISTORY

On October 10, 1995, the Commission issued a consent order in the above-captioned investigation directed to respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. (collectively "respondents").¹ The consent order contains the following provisions pertinent to this enforcement proceeding:

- (1) The Respondents shall not sell for importation, import into the United States or sell in the United States after importation or knowingly aid, abet, encourage, participate in, or induce the sale for importation, importation into the United States or sale in the United States after importation of neodymium-iron-boron magnets which infringe any of claims 1-3 of the '439 Patent, or articles or products which contain such magnets, except under consent or license from Crucible;

* * *

¹ Notice of Commission Determination Not to Review an Initial Determination Terminating the Investigation as to the San Huan respondents on the Basis of a Consent Order. The Consent Order was signed and served by the Secretary on October 11, 1995.

(4) Respondents San Huan, Ningbo and Tridus shall not seek to challenge and are precluded from any challenges to the validity or enforceability of claims 1-3 of the '439 patent in any administrative or judicial proceeding to enforce the Consent Order;

* * *

(9) This investigation is hereby terminated with respect to San Huan, Ningbo and Tridus, and San Huan, Ningbo and Tridus are hereby dismissed as named Respondents in this investigation; provided, however, that enforcement, modification, or revocation of the Consent Order shall be carried out pursuant to Subpart I of the Commission's Rules of Practice and Procedure, 19 C.F.R. Part 210.

On December 11, 1995, the ALJ issued a final initial determination ("Final ID") in the original investigation in which he found that two defaulting respondents and three non-participating respondents had violated section 337 by importing and selling magnets that infringed claims 1, 2, and 3 of U.S. Letters Patent 4,588,439 ("the '439 patent") both literally and under the doctrine of equivalents. In making his infringement finding, the ALJ construed the patent claims at issue, which claim an oxygen level of at least 6,000 parts per million (ppm) of oxygen, to literally cover magnets having oxygen levels within the range of instrument error of plus or minus 150 ppm oxygen, *i.e.*, down to 5,850 ppm oxygen.² He also found that magnets having oxygen levels between 6,000 ppm and 5,600 ppm (or 5,450

² See Final ID at 8-13. The principal claim in controversy, claim 1, states in its entirety:

1. A permanent magnet alloy consisting essentially of, in weight percent, 30 to 36 of at least one rare earth element, 60 to 66 iron, 6,000 to 35,000 ppm oxygen and balance boron.

Claims 2 and 3, dependent claims that depend from claim 1, also were asserted but do not add any disputed limitations.

ppm taking into account instrument error) infringed under the doctrine of equivalents.³ On February 14, 1996, the Commission determined not to review the Final ID.⁴ Thereafter the Commission issued a general exclusion order and a cease and desist order to defaulting respondent Hennaco Excell.⁵

On March 4, 1996, the complainant in the original investigation, Crucible Materials Corporation ("Crucible" or "complainant"), filed an enforcement complaint, alleging that respondents had violated the terms of the consent order by importing or selling magnets that infringed the '439 patent. On May 16, 1996, the Commission issued a notice instituting this enforcement proceeding based on Crucible's enforcement complaint.⁶ On July 1, 1996, the Commission referred the formal enforcement proceeding to the ALJ for issuance of the RD.⁷ The Commission order referring the enforcement proceeding to the ALJ stated in pertinent part:

³ See Final ID at 13-17.

⁴ Notice of Commission Decisions to Extend Target Date for Completion of Investigation, Not to Review an Initial Determination Finding a Violation of Section 337, and of the Schedule for Filing Written Submissions on Remedy, the Public Interest, and Bonding (February 14, 1996).

⁵ Notice of Issuance of General Exclusion Order and Cease and Desist Order and Termination of Investigation (March 29, 1996). The general exclusion order prohibits the importation and sale of neodymium-iron-boron magnets and magnet alloys "covered by claims 1, 2, or 3" of the '439 patent.

⁶ Notice of Institution of Formal Enforcement Proceeding (May 16, 1996); 61 *Fed. Reg.* 26206 (May 24, 1996).

⁷ Notice of Referral of Formal Enforcement Proceeding to an Administrative Law Judge for Issuance of a Recommended Determination (July 1, 1996).

2. The recommended determination, which is to be consistent with the Commission's findings in the original investigation, shall rule on the question of whether [respondents] . . . have violated the Consent Order issued on October 11, 1995.

* * *

4. In the course of the enforcement proceeding, it shall be the burden of Crucible to demonstrate that [respondents] . . . have violated the Consent Order.
5. If the presiding administrative law judge recommends that the Commission find a violation of the Consent Order, he shall also recommend to the Commission what enforcement measures, if any, are appropriate, in light of the nature and significance of any such violations.

The ALJ conducted an evidentiary hearing in the enforcement proceeding from November 4 through November 8, 1996. Post-hearing briefs were submitted and closing arguments were made before the ALJ on December 12, 1996. On December 24, 1996, the ALJ issued his 179-page RD, recommending that the Commission find that respondents have violated the Commission's consent order, and that a penalty of \$1,625,000.00 be assessed against them. In order to allow the parties to express their views concerning the RD prior to Commission disposition of the proceeding, the Commission provided the parties with the opportunity to file exceptions to the RD and proposed alternative findings of fact and conclusions of law. Exceptions and proposed alternative findings of fact and conclusions of law were filed by all parties, and the issue of violation is now ripe for Commission determination.

II. THE PRODUCTS AT ISSUE

The products at issue are neodymium-iron-boron magnets, magnet alloys, and articles containing same. These magnets comprise a permanent magnet alloy consisting essentially of certain weight percentages of at least one rare earth element and of iron, a certain amount of oxygen measured in parts per million ("ppm"), and the balance boron. The magnetic strength of these magnets permits them to be used to reduce the size of many articles that require permanent magnets. The magnets are also resistant to heat and humidity and therefore resist disintegration or decomposition, particularly in hot and/or humid environments. The magnets are used in a wide variety of applications, such as electric motors, alternators, generators, line printers, computer disk drive actuators and drivers, torque couples and eddy current brakes, magnetrons, medical and dental applications, magnetic holding and pickup devices, metallic separators, aerospace electric actuators for ailerons and rudders, and in speakers, headphones, microphones, and tape drives.

III. THE MAXWELL ISSUE

Respondents asserted that the recent decision of the Federal Circuit in *Maxwell*, which concerned application of the doctrine of equivalents, alters the law in a manner that directly conflicts with the Commission's infringement analysis in this investigation.⁸ In the Final ID,

⁸ On October 7, 1996, respondents petitioned the Commission pursuant to Commission rule 210.76 to modify the Commission's "Final Determination and General Exclusion Order" based on changed conditions of law, viz., *Maxwell*. The Commission denied respondents' request to modify the remedial orders, noting that the orders themselves do not contain any reference to the particular type of infringement, but stated:

However, the pending formal enforcement proceeding in

(continued...)

the ALJ found (and the Commission later agreed) that magnets having oxygen levels between 6,000 ppm and 5,600 ppm (or 5,450 ppm taking into account instrument error) infringed under the doctrine of equivalents.⁹ Respondents argued that, as a result of *Maxwell*, the portion of the Commission's decision finding that certain magnets infringed Crucible's patent only under the doctrine of equivalents (*i.e.*, magnets with an oxygen content of less than 6,000 ppm) is now in conflict with governing law.¹⁰

Accordingly, respondents argued that the Commission should not find a violation of the consent order by importations and sales of such magnets that occurred after *Maxwell* was decided.¹¹ In addition, they argued that the Commission should not enforce the consent order prospectively against such magnets.¹² Thus, the issues before us include: (1) whether *Maxwell* conflicts with the doctrine of equivalents finding set forth in the Final ID and adopted

⁸(...continued)

this investigation is an appropriate forum for the Commission to reach this issue. Accordingly, notwithstanding the Commission's order referring the formal enforcement proceeding to the administrative law judge, the Commission requests that he address, as appropriate, the San Huan respondents' arguments respecting *Maxwell* in reaching his recommended determination concerning whether the San Huan respondents are in violation of the consent order.

Order Denying Petition to Modify Final Determination, Exclusion Order, and Consent Order at 2 (November 1, 1996).

⁹ See Final ID at 13-17.

¹⁰ Comments of Respondents on the ALJ's Recommended Determination ("Respondents' Comments") at 18-31.

¹¹ *Id.*

¹² *Id.*

by the Commission; (2) if *Maxwell* conflicts with the Final ID, whether that case is controlling precedent that the Commission is bound to follow; and (3) assuming the first two issues are resolved in the affirmative, what effect should *Maxwell* have on the enforcement proceeding and on the Commission's remedial orders.

A. The Final ID's Ruling on the Doctrine of Equivalents

In support of his finding of infringement under the doctrine of equivalents in the Final ID, the ALJ found that the '439 patent specification states that the invention results in magnets with enhanced resistance to corrosion in hot and humid atmospheres.¹³ In making this finding, the ALJ specifically relied on the fact that the '439 specification states that "the FIGURE in the '439 patent discloses that rare earth element-iron-boron magnet alloys having 5,500 ppm oxygen perform interchangeably, with respect to stability, with rare earth element-iron-boron magnet alloys having from 6,000 to 35,000 ppm oxygen."¹⁴ He concluded that certain of the accused magnets infringe under the doctrine of equivalents "in view of the disclosure of the '439 patent that permanent rare earth element-iron-boron [magnet] alloys which literally infringe the claimed subject matter in issue can experience the same non-disintegration, viz., about 73 percent, as do permanent rare earth element-iron-boron magnet alloys containing some 5,500 ppm oxygen" ¹⁵ Thus, the ALJ relied on subject matter disclosed in the

¹³ Final ID at FF 70.

¹⁴ Final ID at 16.

¹⁵ Final ID at 17. *See also* Final ID at FF 75. Although he cites to the specification's disclosure regarding magnets containing 5,500 ppm oxygen, he granted Crucible a range of equivalents down to 5,600 ppm because Crucible did not allege infringement with respect to

(continued...)

specification, but not claimed in the patent, to support his finding of infringement under the doctrine of equivalents.

B. The *Maxwell* Case

The patent at issue in *Maxwell* covered a system for attaching together a pair of shoes for display in a store without damaging or affecting their appearance. The accused infringer utilized several methods for connecting shoes that the patent owner alleged were infringing, and one of these methods was found by the Federal Circuit to literally infringe the asserted patent.¹⁶ The patent owner argued that the accused infringer's other methods, which were outside the literal terms of the claims at issue, infringed under the doctrine of equivalents. The accused infringer argued that these other methods had been dedicated to the public because they were *disclosed* in the patent specification but were *not included* in any of the patent claims.¹⁷

The Federal Circuit, in a panel decision authored by Judge Lourie, agreed with the accused infringer, stating:

In *Unique Concepts, Inc. v. Brown*, 939 F.2d 1558, 19 USPQ2d 1500 (Fed. Cir. 1991), we reiterated the well-established rule that "subject matter disclosed but not claimed in a patent application is dedicated to the public." . . . We have frequently applied this rule to prohibit a finding of literal infringement when an accused infringer practices disclosed but unclaimed subject matter. . . . This rule, however, applies

¹⁵(...continued)

magnets with an oxygen content below 5,600 ppm. See Final ID, FF 106 and 108.

¹⁶ *Maxwell*, 86 F.3d at 1105-06.

¹⁷ *Maxwell*, 86 F.3d at 1106.

equally to prevent a finding of infringement under the doctrine of equivalents.¹⁸

Accordingly, the Federal Circuit held that the doctrine of equivalents did not extend to systems for attaching shoes that were disclosed in the specification but not claimed, finding that the patent owner had dedicated that subject matter to the public. The patent owner's motion for rehearing was denied, and a suggestion for rehearing *in banc* was declined.¹⁹

¹⁸ *Maxwell*, 86 F.3d at 1106-07 (footnote and some citations omitted). The court explained the rationale for its holding as follows:

A patentee may not narrowly claim his invention and then, in the course of an infringement suit, argue that the doctrine of equivalents should permit a finding of infringement because the specification discloses the equivalents. Such a result would merely encourage a patent applicant to present a broad disclosure in the specification of the application and file narrow claims, avoiding examination of broader claims that the applicant could have filed consistent with the specification. See *Genentech, Inc. v. Wellcome Found, Ltd.*, 29 F.3d 1555, 1564, 31 USPQ2d 1161, 1167 (Fed. Cir. 1994) ("An applicant should not be able deliberately to narrow the scope of examination to avoid during prosecution scrutiny by the PTO of subject matter . . . and then, obtain in court, either literally or under the doctrine of equivalents, a scope of protection which encompasses that subject matter."); *International Visual Corp. v. Crown Metal Mfg. Co.*, 991 F.2d 768, 775, 26 USPQ2d 1588, 1593 (Fed. Cir. 1993) (doctrine of equivalents should not extend to disclosed, but unexamined, subject matter) (Lourie, J., concurring). This is clearly contrary to 35 U.S.C. § 112, which requires that a patent applicant "particularly point[] out and distinctly claim[] the subject matter which the applicant regards as his invention." . . . It is also contrary to our system of patent examination, in which a patent is granted following careful examination of that which an applicant claims as her invention. Thus, we agree with [accused infringer] J. Baker that subject matter disclosed in the specification, but not claimed, is dedicated to the public.

Id.

¹⁹ *Maxwell*, 86 F.3d at 1098. The *Maxwell* case was decided on June 11, 1996, and the suggestion for rehearing *in banc* was declined on August 28, 1996.

C. The Enforcement RD

In the RD, the ALJ reiterated his doctrine of equivalents infringement finding from the Final ID, stating that he "has relied on the disclosure, *yiz.* the FIGURE, of the '439 patent for his finding of infringement of the '439 patent under the doctrine of equivalents."²⁰ The ALJ also noted that the Federal Circuit held in *Maxwell* that subject matter disclosed in the specification, but not claimed, is dedicated to the public and may not form the basis for infringement under the doctrine of equivalents.²¹ Thus, the ALJ concluded that the holding in *Maxwell* is contrary to his doctrine of equivalents analysis in the Final ID.

However, the ALJ noted the Federal Circuit rule that a panel is bound by prior precedential Federal Circuit decisions unless and until those decisions are overturned *in banc*.²² He further pointed out that, in the event Federal Circuit panel decisions nevertheless conflict, the earlier decision controls.²³ Following a lengthy analysis, he concluded that *Maxwell* is not valid precedent because it conflicts with Supreme Court precedent²⁴ and earlier Federal Circuit decisions which he interpreted to rely on disclosures of unclaimed subject matter in a patent to support infringement findings under the doctrine of equivalents.²⁵ Consequently, he continued

²⁰ RD at 21.

²¹ RD at 9.

²² RD at 32.

²³ *Id.*

²⁴ Specifically, the ALJ found *Maxwell* to be in conflict with *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605 (1950) ("*Graver Tank*").

²⁵ The cases cited to and discussed by the ALJ were *Uniroyal, Inc. v. Rudkin-Wiley Corp.*,
(continued...)

to apply the doctrine of equivalents analysis from the Final ID in the enforcement proceeding.

D. The Parties' Comments

Respondents maintained that none of the cases relied on by the ALJ support his conclusion that *Maxwell* conflicts with prior Supreme Court and Federal Circuit case law.²⁶ Accordingly, they argued that the Commission should not find a violation of the consent order for magnets containing less than 6,000 ppm oxygen that were imported and sold after the date on which the *Maxwell* decision was issued (June 11, 1996).²⁷

Crucible argued that *Maxwell* stands at most for the principle that, when a patentee's failure to claim a distinct alternative embodiment set forth in the specification shows a clear intent to surrender that unclaimed embodiment to the public, the patentee later may be estopped from recapturing the unclaimed embodiment through the doctrine of equivalents.²⁸ Crucible asserted that its patent does not describe alternative embodiments and that there is no evidence that Crucible intended to "disclaim" or "dedicate to the public" magnets containing less than 6000 ppm oxygen.²⁹ Thus, under its reading of *Maxwell*, Crucible contends that the

²⁵(...continued)

939 F.2d 1540, 19 U.S.P.Q.2d 1432 (Fed. Cir. 1991) ("*Uniroyal 2*"), *Miles Laboratories, Inc. v. Shandon, Inc.*, 997 F.2d 870, 27 U.S.P.Q.2d 1123 (Fed. Cir. 1993) *cert. denied*, 114 S.Ct. 943 (1996) ("*Miles*"), as well as the *in banc* decision in *Hilton Davis Chemical Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 35 U.S.P.Q.2d 1641 (Fed. Cir. 1995)(*in banc*), *rev'd on other grounds*, No. 95-728, 1997 WL 84999 (U.S. Mar. 3, 1997)("Hilton Davis").

²⁶ Respondents Comments at 18-32.

²⁷ *Id.*

²⁸ Reply Comments of Crucible ("Crucible's Reply") at 5-9.

²⁹ *Id.* at 9-10.

Commission's doctrine of equivalents infringement analysis in the Final ID continues to be valid.

In the alternative, Crucible argued that respondents' "overreaching" interpretation of *Maxwell* is contradicted by prior, controlling Federal Circuit panel decisions, citing *Uniroyal 2, Miles, Pall Corporation v. Micron Separations, Inc.*, 66 F.3d 1211 (Fed. Cir. 1995) ("*Pall Corporation*"), and *Hilton Davis*.³⁰ Therefore, Crucible contends that *Maxwell* should be disregarded in light of the Federal Circuit rule that a later panel decision cannot overrule an earlier panel decision, let alone an earlier *in banc* decision (such as *Hilton Davis*).³¹

In the view of the IA, *Maxwell* is controlling precedent. The IA distinguished each of the cases relied on by the ALJ in reaching his conclusion that *Maxwell* conflicts with prior Supreme Court and Federal Circuit cases.³² Based on this reasoning, the IA argued that the Commission should expressly reinterpret the outstanding remedial orders issued in this investigation to exclude from their coverage any magnets that infringe Crucible's patent only under the doctrine of equivalents.³³ However, the IA argued that the Commission's consent order directed respondents not to infringe Crucible's patent, and that unless and until the Commission indicates that the Final ID no longer defines the scope of infringing products,

³⁰ *Id.* at 10-18.

³¹ *Id.*

³² Office of Unfair Import Investigation's Comments on the Recommended Determination ("IA's Comments") at 40-48.

³³ *Id.* at 48-53.

sales of such products violated the consent order.³⁴ Consequently, the IA concluded that civil penalties are appropriate with regard to all of respondents' importations and sales to date that infringe Crucible's patent under the Final ID.

E. Commission Determination

1. The Conflict Between the Final ID and *Maxwell*

We agree with the ALJ that the Final ID's finding of infringement under the doctrine of equivalents is in direct conflict with *Maxwell*.³⁵ The Final ID relies on the patent disclosure to find that magnets having 5,600 ppm oxygen perform in an equivalent manner to magnets that are within the claim limits of at least 6,000 ppm oxygen. Based on this finding, the ALJ determined that such magnets infringe under the doctrine of equivalents, even though the patentee made no attempt to claim magnets having 5,600 to 6,000 ppm oxygen.

The court in *Maxwell* described a nearly identical situation, but reached a different conclusion, stating:

Here, Maxwell limited her claims to fastening tabs attached between the inner and outer soles. She disclosed in the specification, without claiming them, alternatives in which the fastening tabs could be "stitched into the lining seam of the shoes." Col. 2, l. 42. By failing to claim these alternatives, the Patent and Trademark Office was deprived of the opportunity to consider whether these alternatives were patentable. A person of ordinary skill in the shoe industry, reading the specification and prosecution history, and interpreting the claims, would conclude that Maxwell, by failing to claim the alternate shoe attachment

³⁴ *Id.*

³⁵ As indicated above, only Crucible argued to the contrary, contending that *Maxwell* requires an express intent to surrender subject matter to the public. As discussed below, we do not think Crucible's reading of that case is supported by the plain language of the *Maxwell* court.

systems in which the tabs were attached to the inside shoe lining, dedicated the use of such systems to the public. As a matter of law, J. Baker could not infringe by using an alternate shoe attachment system that Maxwell dedicated to the public.³⁶

2. The Authoritative Nature of *Maxwell*

Standing alone, *Maxwell* represents controlling Federal Circuit precedent that the Commission must follow. However, *Maxwell* cannot overrule relevant Supreme Court precedent. Moreover, as noted above, the Federal Circuit follows the rule that a panel decision is binding on subsequent panels unless and until that panel decision is overruled by an *in banc* decision.³⁷ Thus, as the ALJ correctly stated, when there are conflicting Federal Circuit panel decisions, the earlier decision controls.³⁸ Consequently, the issue here is whether the *Maxwell* panel decision is in conflict with prior Supreme Court or Federal Circuit decisions. If it so conflicts, it is not precedential. For the following reasons, we do not find that *Maxwell* conflicts with the Federal Circuit decisions cited to by the ALJ and Crucible or that it conflicts with any Supreme Court decisions.

First, the *Maxwell* panel itself did not cite to any case either directly supporting or conflicting with its holding. Moreover, and perhaps of greater significance, *no* active judge on the Federal Circuit saw a conflict between *Maxwell* and earlier precedent. Specifically, the order denying the suggestion for rehearing *in banc* in *Maxwell* states:

³⁶ *Maxwell*, 86 F.3d at 1108.

³⁷ See, e.g., *Kimberly Clark Corp. v. Fort Howard Paper Co.*, 772 F.2d 860, 863, 227 U.S.P.Q. 36, 37 (Fed. Cir. 1985).

³⁸ See e.g., *Atlantic Thermoplastics Co. Inc. v. Foytex Corp.*, 23 U.S.P.Q.2d 1801, 1802 (1992)(Nies, C.J. dissenting from the denial of rehearing *in banc*).

[T]he suggestion for rehearing *in banc* and response . . . [was] circulated to judges on the panel that heard the appeal and to the remaining active judges of the court, no judge having asked for a poll whether to rehear the appeal *in banc* . . . it is ORDERED that the suggestion for rehearing *in banc* be, and the same hereby is, DENIED. ³⁹

Accordingly, the Federal Circuit *unanimously* denied the request for *in banc* review of *Maxwell*, even though that request raised the same arguments and case law currently relied on by the ALJ and asserted by Crucible to conflict with *Maxwell*. ⁴⁰ In short, because the Federal Circuit issued *Maxwell* as a precedential opinion, after considering all of the relevant case law and arguments cited to by Crucible and the ALJ, we have determined to treat *Maxwell* as binding precedent.

Moreover, we do not think that *Maxwell* conflicts with earlier Supreme Court or

³⁹ Order Denying Suggestion for Rehearing *In Banc*, *Maxwell v. J. Baker, Inc.*, 95-1292, 1293, 1355 (DCT-4-90-941)(August 28, 1996)(emphasis added). In addition, one of the judges on the *Maxwell* panel -- the author, Judge Lourie -- recently reiterated that "it is contrary to our case law and procedures for a panel to act contrary to a prior precedent of this court. If a panel thought [an earlier panel decision] was wrongly decided . . . , it was either bound to follow our precedents or to seek *in banc* review." *Atlantic Thermoplastics Co. Inc. v. Faytex Corp.*, 23 U.S.P.Q.2d 1801, 1816 (1992)(Lourie, J., dissenting from the denial of rehearing *in banc*). Presumably he applied this principle in *Maxwell* when the case was decided and in determining not to seek a poll of the active judges regarding *in banc* review. We note that no party cited to this order and the ALJ did not mention it in his RD. However, we take administrative notice of this order in finding that the *Maxwell* decision is valid Federal Circuit precedent, and that the Commission is bound to treat it as such.

We also note that Federal Circuit rules require that "at least 10 days before it is issued, each opinion prepared as precedential is circulated to all active and senior judges for comment and to the Senior Technical Assistant for comment respecting any appearance of conflict between the language in the opinion and that in earlier opinions of the court or its predecessor courts." Practice Note to Fed. Cir. R. 35.

⁴⁰ The statement by counsel for the appellee in support of *in banc* review argued that the panel decision was contrary to *Graver Tank, Miles*, and *Uniroyal 2*. Suggestion for Rehearing In Banc at v.

Federal Circuit precedent. With respect to the Supreme Court decision in *Graver Tank*, we think it dispositive that the *Maxwell* panel itself determined that its decision did not conflict with that case. Specifically, the *Maxwell* panel noted that the patentee in *Graver Tank* could not be said to have dedicated to the public the subject matter at issue, which was disclosed in the specification, since it had filed claims that covered that same subject matter.⁴¹

Nor do we believe that the *Hilton Davis* decision applying the doctrine of equivalents conflicts with *Maxwell*. We believe that *Maxwell* did not change the doctrine of equivalents, but only narrowed the circumstances in which the court is to apply that doctrine, finding it inapplicable to subject matter disclosed but not claimed.⁴² In other words, under *Maxwell*, the doctrine of equivalents simply does not extend to such subject matter, irrespective of how the doctrine is applied to subject matter within its reach.⁴³

The decision in *Maxwell* is also consistent with the holding in *Uniroyal 2*.⁴⁴ In

⁴¹ *Maxwell*, 86 F.3d at 1107, 39 U.S.P.Q.2d at 1007.

⁴² The *Maxwell* panel in fact cites to *Hilton Davis* only once, as the legal authority for the application of the doctrine of equivalents. *Maxwell*, 86 F.3d at 1105. It is difficult to believe that the *Maxwell* panel saw a conflict between its holding and *Hilton Davis* and failed to discuss it.

⁴³ Neither do we find persuasive Crucible's argument that, because Judge Lourie's dissent in *Hilton Davis* included an articulation of the legal principle that eventually became the basis for the majority opinion in *Maxwell*, the full Federal Circuit had rejected that position. The principle that became the basis for the decision in *Maxwell* was included in Judge Lourie's discussion of "added factors," *i.e.*, factors he believed the court could consider in addition to those cited by the majority, when applying the doctrine of equivalents. *Hilton Davis*, 35 U.S.P.Q.2d at 1671-72 (Lourie, J., dissenting). There is no indication in the majority opinion in *Hilton Davis* that this portion of Judge Lourie's dissent was considered and rejected.

⁴⁴ We note that Judge Lourie, the author of *Maxwell*, and Judge Skelton, a member of the three judge *Maxwell* panel, were both on the panel that decided *Uniroyal 2*.

Uniroyal 2, a Federal Circuit panel affirmed a district court's finding of infringement under the doctrine of equivalents based in part on disclosures that appeared in the specification but not in the claims at issue.⁴⁵ However, the disclosure of the alleged equivalents appeared as a limitation in a different claim (*viz.*, claim 3) that had been asserted earlier in the case.⁴⁶ Thus, the disclosed equivalents were claimed and therefore were not dedicated to the public.⁴⁷ Because *Maxwell* specifically allows the doctrine of equivalents to cover subject matter that is disclosed in the specification but also appears in other claims, that decision does not conflict with *Uniroyal 2*.⁴⁸

Finally, *Maxwell* does not conflict with the decision in *Miles*. In *Miles*, the claim at issue required a single "cabinet" enclosing various parts of an apparatus used to process tissue specimens.⁴⁹ The accused apparatus utilized three modules, as opposed to one, to house its various components, leading the district court to conclude that there was no literal infringement. However, the Federal Circuit agreed with the lower court that the accused

⁴⁵ *Uniroyal 2*, 939 F.2d at 1542-44.

⁴⁶ See *Uniroyal Inc. v. Rudkin-Wiley Corp.* 13 U.S.P.Q.2d 1192, 1197-98 and 1202 (D. Conn. 1989).

⁴⁷ The ALJ concluded that it was not clear whether all of the Uniroyal devices were found to infringe based on subject matter disclosed in the specification but claimed in the patent. However, the portion of the patent specification relied on by the district court taught *only* that the height ratio could be between 0.5 and 0.9, the *same* subject matter that is claimed in claim 3. *Uniroyal 2*, 939 F.2d 1544, n. 3 and Appendix. Thus, because the Federal Circuit was not permitting the district court to rely on subject matter in the specification that was not claimed, it appears to us that all of the Uniroyal devices found to infringe under the doctrine of equivalents in fact must have fallen within the height limitations of claim 3.

⁴⁸ *Maxwell*, 86 F.3d at 1107-08.

⁴⁹ *Miles*, 997 F.2d at 876.

apparatus infringed under the doctrine equivalents in that it performed the same functions required by the claims of the patent and merely separated the components into distinct cabinets.⁵⁰

As the ALJ recognized, the *Miles* panel stated:

In addition, the '073 patent does not specify that the cabinet contains all components of the invention. Rather claim 1 specifies an "air pump means . . . mounted proximate said cabinet." The '073 patent, col. 11, lines 17-19. Claim 1 also claims "electrical control means . . . mounted proximate said chamber." *Id.* col. 12, lines 1-3. Therefore, although claim 1 may have a cabinet limitation, not all components of the tissue processor must be within the cabinet. Indeed, the specification states that "the controls could be mounted in a separate cabinet." *Id.* col. 10, lines 34-35.⁵¹

We interpret the above language differently from the ALJ. It appears to us that the *Miles* court relied on the subject matter disclosed in claim 1 of the patent (to the effect that various control components could be located outside the single cabinet) to support its doctrine of equivalents finding. The court's single passing reference to the specification appears to be intended only to further support its interpretation of the claim 1 language.⁵²

⁵⁰ *Id.*, 997 F.2d at 877.

⁵¹ *Miles*, 997 F.2d at 876, 877, 27 U.S.P.Q.2d at 1127, 1128.

⁵² The only other case relied on by *Crucible, Pall Corporation*, is inapposite to the issue before the Commission. In that case, the defendant argued that the doctrine of equivalents can only be used to cover subject matter disclosed and enabled in the specification but not claimed. The Federal Circuit rejected that argument, noting that the inventor need not foresee and describe a potential equivalent at the time the patent application is filed in order to invoke the doctrine of equivalents. *Pall Corporation*, 66 F.3d at 1220. *Crucible* argues that the Federal Circuit's rejection of this argument implies acceptance of the reverse, *i.e.*, that such disclosure and enablement of an unclaimed equivalent would be protected under the doctrine of equivalents. However, since that factual situation was not before the Federal Circuit, the *Pall Corporation* opinion cannot be considered binding authority for such a proposition. Therefore,
(continued...)

Based on the foregoing analysis, we believe that *Maxwell* extended into the area of infringement under the doctrine of equivalents a well recognized legal principle that embodiments disclosed in the specification but not claimed are dedicated to the public.⁵³ As the ALJ indicated, in certain circumstances, the doctrine of equivalents may be limited by other legal doctrines (*e.g.*, the doctrine of prosecution history estoppel).⁵⁴ In our view, *Maxwell* similarly limits the doctrine of equivalents.

3. The Application of *Maxwell* in the Enforcement Proceeding

Since we find that *Maxwell* is applicable and controlling in this investigation, we must determine from what point in time we will apply *Maxwell*.⁵⁵ Respondents argued that *Maxwell* became controlling precedent the day it was handed down (June 11, 1996) and that, accordingly, the Commission should apply *Maxwell* from that date forward in determining whether respondents violated the consent order.⁵⁶ Under this reasoning, the Commission could not find that magnets with oxygen content below 6,000 ppm imported and sold after

⁵²(...continued)

the *Maxwell* decision does not conflict with the holding in *Pall Corporation*. We also note that the *Pall Corporation* case was cited to the Federal Circuit in the *Maxwell* Suggestion for Rehearing at pages 6 and 7.

⁵³ See footnote 15, *supra*.

⁵⁴ See, *e.g.*, *Autogiro Co. of Am. v. United States*, 384 F.2d 391, 400-01 (1967).

⁵⁵ Because he did not find *Maxwell* to be controlling precedent, the ALJ did not address this issue in his RD.

⁵⁶ Respondents' Comments at 31-32.

June 11, 1996, violated the consent order.⁵⁷ Crucible argued that since *Maxwell* is not applicable or controlling in this investigation, there is no need to address the issue of how to apply that decision.⁵⁸

The IA's view was that, by issuing the consent order, the Commission ordered respondents not to infringe Crucible's patent, and unless and until the Commission indicates that the Final ID no longer defines the scope of infringing products, the importation and sale of such products are in violation of the consent order.⁵⁹ Consequently, the IA argued that sanctions are appropriate for all of respondents' importations and sales of magnets that infringe under the doctrine of equivalents that have already taken place.⁶⁰ However, the IA believes that, since the Federal Circuit's decision in *Maxwell* is controlling precedent, the remedial orders issued in this investigation should be interpreted in the future to exclude from their coverage any magnets that infringe only under the doctrine of equivalents.⁶¹

We agree with the IA that any change in the interpretation of the scope of the Commission's remedial orders should be *prospective only*, and should not affect the determination made in this enforcement proceeding as to whether respondents have violated the consent order. Although respondents entered into the consent order voluntarily before the

⁵⁷ Of the 33 violation days found by the ALJ, 19 preceded June 11, 1996.

⁵⁸ Crucible's Reply Comments on the Recommended Determination ("Crucible's Reply") at 18.

⁵⁹ IA's Comments at 48-49.

⁶⁰ *Id.*

⁶¹ *Id.* at 49-53.

Commission had rendered its infringement findings, they should have been aware that the legal reasoning in the Commission's decision would ultimately define the terms of the consent order. Faced with a Commission determination finding infringement by certain magnets under the doctrine of equivalents, respondents should have requested prospective relief from that determination, even in the face of intervening changes in the law.

Respondents could have sought an advisory opinion as to whether the Commission would enforce its outstanding orders to prohibit importation of goods that were found to infringe under the doctrine of equivalents, in light of *Maxwell*, as soon as that decision was issued.⁶² Absent such a request, the public interest strongly supports repose and the finality of the Commission's orders. *Federated Department Stores, Inc. v. Moitie*, 425 U.S. 394, 398 (1981). Moreover, permitting respondents unilaterally to determine that a Federal Circuit decision that potentially conflicts with a Commission finding controls whether its importations and sales violate a Commission consent order would undermine the ability of the Commission

⁶² See Commission Rule 210.79(a), 19 C.F.R. § 210.79(a) (1996). Rule 210.79(a) provides:

Upon request of any person, the Commission may, upon such investigation as it deems necessary, issue an advisory opinion as to whether the person's proposed course of action or conduct would violate a Commission exclusion order, cease and desist order, or consent order.

The Commission has in the past entertained petitions for an advisory opinion. See *Certain Amorphous Metal Alloys and Amorphous Metal Articles*, Inv. No. 337-TA-143 Advisory Opinion Proceedings, USITC Pub. 2035, Views of the Commission at 2-3 (May 28 1984); *Certain Multi-Level Touch Control Lighting Switches*, Inv. No. 337-TA-225, Notice of Institution of Advisory Opinion Proceedings and Rejection of Motion for Modification or Dissolution of General Exclusion Order (July 16, 1987). As indicated above, respondents were aware of the Commission's rules in this regard. On October 7, 1996, respondents filed a motion with the Commission seeking modification of the Commission's remedial orders in light of *Maxwell*.

to ensure rigorous compliance with its remedial orders and thereby weaken the deterrent effect of its orders. ⁶³ Applying *Maxwell* to respondents' actions while the Final ID governed the interpretation of the consent order would only encourage *post hoc* "self-help" modifications of remedial orders.

In light of our determination that *Maxwell* is controlling precedent, however, henceforth we will interpret all outstanding orders in this case in a manner consistent with *Maxwell*. ⁶⁴ As the Commission has already held, modification of the orders themselves is not necessary or appropriate. ⁶⁵ However, in view of *Maxwell*, we determine that magnets with oxygen content of below 6,000 ppm (taking into account the measurement error found in the Final ID) do not infringe the claims at issue of Crucible's patent. All outstanding orders in

⁶³ Indeed, the fact that the ALJ recommended that the Commission not apply *Maxwell* only supports this reasoning.

⁶⁴ We note that the Commission will not revisit every remedial order whenever the Federal Circuit decides a patent case since such a practice would be both unjustified and infeasible. *See, e.g., Rufo v. Inmates of the Suffolk County Jail*, 502 U.S. ___, 112 S. Ct. 748, 763 (1992) ("clarification" of law does not automatically open door to relitigation of the merits of every affected consent decree); *Wyatt v. King*, 803 F. Supp. 377, 387 (M.D. Ala. 1992) ("A mere 'clarification' of the law does not constitute an intervening change of circumstance sufficient to justify modification of a court order or consent decree."). However, when appropriate, the Commission will consider changes to the scope of outstanding remedial orders when significant changes in relevant decisional law occur, particularly in connection with an enforcement proceeding. In this context, we note that courts have reevaluated outstanding injunctions based on subsequent changes in governing law. *See, e.g., System Federation No. 91, Railway Employees' Department, AFL-CIO v. Wright*, 364 U.S. 642 (1961) (consent decree injunction against union shop agreements dissolved following legislative change permitting them); *Coca-Cola Co. v. Standard Bottling Co.*, 138 F.2d 788 (10th Cir. 1943) (consent decree against sales of products using word "cola" should be modified after subsequent case law made clear that use of "cola" was not a violation of trademark).

⁶⁵ *See* Order Denying Petition to Modify Final Determination, Exclusion Order, and Consent Order at 2 (November 1, 1996).

this investigation therefore no longer prohibit the importation and sale of such magnets.

IV. Magnets Which Respondents Allege Do Not Have the Requisite Rare Earth Content

Crucible submitted test results for one magnet in contention that showed the total rare earth content to be 36.54 weight percent. The ALJ concluded that this magnet fell within the literal scope of the claim at issue, because he construed the claim phrase "consisting essentially of in weight percent, 30 to 36 of at least one rare earth element" to read on one or more rare earth elements.⁶⁶ Thus, the ALJ found that the magnet in question, with 30.8 weight percent neodymium and 36.54 weight percent total rare earth, was within the literal scope of claim 1.⁶⁷ In other words, under the ALJ's construction, claim 1 would cover a magnet having a single rare earth element "in weight percent, 30 to 36" even if all rare earth elements in the magnet totaled more than 36 weight percent. The ALJ also found that, under this construction, a magnet in which no single rare earth element was between 30 and 36 weight percent, but which had a total rare earth content within that range, would be within the scope of claim 1.

Both respondents and the IA objected to the ALJ's claim construction regarding rare earth content, noting that it was not a construction advanced by Crucible in either the original investigation or the enforcement proceeding.⁶⁸ Respondents argued that if the Commission adopted the ALJ's new claim construction, it must find that magnets with no single rare earth

⁶⁶ RD at 46-50. This claim construction had not been advanced previously by the ALJ or by any party.

⁶⁷ *Id.*

⁶⁸ Respondents' Comments at 60-61; IA's Comments at 29.

element between 30 and 36 weight percent do not infringe the patent in issue.⁶⁹ Respondents then identified a variety of magnets found by the ALJ to be infringing in the enforcement proceeding which had no single rare earth element present in an amount of at least 30 weight percent.⁷⁰

According to the IA, nothing in the claim language suggests that a single rare earth element's concentration is relevant to the claim's coverage.⁷¹ Furthermore, the IA submitted that there is no evidence in the record that a person of ordinary skill in the art would have interpreted the claims at issue as set forth in the RD.⁷² In the IA's view, the claim should be interpreted to refer to the concentration of all the rare earth elements present combined, as it was in the Final ID.⁷³

Crucible argued that neither respondents nor the IA explained how the ALJ's construction of claim 1 is wrong as a matter of law, and noted that neither respondents nor the IA offered any evidence that suggested a contrary claim construction during the evidentiary hearing before the ALJ.⁷⁴ Finally, Crucible argued that the ALJ was correct in finding that nothing in the specification or the prosecution history of the '439 patent requires that the total

⁶⁹ Respondents' Comments at 60-61.

⁷⁰ *Id.* at 61.

⁷¹ IA's Comments at 29.

⁷² *Id.*

⁷³ *Id.*

⁷⁴ Crucible's Reply at 50-59.

rare earth content be less than 36 weight percent.⁷⁵

We disagree with the ALJ's construction of claim 1 to encompass magnets with a total rare earth content of greater than 36 weight percent.⁷⁶ Rather, we read the claim language to require (1) at least one rare earth element and (2) a total rare earth content within the prescribed range of 30 to 36 weight percent. Thus, the claim allows for more than one rare earth element, but no more than 30 to 36 weight percent total rare earth content, however many rare earth elements are present.⁷⁷

Under our interpretation, the claim reads on magnets in which the total rare earth content falls within the claimed range (*e.g.*, a magnet with two rare earth elements, each 17 weight percent, for a total rare earth content of 34 weight percent). Indeed, that appears to be the interpretation the parties, including Crucible, have given the claim language in issue throughout these proceedings.⁷⁸ In addition, as the IA notes, the specification repeatedly uses the terms "rare earth element content," "rare earth content," and "Total Rare Earth."

Accordingly, we do not adopt the ALJ's recommendation respecting the twenty-sixth violation

⁷⁵ *Id.* Crucible states that, to the contrary, Table II in the '439 patent discloses magnets having a total rare earth content greater than 36 weight percent. *Id.*

⁷⁶ Claim construction is a question of law. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978, 34 U.S.P.Q.2d 1321, 1328 (Fed. Cir. 1995) (*en banc*), *affirmed* 116 S.Ct. 1384, ___ U.S. ___, (1996).

⁷⁷ Indeed, in light of the fact that the claim calls for 60 to 66 weight percent iron, the rare earth limitation cannot allow for more than a single rare earth element of between 30 to 36 weight percent.

⁷⁸ For example, Crucible reported all of its test results in terms of total rare earth content. In addition, the Final ID referred to chemical composition test results in terms of "total rare earth elements," noting that although the principal rare earth element found was neodymium, each magnet included some dysprosium.

day in Table 5 of the RD.

V. The Date From Which Respondents Had Notice of the Doctrine of Equivalents Analysis

The ALJ found that respondents' counsel was aware of Crucible's arguments regarding the doctrine of equivalents, based on the exchange of prehearing statements in the original investigation, prior to submitting the proposed consent order.⁷⁹ He also found that respondents' counsel was put on notice of the Final ID's findings regarding the doctrine of equivalents some time between January 16, 1996, and January 23, 1996, based on an exchange of public versions of the ID between complainant's counsel and respondents' counsel.⁸⁰ Accordingly, the ALJ recommended that the Commission find that respondents' importations and sales prior to January 23, 1996, of magnets that infringe only under the doctrine of equivalents violated the consent order (but merited a lower daily penalty).⁸¹

Crucible argued that the consent order stipulation signed by respondents prohibited all further infringement and created no exception for infringement under the doctrine of equivalents.⁸² Crucible also pointed out that counsel for respondents were aware of Crucible's doctrine of equivalents arguments before respondents entered into the consent order.⁸³ Thus, Crucible maintains that respondents were under a duty of due care to avoid infringement under

⁷⁹ RD at 84-85.

⁸⁰ *Id.*

⁸¹ *Id.*

⁸² Crucible's Comments at 21-23; Crucible's Reply at 76-78.

⁸³ Crucible's Reply at 76-78.

the doctrine of equivalents.⁸⁴

The IA argued that respondents were not made aware of the expanded scope of equivalents until the date that the Commission determined not to review the Final ID (February 14, 1996) because the Final ID did not become the determination of the Commission until the Commission determined not to review it.⁸⁵ In other words, the IA argues that, because the final boundaries of the Commission's infringement findings were not clearly established until the Commission indicated that it was adopting the reasoning and findings of the Final ID, it would be unfair to penalize respondents for importations and sales made prior to that time which infringed solely under the doctrine of equivalents.

Respondents agreed with the IA that no civil penalty should be imposed as to magnets imported before the date of the Commission's order approving the Final ID.⁸⁶ They argued that due process requires fair notice of the conduct to be prohibited before fines may be assessed for that conduct, citing *Snitkin v. United States*, 265 F. 489, 494 (7th Cir. 1920).⁸⁷ Thus, they argued that, because they "could not have known" that certain magnets would be considered infringing under the doctrine of equivalence until the Commission decision became

⁸⁴ *Id.* Any other decision, Crucible argued, would encourage parties to consent orders to infringe patents under the doctrine of equivalents with impunity until such time as the scope of equivalency has been finally determined in court, a result which Crucible stated is against public policy. *Id.*

⁸⁵ IA's Comments at 18, n. 19. The IA argued further that, because his petition for review was based in part on the doctrine of equivalents issue, there was still an active dispute as to the propriety of the Final ID's ruling until the Commission determined not to review. *Id.*

⁸⁶ Respondents' Comments at 102-03.

⁸⁷ Respondents' Comments at 96.

final, no penalty should be assessed as to those magnets. ⁸⁸

We determine that respondents were on notice that the Commission might adopt a finding of infringement under the doctrine of equivalents from the date they had access to the public version of the Final ID, viz., February 5, 1996. ⁸⁹ From that date forward, we find that respondents were under a duty to make all efforts and take all precautions to ensure that they were not violating the consent order through the importation or sale of magnets that might be found to infringe. ⁹⁰ Accordingly, we do not adopt the ALJ's recommendation respecting the third violation day in Table 5 of the RD.

⁸⁸ See Respondents' Comments at 11.

⁸⁹ Thus, we do not agree with respondents that they "could not have known" that certain magnets would be considered infringing under the doctrine of equivalence until the Commission decision became final.

⁹⁰ See, e.g., *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 785 F.2d 1013, 1016 (Fed. Cir. 1986) (general rule is for an enjoined party to "keep a safe distance from the margin line").

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

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| In the Matter of | |) |
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| CERTAIN NEODYMIUM-IRON-BORON | |) |
| MAGNETS, MAGNET ALLOYS, AND | |) |
| ARTICLES CONTAINING SAME | |) |
| | |) |
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Investigation No. 337-TA-372
(Enforcement Proceeding)

NOTICE OF COMMISSION DETERMINATION CONCERNING REMEDY,
THE PUBLIC INTEREST, AND BONDING.

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission ("the Commission") determined to impose a civil penalty of \$ 1,550,000 on respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. for violation of a previously-issued consent order. The Commission also determined to revoke the aforementioned consent order effective upon approval of the President of a newly-issued permanent limited exclusion order and a newly-issued permanent cease and desist order to Tridus International, Inc.

FOR FURTHER INFORMATION CONTACT: Jay H. Reiziss, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3116.

SUPPLEMENTARY INFORMATION: The patent-based section 337 investigation that preceded this enforcement proceeding was instituted on March 9, 1995, based on a complaint filed by Crucible Materials Corporation ("Crucible"), alleging infringement of claims 1-3 of Crucible's U.S. Letters Patent 4,588,439 ("the '439 patent"). On October 11, 1995, the investigation was terminated as to respondents San Huan New Materials High Tech, Inc. ("San Huan"), Ningbo Konit Industries, Inc. ("Ningbo"), and Tridus International, Inc. ("Tridus")(collectively "respondents") based on the Commission's grant of respondents' unilateral motion for issuance of a consent order wherein those respondents agreed not to sell for importation, import, or sell after importation magnets "which infringe any of claims 1-3 of the '439 Patent." On May 16, 1996, the Commission instituted a formal enforcement proceeding based on an enforcement complaint filed by Crucible alleging that respondents had

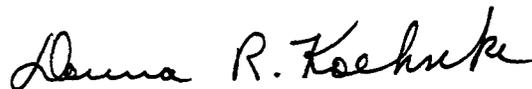
violated that consent order by importing or selling magnets that infringed the claims in issue of the '439 patent. On December 24, 1996, following an evidentiary hearing, the presiding administrative law judge ("ALJ") issued a recommended determination ("RD") finding that respondents had violated the consent order on 33 different days and recommending that the Commission impose a civil penalty of \$1,625,000 on respondents. The Commission adopted the bulk of the RD's findings on violation on April 8, 1997, and issued an opinion explaining that determination on April 15, 1997, finding that respondents had violated the consent order on 31 days between October 11, 1995, and October 10, 1996.

The Commission invited the parties to submit briefs on the appropriate remedy, public interest, and the amount of bond to be imposed during any Presidential review period required, and directed Crucible and the Commission investigative attorney ("IA") to submit proposed remedial orders.

Having considered the RD, the exceptions thereto, and proposed alternative findings of fact and conclusions of law, as well as the entire record in this proceeding, the Commission determined to impose a civil penalty of \$ 1,550,000 on respondents San Huan, Ningbo, and Tridus. The Commission also has determined to revoke the consent order effective upon approval by the President of a permanent limited exclusion order directed to foreign respondents San Huan and Ningbo and a permanent cease and desist order directed to domestic respondent Tridus. The Commission determined that the statutory public interest factors enumerated in 19 U.S.C. § 1337(d) and (f) do not preclude issuance of the aforementioned remedial orders. Since revocation of the consent order is contingent on Presidential approval of the alternative remedial measures, respondents were not required to post a bond for importations or sales of infringing products during the Presidential review period. The Commission also denied Crucible's request for attorneys' fees and its request that the Commission reconsider its determination regarding the effect of the U.S. Court of Appeals for the Federal Circuit's decision in *Maxwell v. J. Baker, Inc.* 86 F.3d 1098, 29 U.S.P.Q.2d 1001 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*, 117 S. Ct. 1244 (1997), on the Commission's doctrine of equivalents infringement analysis. Finally, the Commission denied respondents' request to have Crucible file periodic reports concerning its status as a domestic industry.

This action is taken under the authority of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), and section 210.75 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 210.75).

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: September 26, 1997

finding that respondents had violated the consent order on 33 different days and recommending that the Commission impose a civil penalty of \$1,625,000 on respondents. The Commission adopted the bulk of the RD's findings on violation on April 8, 1997, and issued an opinion explaining that determination on April 15, 1997, finding that respondents violated the consent order on 31 days between October 11, 1995, and October 10, 1996.

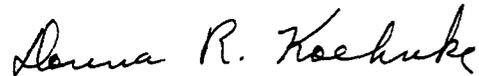
The Commission invited the parties to submit briefs on the appropriate remedy, the public interest, and the amount of bond to be imposed during any Presidential review period, and directed Crucible and the Commission investigative attorney to submit proposed remedial orders.

Having considered the RD, the exceptions thereto, the parties comments on the appropriate remedy, the public interest, and the amount of the bond, as well as the entire record in this proceeding, the Commission hereby ORDERS that:

1. Respondents San Huan, Ningbo, and Tridus shall forfeit and pay to the United States a civil penalty in the amount of \$50,000 for each of the thirty one (31) days between October 11, 1995, and October 10, 1996, inclusive, on which a sale of articles occurred in violation of the consent order issued by the Commission on October 11, 1995, in the total amount of \$1,550,000. Respondents shall have joint and several liability for the payment of this civil penalty.
2. The consent order issued to respondents San Huan, Ningbo, and Tridus is revoked effective upon approval, or non-disapproval, by the President of the permanent limited exclusion order directed to foreign respondents San Huan and Ningbo and the permanent cease and desist order directed to domestic respondent Tridus issued simultaneously herewith.
3. Crucible's request for attorneys' fees and its request that the Commission reconsider its determination regarding the effect of the U.S. Court of Appeals for the Federal Circuit's decision in *Maxwell v. J. Baker, Inc.* 86 F.3d 1098, 29 U.S.P.Q.2d 1001 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*, 117 S. Ct. 1244 (1997), on the Commission's doctrine of equivalents infringement analysis are denied.

4. Respondents' request to have Crucible file periodic reports concerning its status as a domestic industry is denied.
5. The Secretary shall serve copies of this Order upon each party of record in this enforcement proceeding and upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the U.S. Customs Service.
6. Notice of this Order shall be published in the *Federal Register*.

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: September 26, 1997

desist from the following activities in the United States: importing, selling, marketing, distributing, offering for sale, or otherwise transferring (except for exportation) in the United States infringing imported neodymium-iron-boron magnets or magnet alloys.

Pursuant to a complaint filed by Crucible Materials Corporation, the owner of the patent in issue, the Commission instituted a formal enforcement proceeding and subsequently determined that respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. had violated the consent order by importing and selling certain neodymium-iron-boron magnets and magnet alloys that infringed claims 1, 2, or 3 of U.S. Letters Patent 4,588,439 on 31 days between October 11, 1995, and October 10, 1996. Accordingly, pursuant to Commission rule 210.75(b)(4)(iii), 19 C.F.R. § 210.75(b)(4)(iii), the Commission has determined to revoke the consent order and replace it with this limited exclusion order and a cease and desist order issued to domestic respondent Tridus International, Inc. on the same date. Revocation of the consent order is contingent on Presidential approval, or non-disproval, of this limited exclusion order and the cease and desist order.

The Commission has also determined that the public interest factors enumerated in 19 U.S.C. §§ 1337(d) and (f) do not preclude the aforementioned limited exclusion order and cease and desist order to domestic respondent Tridus International, Inc., and that no bond shall be required during the Presidential review period because the consent order, as modified by the Commission, will remain in full force and effect unless and until the President approves, or does not disapprove, this action within the Presidential review period, at which time the consent order is hereby revoked.

Accordingly, the Commission hereby ORDERS that:

1. Neodymium-iron-boron magnets and magnet alloys that are covered by claims 1-3 of U.S. Letters Patent 4,588,439 and manufactured or imported by or on behalf of San Huan New Materials High Tech, Inc. of Beijing, People's Republic of China, Ningbo Konit Industries, Inc., of Zhejiang, People's Republic of China, or Tridus International, Inc. of Paramount, California, are excluded from entry for consumption into the United States for the remaining term of the patent, *i.e.*, until May 20, 2005, except under license of the patent owner.
2. In accordance with 19 U.S.C. § 1337(l), the provisions of this Order shall not apply to neodymium-iron-boron magnets or magnet alloys imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the Government.
3. The Commission may modify this Order in accordance with the procedure described in Rule 210.76 of the Commission's Rules of Practice and Procedure, 19 C.F.R. § 210.76.
4. The Secretary shall serve copies of this Order upon each party of record in this enforcement proceeding and upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the U.S. Customs Service.
5. Notice of this Order shall be published in the *Federal Register*.

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: September 26, 1997

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

RECEIVED
OFC OF THE SECRETARY
US INTL TRADE COMMISSION

'97 SEP 26 P 4:53

In the Matter of

CERTAIN NEODYMIUM-IRON-BORON
MAGNETS, MAGNET ALLOYS, AND ARTICLES
CONTAINING SAME

Investigation No. 337-TA-372
(Enforcement Proceeding)

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED THAT Tridus International, Inc., 8527 Alondra Boulevard, Suite 205, Paramount, California 90723, cease and desist from conducting any of the following activities in the United States: importing, selling, marketing, advertising, distributing, offering for sale, transferring (except for exportation), or soliciting U.S. agents or distributors for neodymium-iron-boron magnets or magnet alloys covered by claims 1, 2, or 3 of U.S. Letters Patent 4,588,439 in violation of section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337.

I.

(Definitions)

As used in this Order:

(A) "Commission" shall mean the United States International Trade Commission.

(B) "Crucible" shall mean Crucible Materials Corporation, State Fair Boulevard, P.O. Box 977, Syracuse, New York 13201-0977, complainant in this enforcement proceeding, and its successors and assigns.

(C) "Tridus" and "Respondent" shall mean Tridus International, Inc., 8527 Alondra Boulevard, Suite 205, Paramount, California 90723.

(D) "Person" shall mean an individual, or any nongovernmental partnership, firm, association, corporation, or other legal or business entity other than Tridus or its majority owned or controlled subsidiaries, their successors, or assigns.

(E) "United States" shall mean the fifty States, the District of Columbia, and Puerto Rico.

(F) "Covered product" shall mean neodymium-iron-boron magnets or magnet alloys covered by claims 1, 2, or 3 of U.S. Letters Patent 4,588,439.

(G) The terms "import" and "importation" refer to importation for entry for consumption under the Customs laws of the United States.

(H) "Magnet type" shall refer to a particular size and grade of neodymium-iron-boron magnet. By way of example only, one magnet type would be a magnet having dimensions of 1 inch x 1 inch x 2 inches and grade 35, where the grade is generally intended to refer to the magnetic power of the magnet in mega gauss oersteds.

II.

(Applicability)

The provisions of this Cease and Desist Order shall apply to Respondent and to any of its principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority owned business entities, successors, and assigns, and to each of them, insofar as they are engaging in conduct prohibited by Section III, *infra*, for, with, or otherwise on behalf of Respondent.

III.

(Conduct Prohibited)

The following conduct of Respondent in the United States is prohibited by the Order.

Respondent shall not:

- (A) import into the United States covered products for the remaining term of the patent , *i.e.*, until May 20, 2005;
- (B) sell, market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States imported covered products for the remaining term of the patent;
- (C) advertise imported covered products for the remaining term of the patent; or
- (D) solicit U.S. agents or distributors for imported covered products for the remaining term of the patent.

IV.

(Conduct Permitted)

Notwithstanding any other provision of this Order, specific conduct otherwise prohibited by the terms of this Order shall be permitted if, in a written instrument, Crucible licenses or authorizes such specific conduct, or such specific conduct is related to the importation or sale of neodymium-iron-boron magnets or magnet alloys by or for the United States.

V.

(Reporting)

For purposes of this reporting requirement, the reporting periods shall commence on

January 1 and July 1 of each year, and shall end on the subsequent June 30 and December 31, respectively. However, the first report required under this section shall cover the period September 26, 1997 through December 31, 1997. This reporting requirement shall continue in force until the expiration of U.S. Letters Patent 4,588,439 unless, pursuant to subsection (j)(3) of section 337 of the Tariff Act of 1930, the President notifies the Commission within 60 days after the date he receives this Order that he disapproves this Order.

Within thirty (30) days of the last day of the reporting period, Respondent shall report to the Commission the quantity in pounds and the value in dollars of covered product that Respondent has imported or sold after importation in the United States during the reporting period and the quantity and value of reported covered product that remains in inventory 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.

Respondent's reporting requirement hereunder shall cease at such time as, in a written instrument, Respondent obtains a license to sell products covered by claims 1, 2, or 3 of U.S. Letters Patent 4,588,439 or if, in a timely filed report, Respondent shall report no sales of imported covered product during two (2) successive reporting periods and no remaining inventory of imported covered product.

VI.

(Recordkeeping and Inspection)

(A) For the purpose of securing compliance with this Order, Respondent shall retain any and all records relating to the sale, offer for sale, marketing, or distribution in the

United States of neodymium-iron-boron magnets made and received in the usual and ordinary course of business, whether in detail or in summary form, for a period of two (2) years from the close of the fiscal year to which they pertain.

(B) For the purposes of determining or securing compliance with this Order and for no other purpose, and subject to any privilege recognized by the federal courts of the United States, duly authorized representatives of the Commission upon reasonable written notice by the Commission or its staff, shall be permitted access and the right to inspect and copy in Respondent's principal offices during office hours, and in the presence of counsel or other representatives if Respondent so chooses, all books, ledgers, accounts, correspondence, memoranda, and other records and documents, both in detail and in summary form as are required to be retained by subparagraph VI(A) of this Order.

VII.

(Service of Cease and Desist Order)

Respondent is ordered and directed to:

(A) Serve, within fifteen (15) days after the effective date of this Order, a copy of this Order upon each of its respective officers, directors, managing agents, agents, and employees who have any responsibility for the marketing, distribution, or sale of imported neodymium-iron-boron magnets in the United States;

(B) Serve, within fifteen (15) days after the succession of any persons referred to in subparagraph VII(A) of this Order, a copy of the Order upon each successor; and

(C) Maintain such records as will show the name, title, and address of each person upon whom the Order has been served, as described in subparagraphs VII(A) and VII(B) of

this Order, together with the date on which service was made.

The obligations set forth in subparagraphs VII(B) and VII(C) shall remain in effect until the date of expiration of the patent specified in Section III (Conduct Prohibited) herein.

VIII.

(Confidentiality)

Any request for confidential treatment of information obtained by the Commission pursuant to Sections V and VI of the Order should be in accordance with Commission Rule 201.6, 19 C.F.R. § 201.6. For all reports for which confidential treatment is sought, Respondent must provide a public version of such report with confidential information redacted.

IX.

(Enforcement)

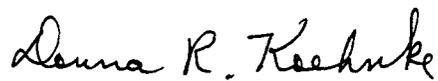
Violation of this Order may result in any of the actions specified in section 210.75 of the Commission's Interim Rules of Practice and Procedure, 19 C.F.R. § 210.75 (1995), including an action for civil penalties in accordance with section 337(f) of the Tariff Act of 1930, 19 U.S.C. § 1337(f), and any other action as the Commission may deem appropriate. In determining whether Respondent is in violation of this Order, the Commission may infer facts adverse to Respondent if Respondent fails to provide adequate or timely information.

X.

(Modification)

The Commission may amend this Order in accordance with the procedure described in section 210.76 of the Commission's Rules of Practice and Procedure, 19 C.F.R. § 210.76 (1995).

By Order of the Commission.



Donna R. Koehnke
Secretary

Issued: September 26, 1997

PUBLIC VERSION

**UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436**

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| In the Matter of) | |
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| CERTAIN NEODYMIUM-IRON-BORON) | |
| MAGNETS, MAGNET ALLOYS, AND) | Investigation No. 337-TA-372 |
| ARTICLES CONTAINING SAME) | ENFORCEMENT PROCEEDING |
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COMMISSION OPINION

INTRODUCTION AND BACKGROUND

The section 337 investigation that resulted in the issuance of the original remedial orders in this investigation was instituted on March 9, 1995, based on a complaint filed by Crucible Materials Corporation (“Crucible”) alleging infringement of claims 1-3 of Crucible’s U.S. Letters Patent 4,588,439 (“the ‘439 patent”).¹ On October 11, 1995, the investigation was terminated as to respondents San Huan New Materials High Tech, Inc. (“San Huan”), Ningbo Konit Industries, Inc. (“Ningbo”), and Tridus International, Inc. (“Tridus”)(collectively “respondents”) based on the Commission’s grant of respondents’ unilateral motion for a consent order wherein they agreed not to sell for importation, import, or sell after importation magnets “which infringe any of claims 1-3 of the ‘439 Patent.”² On

¹ 60 *Fed. Reg.* 12971 (March 9, 1995).

² Notice of Commission Determination Not to Review an Initial Determination Terminating the Investigation as to Respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. on the Basis of a Consent Order (October 10,

May 16, 1996, the Commission instituted a formal enforcement proceeding based on Crucible's enforcement complaint alleging that respondents had violated the consent order by importing or selling magnets that infringed the '439 patent.³ On December 24, 1996, following an evidentiary hearing, the presiding administrative law judge ("ALJ") issued his recommended determination ("RD") finding that respondents had violated the consent order on 33 different days and recommending that the Commission impose a civil penalty of \$1,625,000 on respondents. The Commission determined to adopt the bulk of the RD's findings on violation on April 8, 1997, and issued an opinion explaining that determination on April 15, 1997.⁴ The Commission found that respondents violated the consent order on 31 days between October 11, 1995, and October 10, 1996, but did not decide the amount of civil penalty to be imposed on respondents.

The Commission invited the parties to submit briefs on the appropriate remedy, public interest, and the amount of bond to be imposed during any required Presidential review period, and directed Crucible and the Commission investigative attorney ("IA") to submit proposed remedial orders.⁵ On April 22, 1997, the parties filed briefs on the those issues and on April 29, 1997, all parties filed responses to those briefs. Crucible included, as part of its written submission on the issues of remedy, the public interest, and bonding, a request

1995).

³ 61 *Fed. Reg.* 26202 (May 24, 1997).

⁴ Notice of Commission Determination Concerning Violation of Consent Order; Denial of Request for Oral Argument; and Schedule for the Filing of Written Submissions on Remedy, the Public Interest, and Bonding (April 8, 1997).

⁵ *Id.*

for attorneys' fees and a petition for reconsideration of the Commission's decision regarding application of the Federal Circuit's decision in *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 29 U.S.P.Q.2d 1001 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*, 117 S. Ct. 1244 (1997), to the Commission's finding of infringement of Crucible's patent under the doctrine of equivalents. On May 15, 1997, respondents also filed a motion requesting that the Commission require Crucible to file periodic reports regarding its status as a domestic industry.⁶

There are nine issues remaining for us to resolve in connection with final disposition of this enforcement proceeding:

1. Whether the Commission has the authority to impose a civil penalty for violation of the consent order;
2. The amount, if any, of such civil penalty;
3. Whether the penalty imposed by the Commission violates the Eighth or Fifth Amendments to the U.S. Constitution;
4. Whether to revoke the consent order and issue an exclusion order directed to foreign respondents San Huan and Ningbo and a cease and desist order directed to domestic respondent Tridus;
5. Whether the Commission should require respondents to post a bond for importations and/or sale during the Presidential review period and the amount of any such bond;
6. Whether the statutory public interest factors preclude revocation of the consent order and issuance of any alternative remedial orders;
7. Whether to award Crucible its reasonable attorneys' fees and expenses;
8. Whether the Commission should reconsider its prior determination that the Federal Circuit decision in *Maxwell v. J. Baker, Inc.* 86 F.3d 1098, 29 U.S.P.Q.2d 1001 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*,

⁶ Motion Docket No. 372-52C.

117 S. Ct. 1244 (1997) (*Maxwell*), required that the Commission's remedial orders in this investigation be interpreted to prohibit only imports and sales of magnets that literally infringe Crucible's patent; and

9. Whether to require the domestic industry to submit to the Commission periodic reports regarding its status as a domestic industry.

We have adopted the ALJ's finding that the Commission has the authority to impose a civil penalty for violations of the consent order and have determined to impose a penalty of \$1,550,000 on respondents for their violations of the consent order. We do not believe a penalty of that amount violates the Eighth or Fifth Amendments to the U.S. Constitution. We have also determined to issue a permanent limited exclusion order and cease and desist order, and to amend the consent order and revoke it effective on the date that the President approves, or does not disapprove, those alternative remedial orders. We are not requiring respondents to post a bond during the Presidential review period because respondents will remain subject to the amended consent order until the President approves, or does not disapprove, the alternative remedial orders. We have determined that the issuance of the exclusion order and cease and desist order would not adversely affect the public interest.

We determined not to award Crucible its reasonable attorneys' fees and expenses, and have declined to reconsider our determination regarding the effect of *Maxwell* on its doctrine of equivalents infringement analysis. Finally, we are not requiring the domestic industry to submit periodic reports regarding its status as a domestic industry.

ENFORCEMENT MEASURES

I. COMMISSION AUTHORITY TO IMPOSE CIVIL PENALTIES FOR VIOLATION OF CONSENT ORDERS

A. The RD's Discussion

As discussed more fully below, respondents have argued that the Commission lacks the statutory authority to assess civil penalties for violations of its consent orders. The ALJ rejected this contention. He noted that the amendment of section 337(c) by the Omnibus Trade and Competitiveness Act of 1988 ("OTCA") provided an express basis in section 337 for the issuance of consent orders and that the legislative history of the OTCA "leaves no doubt that Congress was aware of, and approved of, the Commission's consent order procedure as it existed at the time the OTCA was enacted."⁷ He noted that the Commission rules in effect at the time the OTCA was enacted provided that consent orders could be enforced by civil penalties. The ALJ also stated that the Commission consent orders issued prior to enactment of the OTCA were typically consent orders to cease and desist, and that section 337 expressly provides for civil penalties for violations of cease and desist orders.⁸ Thus, because the present Commission rule pertaining to enforcement of consent orders, Commission rule 210.75(c), continues to contemplate the imposition of civil penalties to enforce consent orders, the ALJ found that the Commission has the authority to issue civil penalties for violations of its consent orders.⁹

⁷ RD at 72-73.

⁸ *Id.*

⁹ *Id.*

B. The Parties' Comments

As indicated above, respondents have argued that the Commission lacks the statutory authority to assess civil penalties for violations of a consent order. In particular, respondents contend that:

1. Administrative agencies generally, and the Commission specifically, lack the inherent power to assess penalties that are not provided by statute, citing *Gold Kist, Inc. v. U.S. Dept. of Agriculture*, 741 F.2d 344, 347-49 (11th Cir. 1984);
2. The penalties provided by section 337(f)(2) are punitive in nature and all administrative agencies, including the Commission, are bound by the doctrine of strict construction of penal statutes, citing *Commission v. Acker*, 361 U.S. 87, 91 (1959), and *Snitkin v. United States*, 265 F. 489, 494 (7th Cir. 1920);
3. Section 337(f)(2) provides for daily penalties to be assessed only for violations of cease and desist orders, not for violations of consent orders;
4. The legislative history of section 337 confirms that the Commission's power to assess daily penalties is limited to violations of cease and desist orders; and
5. Because, under the statutory scheme of section 337, consent orders are not equivalent to cease and desist orders inasmuch as the former do not involve a determination of violation by the Commission, the Commission lacks the power to impose civil penalties for violations of its consent orders.¹⁰

¹⁰ Comments of Respondents San Huan New Materials High-Tech, Inc., Ningbo Konit Industries, Inc. and Tridus International, Inc. on the ALJ's Recommended Determination, dated January 27, 1997 at 86-93, 96-98 ("Respondents' Comments"); Reply of Respondents San Huan New Materials High-Tech, Inc., Ningbo Konit Industries, Inc. and Tridus International, Inc. to Comments of Complainant and the Commission Investigative Staff on the Recommended Determination, dated February 3, 1997 at 4-36 and 44-49 ("Respondents Reply"); Submission of Respondents San Huan New Materials High-Tech, Inc., Ningbo Konit Industries, Inc. and Tridus International, Inc. on Remedy, the Public Interest, and Bonding at 1-8 and 10-13 ("Respondents' Remedy Comments"). Respondents also contend that the imposition of civil penalties in this case would be contrary to the Commission's decision in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, Inv. No. 337-TA-276 (Enforcement Proceeding), Commission Opinion at 24 (July 19, 1991) ("*EPROMs*"), where the Commission found that it lacked authority to impose penalties for

According to complainant Crucible, respondents' arguments are disingenuous because respondents ignore the fact that they agreed in the consent order to the application of the Commission's enforcement procedures, which can include the imposition of civil penalties.¹¹ In addition, Crucible argued that the Commission has the authority to impose penalties for violations of consent orders for the reasons cited by the ALJ. In particular, it noted that the consent order procedure in existence prior to enactment of the OTCA, like the current procedure, provided for civil penalties. Crucible then quoted the ALJ's finding that the relevant legislative history of the OTCA "leaves no doubt that Congress was aware of, and approved, the Commission's consent order procedure as it existed at the time the OTCA was enacted."¹² Finally, Crucible argued that none of the cases cited by respondents requires a different result and that, in fact, the U.S. Court of Customs and Patent Appeals, one of the predecessor courts to the Federal Circuit, made clear that Congress "authorized the ITC to adopt such reasonable procedures, rules, and regulations as it deems necessary to carry out its functions and duties," which must include provisions for civil penalties for violations of its remedial orders.¹³

The IA also argued that the Commission has the authority to issue civil penalties in

offers to sell the accused products, because there was no explicit provision in the statute for such penalties. Respondents Comments at 86-87.

¹¹ Comments of Complainant Crucible Materials Corporation Seeking Partial Modification of Judge Luckern's December 24, 1996 Recommended Determination and Request for an Oral Hearing on the Subject, filed January 27, 1997 at 69-71 ("Crucible Comments").

¹² *Id.*

¹³ *Id.*, citing *Sealed Air Corp. v. U.S. International Trade Commission*, 645 F.2d 976, 987 (CCPA 1981).

this case. According to the IA, the consent order at issue, like most Commission consent orders, is a type of cease and desist order, for which section 337 provides explicit authority to seek civil penalties.¹⁴ Like the ALJ and Crucible, the IA noted that the Commission has previously sought and collected a civil penalty as a sanction for violation of a consent order, yet Congress made no effort to alter this aspect of the Commission's civil penalty authority in the OTCA or otherwise.¹⁵

C. Discussion

Respondents are correct when they assert that an administrative agency, such as the Commission, generally may not impose civil penalties in the absence of specific statutory authority to do so.¹⁶ Respondents also correctly note that section 337(f)(2), which is the only statutory provision authorizing the Commission to impose civil penalties for violations of section 337 remedial orders, is directed to cease and desist orders.¹⁷ However, in this case respondents stipulated to a Commission consent order that provides the Commission with the authority to impose section 337(f)(2) civil penalties for violations of that order. Specifically, Commission rule 210.21(c), under which respondents moved for termination of the original investigation and issuance of the consent order, provides in relevant part:

The consent order shall have the same force and effect and may be enforced,

¹⁴ Office of Unfair Import Investigations on the Recommended Determination (“IA Comments”) at 23.

¹⁵ *Id.*

¹⁶ *See, e.g., Gold Kist, Inc. v. U.S. Dept. of Agriculture*, 741 F.2d 344, 347-49 (11th Cir. 1984).

¹⁷ 19 U.S.C. § 1337(f)(2).

modified, or revoked in the same manner as . . . other Commission actions.¹⁸

Thus, the Commission's rules provide that a consent order shall have the same force and effect as a determination on the merits and may be enforced in the same manner as a cease and desist order, which may include the imposition of civil penalties.¹⁹

Our interpretation of the effect of rule 210.21 on the consent order is supported by case law. Specifically, the Supreme Court has stated:

Since a consent decree or order is to be construed for enforcement purposes basically as a contract, reliance upon certain aids to construction is proper, as with any other contract. Such aids include the circumstances surrounding the formation of the consent order. . . .²⁰

The circumstances surrounding the formation of the consent order at issue here included rule 210.21. In other words, when respondents entered the consent order they were, or should be held to have been, aware that the Commission intended to apply the full range of Commission enforcement mechanisms in enforcing the consent order, including the provisions for imposition of civil penalties. Indeed, the Commission's ability to sanction respondents for violations of the order was an integral part of the consent order. Otherwise, as discussed below, there is no reason for us to issue consent orders.

In addition, as Crucible points out, the consent order signed by respondents provides in relevant part:

enforcement, modification, or revocation of the consent order shall be carried out

¹⁸ 19 C.F.R. 210.21(c)(3)(ii).

¹⁹ Congress has expressly authorized the Commission to "adopt such reasonable procedures and rules and regulations as it deems necessary to carry out its functions and duties." 19 U.S.C. § 1335.

²⁰ *United States v. ITT Continental Banking Co.*, 420 U.S. 223, 238 (1975).

pursuant to Subpart I of the Commission's Rules of Practice and Procedure, 19 C.F.R. Part 210.²¹

Hence, in light of rule 210.21(c)(3)(ii) and the consent order itself, respondents have assented to the Commission's application of its statutory civil penalty authority. In fact, in their written submission to the Commission on the issues of remedy, the public interest, and bonding in the underlying section 337 investigation, respondents stated that they should be excluded from the scope of any exclusion order issued at the conclusion of the investigation because "Crucible's rights with respect to the consent order lie exclusively in the provisions under the Commission's rules providing for enforcement of consent orders."²²

Moreover, as the ALJ and the IA noted, the Commission had been issuing consent orders for some time before Congress passed the OTCA. As the ALJ found, the enforcement rule in force at the time the OTCA was passed, 19 C.F.R. 211.56 (1988)

²¹ Consent Order at 2, ¶ 4.

²² Written Submissions of Respondents San Huan New Materials High-Tech, Inc., Ningbo Konit Industries, Inc. and Tridus International, Inc. on the Issues of Remedy, the Public Interest, and Bonding (March 1, 1996) at 4, citing rule 210.75. Commission rule 210.75(b) provides in pertinent part that "[u]pon the completion of a formal enforcement proceeding . . . the Commission may . . . [b]ring civil actions in a United States district court pursuant to paragraph (c) of this section (and section 337(f)(2) of the Tariff Act of 1930) requesting the imposition of a civil penalty" 19 C.F.R. 210.75(b)(4). Commission rule 210.75(c) provides that "[t]o enforce . . . a consent order . . . the Commission may initiate a civil action in the U.S. district court pursuant to section 337(f)(2) or the Tariff Act of 1930, requesting the imposition of such civil penalty . . . as the Commission deems necessary to enforce its orders and protect the public interest." 19 C.F.R. 210.75(c). These regulations incorporate the statutory authority of section 337(f)(2). That statute permits the Commission to impose civil penalties and, if necessary, to bring an action in U.S. district court for recovery of the penalty on behalf of the United States. *See* 19 U.S.C. § 1337(f)(2). Thus, through section 337(f)(2), Congress has authorized the Commission to impose penalties and has designated the Commission as the entity authorized to recover such penalties in district court in the event such a collection proceeding is necessary.

clearly contemplated the imposition of civil penalties.²³ In particular, the Commission's rules provided then, as they do now, that Commission consent orders may be enforced by civil penalty proceedings under section 337(f) and Congress has made no effort to nullify or alter those rules.²⁴

The Commission's authority to impose civil penalties for violations of consent orders is also implicit in the power to enter consent orders. A consent order is tantamount to a cease and desist order, for which penalties are expressly provided. By entering the consent order, respondents agreed not to import or sell magnets that infringe claims 1-3 of the '439 patent in issue. That undertaking is identical to the acts prohibited by the cease and desist order issued to respondent Hennaco Excell, Inc. at the conclusion of the underlying section 337 investigation. The only pertinent difference between the consent order entered into by respondents San Huan, Ningbo, and Tridus and the cease and desist order issued to respondent Hennaco Excell, Inc. is that respondents San Huan, Ningbo, and Tridus agreed to refrain from infringing activity without a Commission finding of violation of section 337. That difference has no bearing on the fundamental nature of the consent order, which is substantively identical to a cease and desist order.

Finally, we decided to permit respondents to enter into consent orders in lieu of other

²³ See RD at 73.

²⁴ In fact, the Commission has imposed a penalty for violation of a consent order. See *Certain Carrier Materials Bearing Ink Compositions to be Used in a Dry Adhesive-Free Thermal Transfer Process and Signfaces Made by Such a Process*, Inv. No. 337-TA-294, Notice of Order Imposing Civil Penalty and Terminating Informal Enforcement Proceeding, 57 Fed. Reg. 20504 (May 13, 1992).

potential remedial measures only in order to streamline the section 337 process.²⁵ 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, such orders would be ineffectual and there would be no point in issuing them. Streamlining the section 337 process makes sense only so long as any relief afforded as a result of that process is as effective as that available following a full investigation.

Accordingly, the full extent of our enforcement measures are an integral part of the consent order. For the foregoing reasons, we have adopted the ALJ's finding that the Commission has the authority to impose civil penalties for respondents' violations of the consent order.

II. THE APPROPRIATE CIVIL PENALTY AMOUNT²⁶

Section 337(f)(2) authorizes imposition of "a civil penalty [of] . . . not more than the greater of \$100,000 or twice the domestic value" for each day on which articles were entered or sold in violation of a pertinent Commission order. In *EPROMs*, the Commission determined that, in light of the similarities between subsection 337(f)(2) and the civil penalty authority of the Federal Trade Commission ("FTC"), the Commission could utilize the factors used by the FTC to establish the amount of civil penalties. Those factors are: (1) the good or bad faith of respondent, (2) the injury to the public, (3) respondent's ability to pay, (4) the extent to which respondent has benefited from the violations, and (5) the need to

²⁵ See, e.g., 57 *Fed. Reg.* 52830, 52838 (November 5, 1992)(the goal of Commission rule 210.21(c) is to "streamline the consent order process").

²⁶ Commissioner Crawford does not join this section of the Commission's opinion. Her views on this subject accompany the opinion.

vindicate the authority of the Commission. In addition, in *EPROMs*, the Commission also considered the public interest as it is directed to do by the legislative history of section 337(f). Accordingly, in this case the ALJ discussed each of these factors in reaching his recommendation regarding the appropriate civil penalty amount.

A. The RD's Discussion

1. Good Faith

The ALJ found that it was undisputed that respondent Tridus, a domestic entity, [

].²⁷ The ALJ also found that it was only after Crucible filed its enforcement complaint that respondents [], and that respondents [

].²⁸

The ALJ found, however, that respondents did take certain steps in an attempt to comply with the consent order. Specifically, he found that respondents modified their manufacturing process, and [

], in an attempt to control the oxygen content of their imported magnets.²⁹ He also found that respondents [] and entered a

²⁷ RD at 76, 79, citing IDFF 100; ALJ Ex. 3.

²⁸ RD at 76, citing FF 124.

²⁹ RD at 77, citing FF 137.

[] to reduce the oxygen content of their magnets after the consent order issued.³⁰ However, he stated that, with the exception of [], none of the foregoing steps were in place at the time the consent order was issued on October 11, 1995, and, most significantly, respondents [

].³¹ Based on the foregoing, the ALJ concluded that:

While complainant has not established that respondents completely disregarded the consent order, the administrative law judge finds that respondents' actions in [

].³²

2. Injury to the public

The ALJ found nothing in the record indicating that the imposition of a penalty would injure the public, because magnets of the type in issue are available in sufficient quantities

³⁰ RD at 77, citing FF136, 138. After a neodymium-iron-boron magnet is pressed from powdered metal into the desired shape, it is sintered in a vacuum furnace at high temperatures to densify the magnet. [

].

³¹ RD at 77; *see also* FF 36-44, 136-138, 147.

³² RD at 79-80 (citations omitted)(emphasis added).

from complainant and its licensees. Accordingly, he gave “little weight to this factor.”³³

3. Respondents’ ability to pay

The ALJ found that “respondents have failed to point to any evidence to suggest an inability to pay substantial sanctions, other than [

].³⁴

In contrast, he found that the evidence of record indicates that respondent Tridus had sales of neodymium-iron-boron magnets from the October 11, 1995 (the date the consent order was issued) to October 10, 1996, of approximately [], with approximately [

] of these sales occurring in the United States.³⁵ In addition, he found that respondents collectively have been able [

].³⁶ Thus, he found that respondents have the ability to pay his recommended penalty of \$1.625 million.

4. The extent to which respondents have benefited from the violations

The ALJ found that respondents have benefited from violations of the consent order because their sales of imported magnets increased in the year following issuance of the consent order, and because they admitted to sales of at least approximately [] in

³³ RD at 80, citing IDFF 162-195.

³⁴ *Id.*, citing Wang, Tr. at 430.

³⁵ *Id.*, citing FF 20.

³⁶ RD at 81, citing FF 6, 136, 137, 138.

infringing magnets.³⁷

5. The need to vindicate the authority of the Commission

The ALJ found that the Commission has a compelling need to vindicate its authority regarding consent orders, particularly where, as here, respondents unilaterally moved for termination of the underlying investigation based on a proposed consent order.³⁸ He also noted that respondents were expressly exempted from the other remedial orders issued by the Commission at the conclusion of the underlying investigation. Accordingly, the ALJ found that “the Commission has a substantial interest in ensuring that respondents comply with the consent order.”

6. The public interest

The ALJ found no significant public interest factors that would militate against the imposition of a civil penalty in this case.³⁹

7. The recommended penalty amount

In reaching his recommended penalty, the ALJ stated that “[b]ased on the balancing of the *EPROMs* factors . . . , the administrative law judge finds that a daily penalty of \$50,000 is an appropriate sanction” for the violations of the consent order.⁴⁰ Thus, he recommended a total penalty of \$1.625 million based on a penalty of \$50,000 for each of 32 violation days and a \$25,000 penalty for a single violation day based on the Commission’s

³⁷ *Id.*, citing FF 149.

³⁸ RD at 82.

³⁹ *Id.*

⁴⁰ RD at 84.

doctrine of equivalents analysis. He did not elaborate on this finding or indicate precisely how he balanced the *EPROMs* factors.

B. The Parties' Comments

Crucible argued that the Commission should impose the maximum statutory penalty of \$100,000 for each violation day found by the Commission, which would total \$3.1 million.⁴¹ In particular, according to Crucible, Congress intended \$100,000 per day to be the penalty for most violations.⁴² It contended that such a penalty is appropriate in this case because respondents' efforts to comply with the consent order have been both untimely and ineffectual, citing the fact that nearly all of respondents' compliance efforts were undertaken after the Commission instituted the enforcement proceeding.⁴³ Crucible also argued that such a penalty is warranted because, as the ALJ found, respondents have benefitted from their violations of the consent order.⁴⁴ In particular, Crucible stated that, while respondents have admitted "to sales of at least approximately [] in infringing magnets," the actual volume of respondents' infringing sales in all likelihood has been far greater.⁴⁵ Crucible also stated that "[a] review of the RD reveals findings supporting a maximum penalty with regard to each and every factor enunciated in the *EPROMs* decision."⁴⁶

⁴¹ See Crucible Comments at 3-21.

⁴² *Id.* at 3.

⁴³ *Id.* at 12-15.

⁴⁴ *Id.* at 15-21.

⁴⁵ *Id.* at 15-16.

⁴⁶ Crucible's Reply Comments at 64.

Respondents contended that substantial civil penalties are not warranted.⁴⁷ In particular, they argued that the factors discussed by the Commission in its *EPROMs* decision do not warrant imposition of substantial civil penalties because respondents have acted in good faith, taking considerable steps at considerable expense, in an effort to comply with the consent order. They pointed to [

], among other measures, as evidence of their intent to comply with the consent order. In addition, they asserted that, even based on Crucible's test results, over 80 percent of the magnets sampled in the enforcement proceeding were found not to infringe.

According to respondents, if any civil penalties are adopted, they should be commensurate with the amount found by the ALJ to be the value of the allegedly infringing magnets, which they have asserted is approximately [].⁴⁸ They argued that such penalties will more than serve the Commission's interests in deterrence and ensuring compliance with its orders. With respect to the remaining *EPROMs* factors, respondents argued that there has been no injury to the public resulting from their sales. They also asserted that [

].⁴⁹ Finally, respondents argued that the public interest does not favor the imposition of any sanctions in this matter, let alone substantial civil penalties, stating that their U.S. customers depend on the timely delivery of magnets from them in order to meet delivery schedules to their own customers.

⁴⁷ See Respondents' Comments at 74-86; Respondents' Reply at 4-36 and 44-49; Respondents' Remedy Comments at 1-8 and 10-13.

⁴⁸ See generally, Respondents' Comments at pp. 85-86.

⁴⁹ Respondents' Remedy Reply at 13.

In the IA's view, a civil penalty of \$50,000 per violation day is appropriate in light of respondents' efforts to comply with the consent order.⁵⁰ In particular, the IA argued that "respondents . . . made concerted efforts to optimize their production process in order to ensure compliance."⁵¹ According to the IA, those efforts included [

.⁵²

The IA argued that these improvements to respondents' manufacturing capabilities were not fully implemented before the conclusion of the enforcement proceeding "because of the natural lag time inherent in [

] ⁵³ Therefore, according to the IA:

⁵⁰ See generally IA's Comments at 25-27; Office of Unfair Import Investigations' Response to the Comments of Complainant and Respondents on the Recommended Determination ("IA's Reply") at 7-16. The IA argued that a sanction of \$100,000 per violation day should be reserved for "exceptional and egregious violations" of Commission orders, involving a blatant disregard for Commission authority, as the Commission found to be the case in *EPROMs*. *Id.*

⁵¹ *Id.*

⁵² *Id.*, citing ALJ Finding of Fact 134-138. While Crucible has asserted that those efforts were only taken after the enforcement proceeding began, the IA noted that [

noted that the record shows that [] The IA also

].

⁵³ IA's Reply at 10.

although respondents' [] did not become reality until some time after the enforcement proceeding was instituted, respondents had already taken many steps to comply with the consent order and avoid infringement of the '439 patent. While these activities do not excuse respondents' violation of the consent order, they do provide evidence of respondents' legitimate efforts to ensure that magnets produced in the future would not contain infringing levels of oxygen. [While] respondents should have engaged in [] in the interim, . . . this is no reason to discount respondents' obvious efforts to upgrade their facilities to avoid infringement when assessing the appropriate civil penalty.⁵⁴

The IA also stated that the level of sales activity that gave rise to the violations is "not overwhelming," citing the ALJ's findings that respondents' total domestic sales for the year following the consent order were approximately [], and that Tridus' total sales of magnets of the types found by the Commission to have been sold in violation of the consent order amounted to approximately [].⁵⁵ According to the IA, a civil penalty "in the range of \$500,000 to \$1,500,000 would likely serve as a significant deterrent to future violations."⁵⁶

C. Discussion

1. The Appropriate Penalty Amount

As indicated above, section 337(f)(2) authorizes imposition of "a civil penalty . . . of not more than the greater of \$100,000 or twice the domestic value of the articles entered or sold" on each day for which a violation of the relevant order was found to have occurred.

⁵⁴ *Id.* at 9-10.

⁵⁵ See Office of Unfair Import Investigations' Comments on the Issues of Remedy, Bonding, and the Public Interest ("IA's Remedy Brief") at 7, citing RD FF 20 and Post-Hearing Brief of Complainant Crucible Materials Corporation, Exhibit 2; Office of Unfair Import Investigations' Reply Brief on Remedy, the Public Interest, and Bonding ("IA's Remedy Reply") at 3.

⁵⁶ *Id.*

The Commission has indicated a preference for a daily penalty, as opposed to a penalty based on the domestic value of 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.”⁵⁷ No party has argued that the domestic value of the articles sold on any given day would make the maximum daily penalty of \$100,000 insufficient to serve as a deterrent to violation. Moreover, the ALJ did not find any instance where the domestic value of infringing articles would approach \$100,000 for any given violation day.⁵⁸ Accordingly, we agree with the ALJ that a daily penalty is appropriate, rather than a penalty based on domestic value of infringing products.

To establish the penalty amount, we have relied on the same six-factor analysis that was applied in *EPROMs*. We note that in *EPROMs* the parties were in agreement that the use of the FTC’s multi-factor analysis for establishing the amount of civil penalties was an appropriate basis for establishing penalties in the context of a Commission enforcement proceeding. The Commission concluded that while it was not required to utilize the FTC analysis, the FTC factors “amply flesh out the issues raised in the legislative history of subsection 337(f)(2) for the Commission’s consideration in determining the appropriate amount of a civil penalty.”⁵⁹ The legislative history provides that:

[t]he Commission would exercise the discretionary authority provided with respect to deciding upon the appropriate size of any penalty under this section so as to insure the deterrent effect of its order while taking into account such factors as intentional versus

⁵⁷ *EPROMs*, Comm’n Op. at 26.

⁵⁸ RD at 83.

⁵⁹ *Id.*

unintentional violations and the public interest.⁶⁰

Here, the parties litigated this question, and the ALJ rendered his determination, using the multi-factor analysis applied in *EPROMs*. Accordingly, for purposes of this enforcement proceeding, we have determined to apply this analysis in establishing the civil penalty. We note, however, that we have used the FTC factors only as a framework to guide the exercise of our discretion to impose an appropriate penalty amount that takes into account the three overarching considerations enumerated by Congress in the legislative history, *viz.*, the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest. We do not intend, by application of this framework in this case, to foreclose consideration of a modified analytical framework for establishing civil penalties in future cases.

a. Good faith

We have adopted the ALJ's finding that respondents acted in bad faith in complying with the consent order. Respondents' [] did not begin until some time after the enforcement proceeding was instituted, although they had by that time taken some preliminary steps to comply with the consent order and to avoid infringement of the '439 patent.⁶¹ Indeed, while respondents eventually [], the fact remains that in the

⁶⁰ H.R. Rep. 317, 96th Cong., 1st Sess. 191 (1979); S. Rep. 249, 96th Cong., 1st Sess. 262 (1979).

⁶¹ The ALJ found that [

]. See FF 134, FF 135.

interim between their initial efforts [

], respondents continued to import and sell infringing magnets. The record reveals that respondents sold significant quantities of infringing magnets on a total of 31 days during the 12 months covered by the Commission's enforcement proceeding.⁶² Indeed, [

].⁶³

Thus, while respondents demonstrated some appreciation of the terms of the consent order and made some efforts [] in order to comply with the order, they [

].

Moreover, the bulk of respondents' compliance efforts occurred after the Commission initiated the instant enforcement proceeding.⁶⁴ Accordingly, we believe that the ALJ's conclusion that respondents acted in bad faith is well-founded.

By unilaterally proposing and subsequently entering into the consent order, respondents undertook not to import or sell infringing magnets as of the effective date of the

⁶² See Notice of Commission Determination Concerning Violation of Consent Order; Denial of Request for Oral Argument; and Schedule for the Filing of Written Submissions on Remedy, the Public Interest, and Bonding (April 8, 1997).

⁶³ RD at Table 5.

⁶⁴ Indeed, respondents state that []. Respondents' Comments at 78, 82. As indicated above, Crucible brought its enforcement proceeding complaint about five months after the consent order issued.

consent order. They had an affirmative duty to take “energetic steps” to do “everything in [their] power” to assure compliance with that order.⁶⁵ We agree with Crucible that, by promising to refrain from importing and selling infringing magnets, respondents were under a duty not only not to cross the line of infringement, “but to stay several healthy steps away.”⁶⁶ This rule applies with greater force where respondents unilaterally proposed and entered the consent order unprepared to comply with its terms, thereby forcing the domestic industry to again seek redress at the Commission through this enforcement proceeding.

The degree to which a respondent takes steps on its own initiative to assure compliance affects the judgment as to what penalty is necessary to induce a sufficiently vigilant posture.⁶⁷ Accordingly, respondents’ bad faith in complying with the consent order militates in favor of a substantial penalty. As the Commission stated in *EPROMs*, respondents’ “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 order in this case, 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.”⁶⁸

⁶⁵ *United States v. Phelps-Dodge Industries, Inc.*, 589 F. Supp. 1340, 1363 (S.D.N.Y. 1984); see also *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 n.8 (Fed. Cir. 1983), cert. denied, 464 U.S. 996 (1983) (“the burden of avoiding infringement at the risk of contempt falls upon the one enjoined.”).

⁶⁶ Cf. *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 785 F.2d 1013, 1016 (Fed. Cir. 1986) (general rule is for an enjoined party to “keep a safe distance from the margin line”).

⁶⁷ *Phelps-Dodge*, 589 F. Supp. at 1363.

⁶⁸ *EPROMs*, Comm’n Opinion at 29.

b. Public harm

We do not adopt the ALJ's analysis of this factor. The focus of the FTC's inquiry under this factor is not whether imposition of the penalty under consideration would harm the public, but rather whether the violations of the consent order (in this case, importations and sales of infringing magnets) have harmed the public.⁶⁹ Because the Commission's mandate in section 337 investigations (protecting domestic industries from unfair practices in import trade) differs from that of the FTC (upholding various consumer protection laws), we believe it appropriate to focus on the harm to the domestic industry rather than harm to the public at large in applying this factor. The harm to the domestic industry can be measured in terms of respondents' unlicensed sales.⁷⁰ In this case, as discussed below, we are of the view that the significant importations and sales of infringing magnets by the enforcement respondents have harmed complainant Crucible, and by extension, the public. Accordingly, this factor supports the imposition of the recommended penalty.

c. Respondents' ability to pay

As discussed below, we have adopted the ALJ's recommendation and found respondents jointly and severally liable for payment of the civil penalty. In examining respondents' ability to pay, we have therefore examined the evidence regarding respondents'

⁶⁹ See, e.g., *United States v. Central Adjustment Bureau, Inc.*, 667 F. Supp. 370, 385 (N.D. Tex. 1986).

⁷⁰ *EPROMs* (Commission Opinion) at 25; see also *EPROMs*, (Recommended Determination) at 107. Although Crucible likely would not have obtained all of respondents' sales in violation of the consent order, it is reasonable to assume that Crucible would have captured a significant portion of those sales.

assets and sales.⁷¹ In this regard, we note that the ALJ found that Tridus' total sales of subject magnets from October 10, 1995 through October 10, 1996, were approximately [], and that approximately [] of those sales were in the United States.⁷² In addition, there is evidence that the value of Tridus' inventory as of July of 1996 (when discovery closed) was approximately [].⁷³

With respect to foreign respondent San Huan, the ALJ found that (1) San Huan owns an interest in several major facilities in China that produce magnets that infringe Crucible's patent, including an interest in respondent Ningbo;⁷⁴ (2) San Huan is associated with the Chinese Academy of Sciences and the Chinese Government;⁷⁵ (3) San Huan owns interests in [] facilities for manufacturing neodymium-iron-boron magnets in China;⁷⁶ and (4) [].⁷⁷

With respect to respondents' assets, the ALJ also found that respondents []

⁷¹ See *United States v. Louisiana-Pacific Corp.*, 554 F. Supp. 504 (D. Ore. 1982), *rev'd on other grounds*, 754 F.2d 1445 (9th Cir. 1985), 1990-2 Trade Cas. (CCH) ¶ 69,166, 1990 WL 138533 (D. Or. Aug. 16, 1990), *affirmed* 967 F.2d 1372 (9th Cir. 1992).

⁷² FF20, citing Moon RX-183 at Q. 16, 17.

⁷³ RX-187 (Moon W.S.) Q. 7, 16-17; CX-538.

⁷⁴ FF3, citing IDFF 39-40.

⁷⁵ FF6, citing IDFF 36-37. We note that IDFF 36 states "San Huan is [] by the Chinese Academy of Sciences (CX-365, Response to Int. No. 41(c))." IDFF 37 further states that "[t]he Chinese Academy of Sciences is under the jurisdiction of the Central Government of the People's Republic of China."

⁷⁶ FF7, citing IDFF 39.

⁷⁷ FF13 IDFF 48; Wang RX-187 at Q. 11.

respondents [].⁷⁸ The record reveals that
[].⁷⁹ The ALJ also found that respondents
[].⁸⁰

Finally, the ALJ found that respondents [

].⁸¹ [

].⁸² In addition, respondents have stated that they [

].⁸³ Respondents' witness at the evidentiary hearing in this
enforcement proceeding also testified that respondents [

].⁸⁴ Based on the foregoing, we
conclude that respondents collectively have the ability to pay the recommended penalty.

⁷⁸ FF136, citing RX-24; RX-26; Wang RX-187 at Q. 129; Jones RX-188 at Q. 83.

⁷⁹ RX24 at R00192.

⁸⁰ FF137, citing Jones RX-188 at Q. 83; Wang RX-187 at Q. 187; RX-27 at R03002, R03005-06, R03015-16, R03038-57.

⁸¹ FF138, citing RX-29 at [sic]; Wang RX-187 at Q. 138-41; Moon, RX-183 at Q. 128-129.

⁸² RX-29 at R03044.

⁸³ Respondents' Comments on the RD at 84-85.

⁸⁴ Tr. 430

d. The extent of respondents' benefit from sales in violation of the consent order

We have examined the record evidence relating to this factor in an effort to ensure that the penalty amount is not disproportionate to the extent of the benefit derived by the respondents from their violations of the order. We do not believe that this factor requires the Commission to establish with precision the extent of the benefit derived by respondents. Rather, we have considered this factor with a view to determining the general order of magnitude of the infringing conduct. We also recognize that there are several means by which benefit can be evaluated.⁸⁵ Given that respondents should not have made any sales in violation of the order, we think at least one appropriate measure of the benefit is the value of the sales made in violation of the order.

There are several types of record evidence bearing on the extent of respondents' sales of magnets in violation of the consent order. First, respondents admitted to having imported [] of infringing magnets.⁸⁶ Respondents based this figure on the import value of all the magnets that they admitted were sold in violation of the consent order.⁸⁷ Respondents argued that this figure represents the extent to which they have benefited from violating the consent order.

⁸⁵ See, e.g., *United States v. Reader's Digest Association, Inc.*, 494 F. Supp. 770, 772 (D. Del. 1980), *affirmed*, 662 F.2d 955, 967 (3d Cir. 1981)(measuring extent of benefit to violator in terms of gross subscription revenue); *United States v. Louisiana-Pacific Corp.*, 554 F. Supp. 504 (D. Or. 1982), *rev'd on other grounds*, 754 F.2d 1445 (9th Cir. 1985), 1990-2 Trade Cas. (CCH) ¶ 69,166, 1990 WL 138533 (D. Or. Aug. 16, 1990), *affirmed* 967 F.2d 1372 (9th Cir. 1992)(considering earnings as measure of extent to which violator benefited.)

⁸⁶ RD at 81; Respondents' Submission on Remedy at 5.

⁸⁷ Respondents' Comments on the RD at Exhibits L and M.

In our view, respondents' figure greatly understates the extent of their sales in violation of the consent order. First, respondents' figure is limited to magnets that they admitted were sold in violation of the consent order. We have previously found that there were significant additional sales of infringing magnets beyond those admitted to by respondents. In addition, respondents rely on the purported import value of the accused magnets when comparing the value of the goods to the recommended penalty. We have relied instead on the sales value of the imported goods, since that figure better reflects the effect of respondents' infringing sales in the U.S. market.⁸⁸ Finally, as the IA noted, we have found violations of the consent order based on the days when a particular infringing shipment was received by respondents' U.S. affiliate or by one of respondents' U.S. customers, not on the day of importation.

There is other evidence in the record regarding the value of respondents' sales in violation of the consent order. All of the magnets offered into evidence in the enforcement proceeding were grouped for testing by size, grade, date, and magnet type. The parties agreed that this grouping and testing was the best method for assessing whether a particular magnet sold on a particular date violated the consent order. Both sides generally tested several samples from each magnet and recorded the chemical composition of each sample. Based on expert testimony for both complainant and respondents to the effect that the average of the multiple test results for a single magnet is the best estimate of the true value of a given magnet's oxygen content, the ALJ considered the average of all readings for a single magnet

⁸⁸ We note that respondents violated the consent order both by importing and by selling in the U.S. their infringing magnets. Thus, under the terms of the consent order respondents infringing magnets should not have been present in the domestic market.

in reaching conclusions regarding infringement.⁸⁹

Complainant Crucible proffered a summary, for the 35 magnet sizes/grades it tested, of the total amount of sales by respondents of each magnet size/type for which one or more magnets of that size/type had an infringing oxygen reading.⁹⁰ Thus, this summary compiles respondents' total sales for each magnet type for which the Commission found at least one violation of the consent order. Based on Crucible's tabulation of respondents' sales set forth in this summary, the IA estimated that the total level of sales associated with magnet types found by the Commission to result in violation days is approximately [].⁹¹

There is, however, a shortcoming in the IA's estimate (based on Crucible's tabulation) which he recognized and which leads us to believe that the IA's estimate does not capture the true value of the magnets alleged to violate the consent order. In particular, the IA's estimate assumes that if one magnet of a particular size and grade infringes, then all other magnets of that same size and grade infringe whether or not they are in the same batch or shipment. However, the ALJ expressly declined to make this assumption, and the Commission adopted that finding. Specifically, the ALJ stated that two magnets made from the same production run could have different oxygen contents, and that different magnets from different lots are expected to have different oxygen contents.⁹² He also found that

⁸⁹ RD at 34, n. 21.

⁹⁰ Crucible's Proposed Findings of Fact and Conclusions of Law at Exhibit 1. Crucible compiled such information from respondents' shipping and sales invoices obtained in discovery.

⁹¹ IA's Brief on Remedy at 7.

⁹² RD at 85-86 citing IDFF 119-121.

Crucible's testing confirmed that certain magnets may have infringing oxygen levels, while other magnets of the same size and grade may have non-infringing oxygen levels.⁹³ Thus, the ALJ determined that he could not conclude that different manufacturing lots having the same size and grade also have the same oxygen contents.

Nevertheless, we believe that the value of the sales in violation of the consent order is considerably greater than the [] asserted by respondents. Respondents have argued that the "according to Crucible's own test results, over 80% of respondents' magnets are non-infringing," *i.e.*, less than 20 percent were infringing. Respondents included within the non-infringing category magnets that Crucible's test results indicated were non-infringing, as well as magnets produced in discovery but on which Crucible did not conduct tests.⁹⁴ However, respondents' own evidence reflects that of those magnets that Crucible tested, []⁹⁵

We think it is reasonable to use this percentage to estimate the total value of magnets sold by respondents in violation of the consent order. In this regard, we think that Crucible made a good faith effort to prove the extent of respondents' violation of the consent order. Crucible was not required, in our view, to test every magnet sold by respondents.⁹⁶ Given

⁹³ *Id.*, citing FF 110.

⁹⁴ *See* Respondents' Comments on the RD at 76-77, Exhibit G; Respondents Comments on Remedy at 10.

⁹⁵ *See* Respondents' Comments on the RD at Exhibit G (Attachment 2). Respondents' exhibit reveals that []

⁹⁶ This is particularly the case where respondents unilaterally proposed and entered the consent order but did not make a good faith effort to comply. Indeed, we reiterate that the ALJ found that respondents' efforts to comply did not begin in earnest until after Crucible

the abbreviated discovery period and the fact that respondents often shipped their magnets to customers without maintaining samples for testing, Crucible could not be expected to have test data on a magnet from each lot shipped to the United States or sold to a U.S. customer since October 10, 1995, when the consent order became effective. Nevertheless, the record demonstrates that Crucible tested a substantial and clearly representative share of respondents' magnets.

In these circumstances, we think it reasonable to conclude that of the [] in sales of magnet size/types where at least one such magnet was found to have infringed, about [], of those magnets actually infringed and were sold in violation of the consent order.⁹⁷ Thus, the evidence reflects that respondents derived substantial benefits from their violations of the Commission's order. We conclude that the evidence relating to this factor supports the imposition of the recommended penalty.

e. Vindication of the Commission's authority

As was the case in *EPROMs*, we believe a significant penalty is necessary to vindicate the Commission's authority, particularly in light of the ALJ's finding that respondents did not act in good faith in attempting to comply with the consent order.⁹⁸ We believe this finding to

filed its enforcement complaint.

⁹⁷ We also note that respondents have obtained additional competitive advantages as a result of their sales in violation of the consent order. For example, many of respondents' imports in violation of the consent order were [

]. Respondents were able to enter these transactions in part because they could import the infringing magnets without interference from Customs, which, under the general exclusion order issued in this investigation, was testing magnets from all other sources. Respondents also derived certain intangible benefits from their sales in violation of the consent order, including good will.

⁹⁸ See *EPROMs*, Comm'n Opinion at 29.

be even more compelling in light of the fact that, as previously noted, respondents unilaterally proposed the consent order. This is not a case where respondents were subjected to a Commission order by default or even after fully participating in the investigation. Rather, respondents here actively induced the Commission to permit them to avoid significant further litigation costs and to import free of interference by the Customs Service.⁹⁹ Thus, while the Commission generally has an interest in vindicating its authority where one of its orders is violated, that interest is particularly strong in the circumstances of this case.

f. The public interest

Finally, as indicated above, the Commission is directed to consider the public interest when determining a civil penalty.¹⁰⁰ The imposition of the penalty recommended by the ALJ would not raise any significant public interest concerns. Rather the public interest favors the protection of U.S. intellectual property rights and therefore militates in favor of a significant penalty.¹⁰¹ In addition, as the IA argued, “the public interest favors respect for Commission consent orders.”¹⁰² Indeed, the 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.

⁹⁹ In so doing, respondents made it more difficult and costly both for the domestic industry and for the Commission to detect any violations of its order.

¹⁰⁰ H.R. 317, 96th Cong., 1st Sess. at 191 (1980).

¹⁰¹ Commission Opinion on Remedy, the Public Interest, and Bonding at 14 (April 29, 1996).

¹⁰² IA’s Remedy Comments at 10-11.

2. Conclusion

Based on a balancing of the foregoing factors, particularly the fact that respondents made some, albeit belated, efforts to comply with the Commission's order, we have concluded that the maximum daily penalty of \$100,000 is not warranted in this case. However, we believe that all of the factors discussed above support the recommended penalty of \$50,000 for each violation day. We also agree with the ALJ that because of the interrelationships among San Huan, Ningbo, and Tridus, the penalty should be imposed on the three respondents collectively.¹⁰³ Accordingly, we have decided to impose a civil penalty in the amount of \$50,000 a day for each of the 31 violation days, for a total penalty of \$1.55 million. Under the Commission's order, San Huan, Ningbo, and Tridus are jointly and severally liable for the payment of this civil penalty.¹⁰⁴

III. RESPONDENTS' CONSTITUTIONAL CHALLENGE TO THE RECOMMENDED CIVIL PENALTY¹⁰⁵

A. The Parties' Comments

Respondents argued that the civil penalty recommended by the ALJ (\$1.625 million) would violate both the Excessive Fines Clause and the Due Process Clause of the U.S.

¹⁰³ We note that all three entities participated in both the underlying section 337 investigation and the instant enforcement proceeding. In addition, in the consent order stipulation, respondents stipulated that the Commission has *in personam* jurisdiction over all three entities. Consent Order Stipulation at ¶ 1; Consent Order at ¶ 1. Finally, section 337(f)(2) authorizes the imposition of civil penalties on "any person" who violates the relevant Commission remedial order. 19 U.S.C. § 1337(f)(2).

¹⁰⁴ Joint and several liability means that "each individual [entity] remains responsible for payment of the entire liability, so long as any part is unpaid." *United States v. Scop*, 940 F.2d 1004, 1010 (7th Cir. 1991) (citations omitted).

¹⁰⁵ Commissioner Crawford does not join this section of the Commission's opinion. Her views on this subject accompany the opinion.

Constitution.¹⁰⁶ In particular, respondents contended that the recommended civil penalty is punitive and is not solely remedial in nature, and therefore is subject to the Eighth Amendment's prohibition against the imposition of "excessive fines."¹⁰⁷ Alternatively, respondents argued that imposition of the recommended civil penalty would violate the Due Process Clause of the Fifth Amendment.¹⁰⁸ Respondents submitted that any civil penalty exceeding twice the value of the goods found to violate the consent order would be constitutionally excessive. Accordingly, respondents asserted that the ALJ's recommended civil penalty of \$1.625 million, and presumably the Commission's penalty of \$1.55 million, is excessive in light of the [] entered value of the infringing magnets that respondents admitted to selling.

Crucible argued that respondents' constitutional challenges to the civil penalty recommended by the ALJ are not properly before the Commission because they were not timely raised.¹⁰⁹ Crucible further contended that respondents' arguments constitute an impermissible collateral attack on the validity of the consent order in light of the fact that the consent order provides that its enforcement will be carried out pursuant to Subpart I of Part 210 of the Commission's rules, which, as noted above, specifically contemplates the

¹⁰⁶ Respondents' Comments at 98-102, citing *United States v. Gilbert Realty*, 840 F. Supp. 71 (E.D. Mich. 1993). Respondents first asserted these constitutional arguments at the end of their closing argument on December 12, 1996, *i.e.*, after trial and after post-trial briefing. The ALJ did not address the arguments in his RD.

¹⁰⁷ Respondents' Comments at 98-99, citing *Austin v. U.S.*, 509 U.S. 602, 113 S. Ct. 2801 (1993).

¹⁰⁸ Respondents' Comments at 99-101, citing *BMW of North America, Inc. v. Gore*, 116 S. Ct. 1589 (1996).

¹⁰⁹ Crucible's Comments 72-76.

assessment of civil penalties in the amount of not more than the greater of \$100,000 or twice the domestic value of the involved articles for each day the order is violated.¹¹⁰ In addition, according to Crucible, even if respondents' arguments are considered, they are flawed because they are based on an inaccurate and incomplete valuation of the magnets found to have violated the consent order.¹¹¹ Finally, Crucible asserted that the cases cited by respondents do not relate to the enforcement of stipulated consent orders and therefore are inapposite.¹¹²

In the IA's view, assuming that either the Excessive Fines Clause of the Eighth Amendment or the Due Process Clause of the Fifth Amendment apply to the imposition of civil penalties under section 337, the amount of the civil penalty recommended by the ALJ (*i.e.*, \$1.625 million) "is not so large or disproportionate to the respondents' conduct as to be unlawfully excessive."¹¹³ Like Crucible, the IA takes issue with respondents' reliance on the purported import value of the accused magnets when comparing the value of the infringing goods to the penalties imposed. According to the IA, it is more appropriate to refer to the sales value of the goods, which is generally larger than the import value, since the former better reflects the effect of respondents' infringing sales in the U.S. market. The IA argued that, while respondents have admitted to sales of "at least approximately []" in infringing magnets, they actually sold domestically [] of

¹¹⁰ *Id.*

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ IA's Comments at 31.

infringing product during the period covered by the enforcement proceeding.¹¹⁴

B. Discussion

The Eighth Amendment to the U.S. Constitution prohibits the imposition of “excessive fines.”¹¹⁵ The Excessive Fines Clause has been held to apply to civil proceedings and limits the government’s power “to extract payments as punishment.”¹¹⁶ Civil sanctions imposed for violations of Commission consent orders arguably constitute “punishment” subject to the Eighth Amendment in that they are not intended solely for remedial purposes, but also for punitive or deterrent purposes.¹¹⁷ In applying the Excessive Fines Clause, the appropriate inquiry is whether the fine is “excessive” given the nature and extent of the offense.¹¹⁸ The Due Process Clause has been invoked to nullify punitive damage awards that are “grossly excessive.”¹¹⁹ A punitive damages award must bear a “reasonable relationship” to the harm likely to result from the defendant’s conduct, as well as the harm that actually has occurred.¹²⁰

We do not believe that respondents’ constitutional challenges have merit because our

¹¹⁴ IA’s Comments at 25-27, citing Exhibit 3 to the Proposed Findings Of Fact And Conclusions Of Law Of Complainant Crucible Materials Corporation, filed on November 19, 1996; IA’s Reply at 7-16.

¹¹⁵ U.S. Const., Amdt. 8.

¹¹⁶ *Austin v. United States*, 509 U.S. 602, 609-10 (1993).

¹¹⁷ *Id.*

¹¹⁸ *United States v. One Parcel Property*, 74 F.3d 1165, 1172 (11th Cir. 1996).

¹¹⁹ *See, e.g., BMW of North America, Inc. v. Gore*, 116 S.Ct. 1589 (1995) (*BMW*).

¹²⁰ *Id.* at 1598.

penalty of \$50,000 per violation day (\$1.55 million) is commensurate with respondents' overall level of infringing sales and therefore is not excessive.¹²¹ Since the total sales of magnets of the type found by the Commission to violate the consent order were approximately [] (and may have exceeded that amount), a penalty of \$1.55 million is not disproportionate to the volume of infringing commerce involved.¹²² In this respect, respondents point to the entered value of sales which they admitted were sold in violation of

¹²¹ We do not consider respondents' constitutional challenges to be untimely, as urged by Crucible. In the first instance, respondents could not raise such a challenge until the ALJ recommended a specific civil penalty amount. Moreover, in our view, respondents should be permitted to raise constitutional challenges to the Commission in their comments on the RD, regardless of whether such a claim was made before the ALJ. We also do not view these arguments to as constituting an impermissible collateral attack on the consent order, as Crucible has argued.

¹²² In each of the Eighth Amendment cases cited by respondents, the courts engaged in a case-by-case assessment of whether the particular fine imposed was proportionate to the underlying offense. *See, e.g., United States v. One Parcel of Property*, 74 F.3d 1165, 1172 (11th Cir. 1996). These cases accord with the general principle that "the [E]ighth [A]mendment prohibits only those [fines] that, in light of all relevant circumstances, are grossly disproportionate to the offense committed." *United States v. Monroe*, 866 F.2d 1357, 1366 (11th Cir. 1989). Thus, to the extent these cases are pertinent to the instant proceeding, they do not conflict with the conclusion reached herein.

The remaining cases cited by respondents deal with the application of the Due Process Clause to "excessive" awards of punitive damages in suits for civil damages and therefore are inapplicable to the enforcement of Commission consent orders. Indeed, the Commission has a compelling need to vindicate its authority and uphold the integrity of its remedial orders, a need that is not present in the case of private parties seeking to recover from tortfeasors. We note, however, that courts in punitive damages cases have upheld awards of up to ten times the actual damages proven. *See, BMW*, 116 S.Ct. 1589 (permitting punitive damage awards of four to ten times the amount of harm suffered by plaintiff in cases involving commercial litigation); *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443 (1993) (punitive damages award of 10 times the amount of harm resulting from the defendant's conduct upheld). In *EPRoMs*, where the Commission found violation of a cease and desist order, the civil penalty imposed was approximately six times the value of the allegedly infringing goods. *EPRoMs*, Commission Opinion at 23, 28.

the consent order in arguing that the recommended penalty is disproportionate to that value. As we previously found, there were significant additional sales of infringing magnets beyond those admitted to by respondents. Moreover, we agree with the IA that sales value is a more appropriate measure of the benefit to respondents resulting from their infringing activities, since that figure represents the total revenue generated to respondents as a result of their sales of infringing product.¹²³ Thus, respondents' benchmark of [] for assessing whether the recommended penalty is "excessive" is inappropriate. Under the circumstances, a civil penalty in the amount of \$1.55 million, or roughly [] the sales value of the goods sold in violation of our order, is not excessive in light of the record in this case.¹²⁴ Accordingly, we do not believe that our penalty is precluded by the Excessive Fines Clause or the Due Process Clause.

¹²³ We also agree with Crucible and the IA that respondents have inappropriately compared the ALJ's recommended penalty amount (of \$50,000 per day) only to selected small transactions in raising their constitutional challenge. See Table 5 to Respondents' Reply to CPFF ("Summary Of Respondents' Import Data"); Resp. Comments at Exhibits L and M. As the IA noted, the record contains evidence of other transactions for which the recommended penalty is only [] of infringing product. Compare RD at 88-89, Table 5 with Exhibit 3 to Crucible's Proposed Findings of Fact and Conclusions of Law.

¹²⁴ We note also that Congress presumably did not view penalties of this magnitude to be excessive in light of the fact that it provided for a maximum fine of \$100,000 per violation day and has indicated that "[t]he Commission would exercise the discretionary authority provided with respect to deciding upon the appropriate size of any penalty under this section."

H.R. Rep. 317, 96th Cong., 1st Sess. 191 (1979); S. Rep. 249, 96th Cong., 1st Sess. 262 (1979).

IV. REVOCATION OF THE CONSENT ORDER AND ISSUANCE OF ALTERNATIVE REMEDIAL ORDERS

A. The RD's Discussion

As discussed more fully below, the IA argued that the consent order should be revoked and replaced by a limited exclusion order directed to foreign respondents San Huan and Ningbo and a cease and desist order directed to domestic respondent Tridus.¹²⁵ In the RD, the ALJ noted that the IA's proposed remedial orders, including provisions for testing by Customs, certification, and reporting would reduce the likelihood of any further enforcement proceedings.¹²⁶ However, the ALJ did not recommend that the consent order be revoked and replaced by a limited exclusion order and a cease and desist order, stating that --

in view of the arguments of the complainant and the respondents with respect to the [IA's] proposal, the language of paragraph (7) of the Consent Order which states that the respondents 'shall be excluded from any further remedial action taken by the Commission in this investigation,' and the language of the Commission Order which requested the issuance of a recommended determination which was limited to whether the respondents 'have violated the consent order' and if so 'what enforcement measures, if any, are appropriate.'¹²⁷

B. The Parties' Comments

The IA argued that respondents "have been given the opportunity to show that they will comply with the consent order and avoid infringement of the '439 patent," but have failed to so comply.¹²⁸ He further argued that respondents' "noncompliance has been more

¹²⁵ See generally, IA's Comments at 54-55.

¹²⁶ RD at 71, n. 51.

¹²⁷ *Id.*

¹²⁸ IA's Comments at 54.

than merely a token or faultless transgression.”¹²⁹ He concluded that it is appropriate in these circumstances to subject respondents to the same type of remedial orders imposed on all other producers and sellers of subject magnets. Specifically, the IA asserted that the Commission should revoke the consent order and replace it with a permanent limited exclusion order directed to respondents San Huan and Ningbo and a cease and desist order directed to domestic respondent Tridus.¹³⁰

According to the IA, any cease and desist order issued should contain the reporting requirements customarily included in Commission cease and desist orders. He also argued that, in light of respondents’ failure to engage in sufficient testing of their products, the cease and desist order should include an additional requirement that the results of periodic oxygen content tests of magnets sold by Tridus be submitted to the Commission in order to enable the Commission to monitor compliance with the cease and desist order.¹³¹ The IA suggested that Tridus be required to submit these test results together with each inventory and sales report required by the cease and desist order.¹³²

¹²⁹ *Id.*

¹³⁰ IA’s Comments at 54-55.

¹³¹ IA’s Remedy Comments at 8-10

¹³² *Id.* The IA submitted that the required tests should be performed on samples of a number of magnet sizes and types sold to customers in the applicable reporting period. The tested sizes and types would include at least 4 of the 10 best selling magnet sizes and types in the reporting period. The tests results would be performed by a testing facility that is not associated with respondents and which is subject to the Commission’s jurisdiction for purposes of enforcing a subpoena for production of documents. Finally, the test results would be accompanied by a certification that the specific magnet samples tested were randomly taken from shipments of magnets imported into the United States during the reporting period or from shipments of magnets from which sales in the United States were made during the reporting period, and that the test facility and procedures utilized are, to the

Crucible stated that the continued existence of the consent order, with its threat of substantial monetary sanctions, remains the best vehicle to ensure that respondents will respect Crucible's patent.¹³³ Crucible argued that replacing the consent order with other types of remedial orders is not likely to reduce the level of respondents' infringement. Only the threat of severe civil penalties for continued violations of the consent order, Crucible argued, will ensure that respondents will take the steps necessary to avoid further infringement of Crucible's patent. According to Crucible, "releasing respondents from their promise to refrain from importing and selling infringing magnets will merely create a further incentive for them to infringe Crucible's patent."¹³⁴

In particular, Crucible urged that the Commission maintain the existing consent order because, without the consent order in place, San Huan and Ningbo can continue to ship infringing magnets to Tridus or to some newly-appointed U.S. importer with impunity. In addition, Crucible contended that, should infringing imports enter the United States despite the best efforts of Customs to detect such imports and deny them entry, the Commission will be powerless to sanction either San Huan or Ningbo for their actions. According to Crucible, the orders proposed by the IA additionally fail to give Crucible all of the rights and safeguards set forth in the consent order, such as respondents' promise to refrain from

best of respondents' knowledge, capable of producing accurate and reliable measurements of oxygen content in neodymium-iron-boron magnets.

¹³³ Crucible's Comments at 79; Written Submission of Complainant Crucible Materials Corporation on Remedy, Bonding, and the Public Interest and Petition for Reconsideration Regarding Infringement under the Doctrine of Equivalents ("Crucible's Remedy Comments") at 13-14.

¹³⁴ Crucible's Remedy Comments at 14.

importing downstream products containing infringing magnets and their promise to refrain from challenging the validity or enforceability of Crucible's patent in subsequent proceedings.¹³⁵

Crucible further argued that the burden to the Commission of maintaining the consent order could be minimized inasmuch as any future enforcement proceedings "can be adjudicated in a summary fashion."¹³⁶ It contended that the Commission can further reduce the need for enforcement proceedings by modifying the consent order to authorize additional oxygen content testing by Crucible on samples to be obtained randomly by Customs.¹³⁷ Crucible also stated that, given respondents' status as the largest manufacturer of Chinese rare earth magnets, the proposed exclusion order will only increase the burden on Customs.

Finally, Crucible argued that, should the consent order be revoked, Tridus should be subject to a cease and desist order. According to Crucible, [

].¹³⁸ In

addition, since there is no assurance that the proposed sampling and testing by Customs will necessarily detect and prevent the importation of *all* infringing magnets, the Commission should have some means of deterring Tridus from selling any infringing magnets which are presently in its possession or which may subsequently come into its possession.¹³⁹

¹³⁵ Crucible's Remedy Comments at 16.

¹³⁶ Crucible's Remedy Comments at 14.

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.* at 13-14. Crucible argued that, for a variety of reasons, the IA's proposed testing procedures would be inadequate to ensure compliance. Instead of adopting the IA's

Respondents stated that revocation of the consent order is unnecessary because “respondents have attempted to, and will continue to attempt to, comply in good faith with the consent order.”¹⁴⁰ They argued that the consent order should remain in place because they have taken measures to further reduce the oxygen content of their magnets, including [

].¹⁴¹ In addition,

respondents contended that they have commenced [].

Finally, respondents argued that any potential benefits of an exclusion order are outweighed by the burden on respondents, their U.S. customers, and Customs.¹⁴² For these reasons, they argued, it is not necessary to impose an exclusion order and/or a cease and desist order.¹⁴³

proposal, Crucible urged the Commission to require a random sampling procedure. It argued that respondents can circumvent the orders proposed by the IA by selecting “representative” magnet samples from a noninfringing shipment of a given magnet type during the reporting period, and thereafter ship infringing magnets of the same type during the same period. Finally, Crucible argued that the IA’s proposal is inadequate because, while it would require that some unaffiliated U.S. testing facility conduct the oxygen tests, such a facility could include Durkee Laboratories, Inc., whose testing procedures the Commission has found to be flawed in the enforcement proceeding. Crucible instead advocated that it be permitted to test respondents’ magnets since the Commission has already determined that Crucible’s testing procedures are thorough and accurate.

¹⁴⁰ Respondents’ Remedy Reply at 8; *see also* Respondents’ Reply Comments at 52, Respondents’ Remedy Reply at 6.

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ However, respondents opposed Crucible’s suggestion that if the consent order is not revoked, the Commission should nevertheless direct Customs to take samples of respondents’ magnets and submit them to Crucible for random testing. Respondents’ Remedy Comments at 9, Respondents Remedy Reply at 6-7. Respondents argued that Crucible cannot enjoy the benefits both of having the consent order remain in place and having Customs inspect respondents’ magnets and submit samples to Crucible. Furthermore, respondents contended

In the alternative, respondents stated that, if the Commission revokes the consent order, they have no objection to the form of the exclusion order proposed by the IA.¹⁴⁴ Respondents argued, however, that such an exclusion order would serve to fully protect Crucible's and the Commission's interests, and that a cease and desist order would be unnecessary and contrary to the public interest.¹⁴⁵ According to respondents, so long as their magnets have already been inspected by Customs, there is no reason to impose additional reporting and recordkeeping obligations on them with respect to sales of those magnets in the United States.

Respondents stated that, if the Commission determines that a cease and desist order is appropriate, the IA's proposed paragraph requiring the reporting of testing their magnets should not be included, since such a provision was not included in the cease and desist order directed to respondent Hennaco Excell, Inc.¹⁴⁶ Nevertheless, respondents stated that, if the

that the Commission does not have statutory authorization to direct such sampling of respondents' magnets by Customs.

¹⁴⁴ Respondents' Remedy Reply at 11. Respondents objected to Crucible's proposed extension of the exclusion and cease and desist orders to cover downstream products containing magnets on the grounds that the Commission held that there was no factual basis for an order covering downstream products in the original investigation and there is no evidence that respondents have subsequently imported or sold such products in the United States. Respondents' Remedy Reply at 7-8. In addition, respondents asserted that, for the reasons stated by the ALJ in the final ID and RD (on remedy and bonding) in the original investigation, an order covering downstream products would not be in the public interest because it would interfere with legitimate commerce and would be difficult to administer. Respondents noted that Crucible did not challenge that portion of the ALJ's RD in the original investigation. *Id.* They argued that there are no changed circumstances suggesting that a different result should obtain now.

¹⁴⁵ Respondents' Remedy Comments at 9.

¹⁴⁶ Respondents' Remedy Reply at 9.

Commission determines that reports of such tests should be included, the proposal of the IA “is not unreasonable.”¹⁴⁷ However, they submitted that the cease and desist order should include a provision that would relieve domestic respondent Tridus from any reporting requirements should respondents obtain a license under the ‘439 patent.¹⁴⁸

C. Discussion

Pursuant to Commission rule 210.75(b)(4), following a formal enforcement proceeding, the Commission can revoke or modify a consent order.¹⁴⁹ Under the

¹⁴⁷ *Id.* at 12.

¹⁴⁸ *Id.* According to respondents, this objective could be accomplished by adding to the end of the first paragraph of the IA’s proposed cease and desist order under Section V, “Reporting” the following language: “or unless, in a written instrument, Respondent obtains a license to sell products covered by claims 1, 2 or 3 of U.S. Letters Patent 4,588,439.” Similarly, respondents argued that, in Section IV of the IA’s proposed cease and desist order, “Crucible” should be replaced by “the owner of the ‘439 Patent.” According to respondents, while the proposed definition of “Crucible” includes “its successors and assigns,” referring in Section IV to “Crucible” could lead to some ambiguity or confusion in the event that Crucible sells its rights to the ‘439 patent. Finally, respondents urged that, as recited in the cease and desist order previously entered against Hennaco Excell and in accordance with Commission practice, a clause should be inserted in Section V providing that “Respondent’s reporting requirement hereunder shall cease if, in a timely filed report, Respondent shall report no sales of imported covered product during two (2) successive reporting periods and no remaining inventory of imported covered product.”

¹⁴⁹ Commission rule 210.75(b)(4) provides in pertinent part:

Upon conclusion of a formal enforcement proceeding under this section, the Commission may:

(i) Modify a cease and desist order, consent order, and/or exclusion order in any manner necessary to prevent the unfair practices that were originally the basis for issuing such order;

* * *

(iii) Revoke the cease and desist order or consent order and direct that the articles concerned be excluded from entry into the United States.

circumstances of this case, we have determined to revoke the consent order and issue a limited exclusion order directed to foreign respondents San Huan and Ningbo.¹⁵⁰ Based on evidence in the record showing that [

], we also have determined to issue a cease and desist order to Tridus.¹⁵¹ We agree with the IA that respondents, having been found to have acted in bad faith in failing to comply fully with the consent order, should no longer be able to avail themselves of the benefits of that order by continuing to import magnets for sale in the United States without examination by the U.S. Customs Service.¹⁵² Moreover, respondents have stated that they

19 C.F.R. 210.75(b)(4).

¹⁵⁰ Those respondents were expressly exempted from the existing permanent general exclusion order by operation of ¶ 2 of the exclusion order. In addition, ¶ 7 of the consent order stated that respondents “shall be excluded from any further remedial action taken by the Commission in this investigation.” Consequently, we amended the consent order to delete ¶ 7 and issued a permanent limited exclusion order that applies only to those respondents. We have revoked the consent order, as amended, effective on the date that the limited exclusion order becomes final (*i.e.*, is not disapproved by the President). No party has sought exclusion of an article from entry into the United States for purposes other than entry for consumption.

¹⁵¹ We have included a provision in Section V of the cease and desist order relieving Tridus of its reporting obligations in the event respondents obtain a license under the ‘439 patent, as respondents have urged. We also adopted respondents’ request to include in Section V a provision terminating Tridus’ reporting obligations in the event Tridus reports no sales of imported covered product during two (2) successive reporting periods and no remaining inventory of imported covered product, since such a provision generally is included in Commission cease and desist orders.

¹⁵² Thus, while a finding of violation of section 337, following a full APA hearing, generally is a predicate for the issuance of an exclusion order or a cease and desist order, by entering the consent order respondents waived any due process right to further participation in the underlying investigation. *See, e.g., United States v. Armour & Co.*, 402 U.S. 673 (1971) (“the defendant has, by the [consent] decree waived his right to litigate the issues raised, a right guaranteed to him by the Due Process Clause”). While a party “may expressly reserve in a consent order the right to litigate some or all issues that would have otherwise been barred between the same parties in some future proceeding, any such reservation must be

have changed their manufacturing process so as to no longer produce magnets with infringing oxygen content levels. If respondents have in fact [], the new remedial orders will have little impact on their business.¹⁵³

We have declined to accept Crucible's proposal that the remedial orders include paragraphs that would preclude respondents from challenging the validity or enforceability of the '439 patent in any subsequent administrative or judicial proceeding to enforce the exclusion order or cease and desist order. Such provisions typically are not included in Commission exclusion or cease and desist orders and were not included in the orders issued to the respondents that defaulted or otherwise did not participate in the original investigation. Such provisions are included in consent orders because such orders issue before a Commission finding of violation of section 337, a condition precedent to which is a finding -- explicit or implicit -- that the patent in issue is valid and enforceable. In those

discerned within the four corners of the consent decree, and cannot be expanded beyond the decree's express terms." *Epic Metals Corp. v. H.H. Robertson Co.*, 870 F.2d 1574, 1576-77 (Fed. Cir. 1989). Respondents did not expressly reserve the right to litigate any matters covered in the underlying investigation, such as the validity of the '439 patent or the Commission's interpretation of claims 1-3 of the '439 patent, when they entered the consent order. Instead, respondents expressly assented to an enforcement proceeding "carried out pursuant to subpart I of the Commission's Rules of Practice and Procedure, 19 C.F.R. Part 210." Consent Order at 2, ¶ 4. Such enforcement proceedings do not require an APA hearings. See 19 C.F.R. 210.75(b)(3); Consent Order at ¶ 4. Finally, in connection with the enforcement proceeding, the Commission found that respondents imported infringing magnets, a finding that is tantamount under the circumstances to a finding of violation of section 337.

¹⁵³ We also note that the burden on the Customs Service of enforcing a limited exclusion order directed to respondents would not be significant. Customs already has established a testing protocol and is testing imported magnet in administering the previously-issued general exclusion order. Conversely, the burden on the Commission of continued enforcement of the consent order could be substantial.

circumstances, respondents that enter into consent orders are estopped from challenging the validity and enforceability of the patent in issue. By entering the consent order and by fully litigating the enforcement proceeding, respondents here have given up the right to challenge validity and enforceability.¹⁵⁴ Consequently, the proposed language is unnecessary and inappropriate.

We also have declined to adopt Crucible's proposal to include provisions in the new remedial orders (*i.e.*, the limited exclusion order and cease and desist order) covering downstream products that contain infringing magnets. In our view, the reasons cited by the ALJ in his RD on remedy and bonding in the original investigation -- *i.e.*, Customs' difficulties in administering such an order, the disruption to legitimate commerce, and prior Commission precedent -- continue to militate against coverage of downstream articles.¹⁵⁵ There also is no evidence that respondents have imported into the United States, sold for importation, or sold after importation downstream products containing magnets alleged to infringe the '439 patent. For these reasons, such provisions would not be in the public interest.

Finally, we have declined to adopt the IA's proposal that the Commission require domestic respondent Tridus to submit periodic oxygen content test results to the Commission with each inventory and sales report required by the cease and desist order in order to enable the Commission to monitor compliance. We will rely on Customs' testing of imported

¹⁵⁴ See Inv. No. 337-TA-372, *Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same* (Enforcement), Order 38 (August 5, 1996) at 10-15.

¹⁵⁵ See original ID at 25-29; Commission Opinion on Remedy, the Public Interest, and Bonding, dated April 29, 1996, at 11, n.34.

magnets as we generally do in other cases. Post-importation testing of Tridus' inventory is therefore not necessary to ensure compliance with the Commission's exclusion order.

V. THE PUBLIC INTEREST

A. The Parties' Comments

Crucible argued that, in the event the Commission decides to revoke the consent order, none of the statutory public interest factors precludes issuance of the alternative remedial orders discussed above.¹⁵⁶ In particular, Crucible "is aware of no adverse effect that the grant of relief would have on the public health and welfare." According to Crucible, "the only effect on competitive conditions in the U.S. economy is the enforcement of intellectual property rights, the very object of Section 337."¹⁵⁷ Crucible "is aware of no adverse effect on the production of like or directly competitive articles in the United States nor of any adverse effect on United States consumers which might result from the grant of relief here," since those customers remain at liberty to purchase such magnets from Crucible, from its licensees, or from another noninfringing source.¹⁵⁸

Respondents argued that revoking the consent order and replacing it with an exclusion order would be contrary to the public interest, particularly where Crucible has not requested such relief.¹⁵⁹ They argued that an exclusion order would cause substantial delays in delivery of magnets to respondents' U.S. customers and would subject Customs to the significant

¹⁵⁶ Crucible's Remedy Comments at 17.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*; see also Crucible's Reply Comments at 53.

¹⁵⁹ Respondents' Remedy Comments at 11.

burden and expense of having to test the magnets.¹⁶⁰ According to respondents, any benefits of an exclusion order would be substantially outweighed by the adverse impact on respondents' U.S. customers, which depend upon the timely delivery of respondents' magnets, and the administrative burden on Customs of testing the magnets. For these reasons, respondents argued that issuance of an exclusion order and/or cease and desist order would have an adverse impact on the public interest.¹⁶¹

The IA submitted that entry of the proposed alternative remedial orders would not raise any public interest concerns.¹⁶² He pointed out that the Commission previously has found that neodymium-iron-boron magnets are not the type of product that has tended to raise public interest concerns in the past, and that the public interest favors the protection of U.S. intellectual property rights.¹⁶³ In addition, since the proposed exclusion order and cease and desist order prohibit essentially the same conduct that the Commission previously attempted to prohibit through the issuance of the consent order, the IA argued that there are no additional public interest concerns raised by conversion of the consent order into the proposed alternative remedial orders. Finally, the IA argued that "the public interest favors

¹⁶⁰ *Id.* at 12.

¹⁶¹ *Id.* Several of respondents' U.S. customers filed comments with the Commission generally arguing that the proposed alternative remedial orders would not be in the public interest because such orders would place an undue burden on them and could interfere with their ability to supply their customers in a timely fashion. *See, e.g.,* [

].

¹⁶² IA's Remedy Comments at 11-12.

¹⁶³ *Id.*

respect for Commission consent orders, and converting the consent order to the proposed [alternative] remedial orders in light of the demonstrated violations will indicate to parties subject to Commission consent orders that violations are not to be taken likely [sic, lightly].”¹⁶⁴

B. Discussion

Prior to issuing relief, the Commission is required to consider the effect of such relief on the public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive articles in the United States, and U.S. consumers.¹⁶⁵ We agree with Crucible and the IA that the issuance of a new permanent limited exclusion order directed to foreign respondents San Huan and Ningbo and a cease and desist order directed to domestic respondent Tridus would not adversely impact the public interest. As we previously found, the magnets at issue are not the type of product that has in the past raised public interest concerns (such as, for example, drugs or medical devices), and the public interest favors the protection of U.S. intellectual property rights.¹⁶⁶ The evidence also indicates that the domestic industry and its licensees can supply enough of the patented magnets to serve the U.S. market, and that other magnets with oxygen content below the level specified in the '439 patent can be used as replacements in certain applications. Finally, the burden on the federal government of maintaining a limited exclusion order and a cease and desist order is likely to be significantly less onerous than continued enforcement of

¹⁶⁴ IA's Remedy Comments at 10-11.

¹⁶⁵ 19 U.S.C. 1337(d).

¹⁶⁶ Commission Opinion on Remedy, the Public Interest and Bonding at 14 (April 29, 1996).

the consent order. We therefore believe that the statutory public interest factors do not preclude issuance of the above-discussed alternative remedial order in this investigation.

VI. THE APPROPRIATE BOND AMOUNT

A. The Parties' Comments

The IA argued that revocation of the consent order should be contingent upon Presidential approval of any exclusion order or cease and desist order, since it would be illogical to revoke the consent order without first determining that other remedial orders will become available to take its place.¹⁶⁷ Thus, the IA urged that respondents should remain subject to the terms of the consent order until the alternative remedial orders become final at the conclusion of the Presidential review period.¹⁶⁸ Accordingly, he argued that it is unnecessary to impose a bond on importations and sales during the Presidential review period since there should not be any such imports or sales so long as respondents continue to be subject to the consent order during that period.

Crucible agreed with the IA and argued that, so long as the consent order remains in place during the Presidential review period, no bond would be necessary.¹⁶⁹ Alternatively, Crucible argued that, insofar as the Commission set the bond at 100 percent of entered value in the original investigation and there is no reason to treat respondents in the enforcement proceeding any more leniently than those subject to the remedial orders issued at the conclusion of the original investigation, any bond now should likewise be set at 100 percent

¹⁶⁷ IA's Remedy Comments at 12-13.

¹⁶⁸ *Id.* at 13, citing *Certain Laser Inscribed Diamonds and the Method of Inscription Thereof* (Enforcement Proceeding), Inv. No. 337-TA-240, Commission Order (April 11, 1989).

¹⁶⁹ Crucible's Remedy Comments at 17-18.

of entered value.¹⁷⁰

B. Discussion

We agree with Crucible and the IA and have made our revocation of the consent order, as amended, contingent upon Presidential approval of the alternative remedial orders, thereby obviating the need for respondents to post a bond. We believe such a resolution to be most efficient for all concerned, including the Commission. We also believe that, notwithstanding respondents' previous violation of the consent order, such a procedure provides adequate protection for Crucible during the Presidential review period.

VII. CRUCIBLE'S REQUEST FOR ATTORNEYS' FEES

A. The Parties' Comments

Crucible argued that respondents' bad faith, and the Commission's need to deter future violations of the consent order, warrant an award, pursuant to rule 210.4, of the reasonable attorneys' fees and expenses incurred by Crucible in connection with instituting and participating in the enforcement proceeding.¹⁷¹ Crucible contended that the requested attorneys' fees are justified because, unless Crucible had been willing to incur the expense of bringing and litigating the enforcement action, respondents' violations of the consent order would never have come to light and would have continued unabated.¹⁷²

Respondents and the IA both argued that Crucible's request for attorneys' fees and

¹⁷⁰ *Id.* Respondents took no position on this issue. Respondents' Remedy Comments at 13.

¹⁷¹ Crucible's Comments at 25-30, Crucible's Remedy Comments at 11-12. In the RD, the ALJ denied this request without explanation. RD at 71 n.50. Crucible therefore requested that the Commission remand the case to the ALJ with directions to determine the amount of such fees and expenses.

¹⁷² *Id.*

expenses is procedurally defective and that Crucible has not shown that it is entitled to attorneys' fees and expenses pursuant to rule 210.4.¹⁷³ Both parties point out that Crucible's request did not conform to the Commission's rules in that Crucible did not file the appropriate motions required by Commission rules 210.4(d)(1)(i) and 210.25(a)(1). The IA also argued that Crucible's purported justifications for the request for attorneys' fees -- respondents' bad faith, the need to deter future violations by respondents, and the need to vindicate the Commission's consent orders -- are all encompassed within the *EPRoMs* factors for assessing the appropriate amount of civil penalties.¹⁷⁴ The IA submitted that the civil penalty provisions of section 337 are the appropriate means to accomplish those remedial goals and he therefore opposed Crucible's request for attorneys' fees.

B. Discussion

Commission rule 210.4(d) provides that sanctions, including monetary sanctions, may be imposed for violations of rule 210.4(c), which relates to the filing of false or misleading submissions with the Commission. Monetary sanctions may include some or all of the reasonable attorneys' fees and expenses "incurred as a direct result of the violation."¹⁷⁵ A request for sanctions "shall be made separately from other motions or requests and shall describe the specific conduct alleged to violate paragraph (c)."¹⁷⁶ Under the so-called "safe harbor" provision, the motion is not to be filed until the opposing party has been given seven

¹⁷³ See Respondents' Reply at 39-43; IA's Reply at 21-23.

¹⁷⁴ IA's Reply at 21-23.

¹⁷⁵ 19 C.F.R. 210.4(d)(2).

¹⁷⁶ 19 C.F.R. 210.4(d)(1)(i).

days to withdraw the alleged offending paper.¹⁷⁷ Specifically, Commission rule 210.25(a)(1) provides that a party “may file a motion for sanctions for abuse of process under § 210.4(d)(1),” which motion “should be filed promptly after the requirements of § 210.4(d)(1)(i) have been satisfied.”¹⁷⁸

We agree with respondents and the IA that Crucible’s request for attorneys’ fees is procedurally defective. Crucible did not file a motion for the award of such fees as the Commission’s rules require. Crucible also did not specifically identify any pleading or written submission filed with the Commission by respondents that is allegedly “false, frivolous, misleading, or otherwise in violation of [rule 210.4] paragraph (c).”¹⁷⁹ Nor did Crucible provide respondents with the opportunity to withdraw any allegedly false, frivolous, or misleading submission, as required by rule 210.4(d)(1)(i). Thus, Crucible’s request for attorneys’ fees is not in compliance with the “safe harbor” provisions of the Commission’s rules of practice and procedure.

In addition, Crucible’s attempt to analogize its request for attorneys’ fees here to the award of attorneys’ fees under 35 U.S.C. § 285 upon a finding of willful infringement is not persuasive.¹⁸⁰ The ALJ’s finding of bad faith is not equivalent to a finding of willful

¹⁷⁷ *Id.*

¹⁷⁸ 19 C.F.R. 210.25(a)(1).

¹⁷⁹ 19 C.F.R. 210.4(d).

¹⁸⁰ *See* Crucible’s Comments at 28-29. Section 285, title 35 provides:

The court in exceptional cases may award reasonable attorney fees to the prevailing party.

35 U.S.C. § 285.

infringement. In fact, the ALJ expressly stated that the evidence did not show that respondents willfully disregarded the consent order.¹⁸¹ In any event, as the IA notes, even a finding of willful infringement does not necessarily require an award of attorneys' fees.¹⁸² Accordingly, we have denied Crucible's request for attorneys' fees and expenses.

VIII. CRUCIBLE'S PETITION FOR RECONSIDERATION

Crucible included, as part of its written submission on the issues of remedy, the public interest, and bonding, a petition for reconsideration of the Commission's decision regarding application of the Federal Circuit's decision in *Maxwell v. J. Baker, Inc.*¹⁸³ to the Commission's finding of infringement of Crucible's patent under the doctrine of equivalents.¹⁸⁴ The Commission had ruled that *Maxwell* required that the Commission's outstanding remedial orders be interpreted prospectively to prohibit only imports and sales of magnets that *literally* infringe Crucible's patent.¹⁸⁵

A. The Parties' Comments

Crucible's petition asserted two grounds for reconsideration: (1) that the Commission's decision conflicts with the recent Supreme Court decision in *Warner-Jenkinson*

¹⁸¹ RD at 79.

¹⁸² See, e.g., *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990), *cert. denied* 500 U.S. 918 (1991). We also agree with the IA that the goals that Crucible seeks to accomplish through its request for attorneys' fees, including the need to deter future violations by respondents and the need to vindicate the Commission's consent orders, are adequately promoted by the Commission's civil penalty.

¹⁸³ 86 F.3d 1098, 29 U.S.P.Q.2d 1001 (Fed. Cir.), *reh'g denied, suggestion of reh'g in banc declined* (1996), *cert. denied*, 117 S. Ct. 1244 (1997).

¹⁸⁴ Crucible's Comments at 2-10.

¹⁸⁵ See generally Commission Opinion at 6-24.

Co. v. Hilton Davis Chemical Co.,¹⁸⁶ and (2) that the Commission improperly relied on certain *sua sponte* arguments, discussed below, to support its decision. With respect to the first argument, according to Crucible, while the Supreme Court in *Warner-Jenkinson* acknowledged that there were certain limits to the application of the doctrine of equivalents, “it specifically discussed those limits at length and made clear that, unless one of those conditions enumerated in its opinion was present, there was to be no limitation to the application of the doctrine.”¹⁸⁷ Therefore, Crucible argued, since the disclosure of unclaimed features in the patent specification was not identified by the Court as an appropriate limitation on the doctrine of equivalents, that limitation, established in *Maxwell*, was rejected.¹⁸⁸ This reading of *Warner-Jenkinson*, Crucible contended, was further supported by the fact that the Court expressly rejected the petitioner’s argument that equivalents must be known at the time of filing the patent application and, in particular, limited to equivalents that are disclosed within the patent specification itself, and instead held that equivalency is to be evaluated at the time of infringement.¹⁸⁹ Crucible concluded by stating that “[s]o long as the record factually establishes the equivalency of the accused product or process, the only

¹⁸⁶ 117 S. Ct. 1040, 41 U.S.P.Q.2d 1865 (1997). The Supreme Court’s decision in *Warner-Jenkinson* issued on March 3, 1997, between the time the parties submitted their reply comments to the Commission on February 3, 1997, and the issuance of the notice of the Commission’s determination on April 8, 1997. The parties alternately refer to the Supreme Court case as either “*Hilton Davis*” or “*Warner-Jenkinson*.” To avoid confusion, we will refer to the Supreme Court decision as “*Warner-Jenkinson*” and the Federal Circuit decision below as “*Hilton Davis*.”

¹⁸⁷ Crucible’s Comments at 4.

¹⁸⁸ See Crucible’s Comments at 3-5, discussing *Warner-Jenkinson*, 41 U.S.P.Q.2d at 1874.

¹⁸⁹ *Id.*, discussing *Warner-Jenkinson* at 1052-53.

limitations on the doctrine of equivalents are that an element may not be eliminated ‘in its entirety’ and that one may not recapture what one clearly surrenders during patent prosecution.”¹⁹⁰ In light of its reading of *Warner-Jenkinson*, Crucible argued that the Commission’s decision not to apply the doctrine of equivalents in view of *Maxwell* “should be withdrawn and replaced with [a decision] consistent with [*Warner-Jenkinson*].”¹⁹¹

Crucible asserted three additional reasons why the Commission allegedly committed legal error in reaching its determination respecting *Maxwell*. First, Crucible argued that the Commission improperly relied upon the facts that the Federal Circuit circulated a copy of the proposed opinion to all Federal Circuit judges and the Senior Technical Assistant for comment and that the court subsequently declined to rehear the case *in banc*.¹⁹² According to Crucible, such reliance was improper because “the parties and the Commission lack any information about how the judges of the Federal Circuit would interpret or apply the *Maxwell* decision because their comments and those of the Senior Technical Assistant are not publicly available.”¹⁹³ Crucible also noted that, just as denial of a petition for a writ of certiorari by the Supreme Court does not constitute an opinion of the Court on the merits of the case in which the petition is denied, “so too a summary denial of a request for rehearing *in banc* ‘is insufficient to confer any implication or inference regarding the court’s opinion relative to

¹⁹⁰ *Id.* at 5.

¹⁹¹ *Id.*

¹⁹² *Id.* at 10.

¹⁹³ *Id.*

the merits of a case' and carries no precedential weight."¹⁹⁴

Second, Crucible took issue with the Commission's statement that "[t]here is no indication in the majority opinion in *Hilton Davis* that this portion of Judge Lourie's dissent [articulating the legal principle that became the basis for his opinion in *Maxwell*] was considered and rejected."¹⁹⁵ According to Crucible, "the question is not whether Judge Lourie's dissent was considered and rejected, but if it was considered and *adopted* by the Federal Circuit."¹⁹⁶ In particular, Crucible argued that in light of the fact that the *in banc* majority decision in *Hilton Davis* "was the most comprehensive and authoritative decision by that court on the doctrine of equivalents to date, the absence of any discussion about the legal principle being advocated in Judge Lourie's dissent can only mean that it was not adopted and embraced by the court as a whole."¹⁹⁷

Finally, Crucible challenged the Commission's conclusion that *Maxwell* did not conflict with the Supreme Court's decision in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*,¹⁹⁸ in finding the *Maxwell* decision to be viable. Crucible argued that the fact that the *Maxwell* court said that its decision did not conflict with *Graver Tank* "is not in and of itself dispositive of the issue."¹⁹⁹

¹⁹⁴ *Id.* at 11, citing *Luckey v. Miller*, 929 F.2d 618, 622 (11th Cir. 1991) and *Harris v. Luckey*, 918 F.2d 888, 893 (11th Cir. 1990).

¹⁹⁵ *Id.*, citing Commission Opinion at 17 n.43.

¹⁹⁶ *Id.* (emphasis in original).

¹⁹⁷ *Id.*

¹⁹⁸ 339 U.S. 605 (1950) ("*Graver Tank*").

¹⁹⁹ *Id.* at 15.

In their response to Crucible's petition for reconsideration, respondents argued that there is no inconsistency between the Supreme Court's decision in *Warner-Jenkinson* and the Federal Circuit's decision in *Maxwell*.²⁰⁰ According to respondents, the Supreme Court simply held that if the doctrine of equivalents is applied to individual elements of the claim rather than the invention as a whole, and if other limitations discussed in its opinion are applied, the doctrine "will not vitiate the central function of the patent claims themselves."²⁰¹ According to respondents, the Supreme Court did not even "suggest that the Federal Circuit may not set additional limitations on the doctrine of equivalent, including that established in *Maxwell*." Respondents also note that the Supreme Court denied certiorari in *Maxwell* without comment on March 17, 1997, two weeks *after* the *Warner-Jenkinson* decision. They therefore argued that, since *Maxwell* remains controlling Federal Circuit precedent, Crucible's petition for reconsideration should be denied.

Respondents further argued that none of the other arguments advanced by Crucible in its petition warrant reconsideration of the Commission's opinion on the *Maxwell* issue. In particular, respondents stated that "the Commission appropriately cited the Federal Circuit's August 28, 1996 Order denying the suggestion for rehearing *in banc* as further evidence that the *Maxwell* decision is not contrary to any prior Federal Circuit precedent."²⁰² With respect to Crucible's remaining arguments, respondents argued that Crucible had already advanced

²⁰⁰ Reply of Respondents San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc., and Tridus International, Inc. to Crucible's Petition for Reconsideration at 3-9 ("Respondents' Response to Petition").

²⁰¹ *Id.*, citing *Warner-Jenkinson*, at 1049.

²⁰² *Id.* at 7.

arguments on those issues, which arguments were rejected by the Commission. Based on the foregoing, respondents urged the Commission to deny Crucible's petition.

The IA also submitted that Crucible's petition for reconsideration should be denied.²⁰³ He argued that the petition fails to satisfy the criteria set forth in rule 210.47 because Crucible presented no new material in its petition, as required by that rule.²⁰⁴ According to the IA, there is no support for Crucible's implicit assertion that the Commission, while aware of the Supreme Court's decision in *Warner-Jenkinson* when it issued its determination, failed to consider whether that decision affected the issues before the Commission. Given that the Commission was at the time considering whether the doctrine of equivalents ought to continue to be applied with respect to the remedial orders issued in this investigation, the IA asserted that "obviously the Commission was fully aware of the issuance of the first Supreme Court decision addressing the scope of the doctrine of equivalents in nearly 50 years."²⁰⁵ In addition, the IA noted that the Commission explicitly addressed and rejected Crucible's view that the *Maxwell* case was somehow in conflict with the Federal Circuit's *in banc* opinion in the *Hilton Davis* case.²⁰⁶ Finally, the IA argued that, if *Warner-Jenkinson* were as important to the outcome of this proceeding as Crucible asserts, Crucible should have brought the decision to the Commission's attention sooner, rather than waiting until after the

²⁰³ Office of Unfair Import Investigations' Reply to Crucible's Petition for Reconsideration Regarding Infringement under the Doctrine of Equivalents at 2 ("IA's Response to Petition").

²⁰⁴ *Id.* at 3.

²⁰⁵ *Id.*

²⁰⁶ *Id.*, citing Commission Opinion at 17.

Commission's final decision was issued.²⁰⁷

The IA also argued that, if the Commission decides not to reject the petition on procedural grounds, it should nonetheless deny the petition on its merits because the Supreme Court opinion in *Warner-Jenkinson* did not explicitly or implicitly overrule *Maxwell*. In support of this position, the IA argued that (1) *Maxwell* is not mentioned in the Supreme Court opinion, let alone specifically overruled or criticized; (2) the Supreme Court denied the petition for certiorari in the *Maxwell* case only two weeks after announcement of the *Warner-Jenkinson* decision; and (3) there is nothing to suggest that the Supreme Court in *Warner-Jenkinson* was advocating unlimited application of the doctrine of equivalents, or that the specific limitation enunciated by the *Maxwell* panel is no longer viable.²⁰⁸ Rather, according to the IA, the Court simply rejected the petitioner's proposed limitation on the doctrine of equivalents "without even addressing the question of whether the unclaimed equivalents that are disclosed in the patent specification itself can be covered under the doctrine of equivalents."²⁰⁹

The IA also submitted that the Commission properly considered the arguments presented by the parties and did not rely *sua sponte* on any substantive grounds as to which the parties had no opportunity to comment. In particular, according to the IA, Crucible makes repetitive arguments concerning the alleged inconsistencies between *Maxwell* and the Federal Circuit's *in banc* opinion in *Hilton Davis* and the Supreme Court's opinion in *Graver*

²⁰⁷ *Id.*

²⁰⁸ IA's Response at 3-8.

²⁰⁹ *Id.* at 7.

Tank.²¹⁰ The IA noted that these same issues were addressed by the ALJ in the RD and that the parties briefed the issues in their comments on the RD. He asserted that “[i]t can be assumed that the Commission considered the ALJ’s analysis in the RD and the parties’ comments with respect to that analysis.”²¹¹

B. Discussion

Commission Rule 210.47 provides in relevant part:

Within 14 days after service of a Commission determination, any party may file with the Commission a petition for reconsideration of such determination or any action ordered to be taken thereunder, setting forth the relief desired and the grounds in support thereof. Any petition filed under this section must be confined to new questions raised by the determination or action ordered to be taken thereunder and upon which the petitioner had no opportunity to submit arguments.²¹²

This latter requirement is consistent with the requirements for motions for reconsideration in federal courts, which must be confined to new arguments that could not have been presented previously.²¹³

Much of Crucible’s petition is devoted to arguments which have already been made, considered, and rejected by the Commission. The only authority cited by Crucible in its petition that was not cited in its earlier pleadings is the Supreme Court’s decision in *Warner-Jenkinson*. As to that decision, we explicitly addressed and rejected Crucible’s view that the

²¹⁰ *Id.* at 10.

²¹¹ *Id.*

²¹² 19 C.F.R. § 210.47 (emphasis added).

²¹³ See, e.g., *State of California v. Summer Del Caribe, Inc.*, 821 F. Supp. 574, 577-78 (N.D. Cal. 1993); *Sussman v. Salem, Saxon & Nielson, P.A.*, 153 F.R.D. 689, 694-95 (M.D. Fla. 1994).

Maxwell case was somehow in conflict with the Federal Circuit's decision in *Hilton Davis* and noted that the Supreme Court reversed that decision in *Warner-Jenkinson*.²¹⁴ Thus, we considered the *Warner-Jenkinson* decision prior to reaching its determination in the instant proceeding. Accordingly, there is no new matter raised by Crucible in its petition for reconsideration and we deny the petition on that basis.

1. Crucible's Assertions Regarding *Warner-Jenkinson*

In addition, we reiterate that, in our view, there is no inconsistency between the Supreme Court's decision in *Warner-Jenkinson* and the Federal Circuit's decision in *Maxwell*. We agree with respondents and the IA that the Supreme Court opinion in *Warner-Jenkinson* did not explicitly or implicitly overrule *Maxwell*. In fact, the issue addressed in *Maxwell* -- whether subject matter disclosed in the specification, but not claimed, is dedicated to the public and may not form the basis for a finding of infringement under the doctrine of equivalents -- was not even at issue in *Warner-Jenkinson* or addressed by the Supreme Court.²¹⁵

Crucible mischaracterizes the Supreme Court's opinion in suggesting that "unless one of those conditions enumerated in its opinion was present, there was to be no limitation to the application of the doctrine [of equivalents]." We agree with respondents and the IA that the Supreme Court in *Warner-Jenkinson* was not advocating unlimited application of the doctrine of equivalents and there is nothing in its opinion to indicate that the specific

²¹⁴ See Commission Opinion at 11, n. 25 and 17.

²¹⁵ We note that *Maxwell* is not even mentioned in the Supreme Court opinion, let alone specifically overruled or criticized.

limitation enunciated by the *Maxwell* panel is no longer viable. The Supreme Court's opinion does not purport to provide an exhaustive listing of all permissible limitations on the doctrine of equivalents. Rather, the Court simply identified the tension between the doctrine of equivalents and the notice function of patent claims and declined to adopt the petitioner's proposed method for reconciling that tension.

Specifically, the Supreme Court noted that knowledge of the interchangeability of elements is relevant to the question of whether the elements are equivalent, and that this concept must be measured at the time of infringement rather than when the patent is issued.²¹⁶ The Court did not address the question of whether unclaimed and known equivalents that are disclosed in the patent specification can be covered under the doctrine of equivalents. It simply held that if the doctrine of equivalents is applied to individual elements of the claim, not to the invention as a whole, and if other limitations *discussed in its opinion* were applied, the doctrine "will not vitiate the central function of the patent claims themselves."²¹⁷ Consequently, in rejecting the petitioner's argument on that issue, the Supreme Court was not holding that disclosed but unclaimed equivalents can be the basis of a doctrine of equivalents infringement, thereby implicitly reversing the *Maxwell* decision.

Indeed, we agree with the IA that the *Warner-Jenkinson* Court cannot be said to have nullified *sub silencio* all heretofore viable limitations on the doctrine of equivalents.²¹⁸ Such

²¹⁶ *Warner-Jenkinson*, 41 U.S.P.Q.2d at 1874.

²¹⁷ *Id.* at 1049.

²¹⁸ For example, as the IA noted, the Supreme Court did not discuss the very well-established limitation that the doctrine of equivalents cannot be used to capture subject matter disclosed in the prior art. *See, e.g., Wilson Sporting Goods v. David Geoffrey & Assoc.*, 904

an overly-broad reading is unsupported by the language of that decision and fails to take into account the Supreme Court's practice of addressing only the specific controversies presented to it. Nowhere does the Supreme Court suggest that the Federal Circuit may not set additional limitations on the doctrine of equivalents, and there is therefore no inconsistency between the decision in *Warner-Jenkinson* and the Federal Circuit's decision in *Maxwell*.²¹⁹

2. Crucible's Assertions Regarding Improper *Sua Sponte* Arguments

As discussed above, Crucible also argued that the Commission *sua sponte* raised arguments in its opinion that now require reconsideration. Specifically, Crucible took issue with the Commission's comments concerning the Federal Circuit's practice of circulating proposed opinions to all Federal Circuit judges and the Senior Technical Assistant, and the court's ultimate denial in *Maxwell* of the petition for rehearing *in banc*, in support of the

F.2d 677, 14 U.S.P.Q.2d 1942 (Fed. Cir. 1990).

²¹⁹ We also find it relevant, as noted by respondents and the IA, that the Supreme Court denied the petition for certiorari in the *Maxwell* case on March 17, 1997, only two weeks after announcement of the *Warner-Jenkinson* decision. Indeed, as respondents pointed out, in the reply brief to the Supreme Court in connection with the petition for certiorari, counsel for Maxwell argued that *Warner-Jenkinson* was "closely related" and specifically suggested that "[o]nce this Court's pending opinion in [*Warner-Jenkinson*] is issued, that opinion alternatively may warrant vacating the panel's decision and remanding the case to the Federal Circuit in view of the opinion." Reply Brief of Petitioner Maxwell at 7. The fact that the Supreme Court, in light of these arguments, chose to deny certiorari rather than to remand the case to the Federal Circuit for further consideration strongly suggests that the Court itself saw no inconsistency between its decision in *Warner-Jenkinson* and the Federal Circuit's decision in *Maxwell*. If *Maxwell* were contrary to the Court's thinking on the doctrine of equivalents as expressed in *Warner-Jenkinson*, the Court presumably would have remanded *Maxwell* to the Federal Circuit for reconsideration in light of that decision, as it did with two other pending cases on the very same day. See *Shoketsu Kinzoku Kogyo v. Festo Corp.*, 95-1546, and *Honeywell, Inc. v. Litton Systems, Inc.*, 96-874. In both cases, the Court granted certiorari, vacated the Federal Circuit's judgment, and remanded for further consideration in light of *Warner-Jenkinson*. 65 U.S.L.W. 3629 (March 17, 1997).

conclusion that *Maxwell* was not in conflict with prior Federal Circuit precedent. Our reliance on these facts, however, was entirely appropriate.

We cited the Federal Circuit’s August 28, 1996, order denying the suggestion for rehearing *in banc* in *Maxwell* only as evidence that the Federal Circuit *unanimously* denied the request for *in banc* review, even though that request raised the same arguments and case law currently relied on by the ALJ and asserted by Crucible to conflict with *Maxwell*. We were not citing the order for any other reason. Moreover, the existence of that order formed only one aspect of our decision regarding *Maxwell*. We also extensively analyzed the cases cited by the ALJ and Crucible in holding that *Maxwell* does not conflict with earlier Supreme Court or Federal Circuit precedent.²²⁰

Similarly, Crucible’s argument regarding Judge Lourie’s dissent in *Hilton Davis* is merely a reiteration of an argument that it had advanced previously, which we previously found unpersuasive. Specifically, we stated in our opinion on violation of the consent order that we did not “find persuasive Crucible’s argument that, because Judge Lourie’s dissent in *Hilton-Davis* included an articulation of the legal principle that eventually became the basis for the majority opinion in *Maxwell*, the full Federal Circuit had rejected that position There is no indication in the majority opinion in *Hilton-Davis* that this portion of Judge Lourie’s dissent was considered and rejected.”²²¹ Crucible has argued that “the question is not whether Judge Lourie’s dissent was considered and rejected, but if it was considered and *adopted* by the Federal Circuit.” However, it is immaterial in our view whether the Federal

²²⁰ See Commission’s Opinion at 16-20.

²²¹ Commission Opinion at 17, n.43.

Circuit “did not reject” or whether it “failed to adopt” Judge Lourie’s views in *Hilton Davis*; the fact remains that the Federal Circuit’s silence on the issue cannot be considered a pronouncement one way or the other.

Finally, Crucible cites to no new arguments in support of its position that the *Maxwell* decision is inconsistent with *Graver Tank*. In our opinion, we found it “dispositive that the *Maxwell* panel itself determined that its decision did not conflict with” the Supreme Court’s decision in *Graver Tank*.²²² Furthermore, we noted that counsel for the appellee in *Maxwell* argued, in support of *in banc* review, that the panel decision in *Maxwell* was contrary to *Graver Tank*, and the Federal Circuit unanimously denied that request.²²³ We continue to believe that these facts strongly support the view that *Maxwell* does not conflict with *Graver Tank*.

IX. RESPONDENTS’ MOTION TO REQUIRE CRUCIBLE TO REPORT ON ITS STATUS AS A DOMESTIC INDUSTRY

A. The Parties’ Comments

As indicated above, on May 15, 1997, respondents filed a motion requesting that the Commission require complainant Crucible to file periodic reports regarding its status as a domestic industry. Respondents asserted that such reports are necessary because of an apparent sale of Crucible’s magnet operations to a company traded on the Toronto Stock Exchange, as well as statements by Crucible personnel that they are producing magnets outside the composition ranges of the patent. Specifically, respondents stated that Crucible’s

²²² Commission Opinion at 16-17.

²²³ *Id.* at 16.

magnet business has apparently been purchased by YBM Magnex International (“YBM”).²²⁴ Respondents contended that there is some uncertainty as to whether Crucible, or its purchaser, will continue to engage in activities in the United States related to magnets covered by the ‘439 patent. In addition, respondents stated that Crucible personnel apparently indicated at a public conference related to the magnet industry that Crucible has been successfully producing corrosion resistant magnets with oxygen levels as low as 1,700 parts per million.²²⁵

Based on this information, respondents requested that the Commission require Crucible to file quarterly reports setting forth the extent of domestic activities undertaken in the preceding quarter.²²⁶ Respondents also requested that the Commission require Crucible to report on the status of the acquisition by YBM and provide a copy of the purchase agreement, and that Crucible be required to notify the Commission within five days of any

²²⁴ Respondents originally provided a copy of a press release announcing the acquisition. See Exhibit B to the Motion. The press release does not provide any information concerning the location of YBM or any of its facilities.

²²⁵ See Declaration of John Li, attached as Exhibit A to the Motion. The ‘439 patent, which discloses a magnet alloy having increased resistance to corrosion, specifies an oxygen level of between 6,000 ppm and 35,000 ppm.

²²⁶ *Id.* at 17, citing *Certain Wire Electrical Discharge Machining Apparatus and Components Thereof*, Inv. No. 337-TA-290, Commission Opinion at 20 (May 15, 1990) (“EDM”); *Certain Caulking Guns*, Inv. No. 337-TA-139, USITC Pub. 107, Commission Action & Order at 2-3 (March 1984) (“Caulking Guns”); *Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, Order at 3-4 (August 30, 1996) and Commission Opinion at 26 (September 23, 1996) (“Wind Turbines”); and *Enercon GmbH v. U.S. International Trade Commission*, Appeal No. 97-1164 (Order of April 24, 1997) (involving the appeal of the *Wind Turbines* case to the Federal Circuit). The proposed reports would continue until expiration of the ‘439 patent.

decision to abandon its magnet business.²²⁷

Crucible responded to the motion, arguing that the motion “is an impermissible attempt to interject domestic industry as an issue in this enforcement proceeding and to do so after the record and briefing have closed.” Crucible stated that it met its burden in the original investigation of showing that it has a domestic industry, and respondents had the opportunity to litigate the issue in that original investigation, but chose instead to enter into the consent order. In addition, Crucible stated that, pursuant to Commission rule 210.75 and the Commission’s Orders of May 16, 1996, and July 1, 1996, the only issues in the instant enforcement proceeding are whether a Commission remedial order has been violated, the penalty for such violation, and the consideration of certain public interest factors.

Crucible noted that the domestic industry was not an issue litigated in this enforcement proceeding, that it was not addressed in the RD, and that it was not the subject of briefing before the Commission. Crucible also argued that the two Commission cases and the non-precedential order of the Federal Circuit in *Enercon v. USITC* relied on by respondents “manifestly fail to support Respondents’ motion.” According to Crucible, the cited cases are inapposite because they do not relate to enforcement proceedings, but to original investigations, where domestic industry is, by statute, a litigatable issue.²²⁸ For

²²⁷ The content of the proposed reports sought by respondents is set forth as Exhibit C to the Motion. The language of the proposal is substantially similar to the reports required of the complainant by the limited exclusion order issued in the *Wind Turbines* investigation.

²²⁸ Crucible also argued that respondents improperly cited the Federal Circuit order in *Enercon* which, because it is a non-precedential order, neither respondents nor the Commission may rely upon, citing *Hamilton v. Brown*, 39 F.3d 1574, 1581 (Fed. Cir. 1994).

these reasons, Crucible argued that the Commission should deny respondents' motion.

Crucible also argued that a domestic industry currently exists because Crucible continues to manufacture neodymium-iron-boron magnets within the claims of the '439 patent. As to the potential purchase of Crucible's operations by YBM, Crucible noted that (1) since the sale of Crucible's magnetic operations has not yet taken place, the current negotiations have no bearing on the domestic industry issue and should not be considered by the Commission, and (2) if a sale ultimately is consummated, it would include Crucible's facilities in Elizabethtown, Kentucky where neodymium-iron-boron magnets within the scope of the claims in issue of the '439 patent are currently being manufactured.

The IA also responded to the motion, arguing that respondents have not shown that the requested reporting requirement is necessary, and that the motion should be denied. According to the IA, a domestic industry was shown to exist in the original investigation and "respondents have not provided any persuasive evidence that there is no longer a domestic industry." The IA argued that the fact that Crucible's magnet facilities are being purchased by a foreign company does not imply that there will be no further domestic activity with respect to articles protected by the patent. He further argued that the fact that Crucible is producing magnets outside the scope of the patent does not mean that Crucible is not also still producing magnets within the scope of the patent. In the IA's view, absent special circumstances, such as those presented in *Caulking Guns*, *EDM*, and *Wind Turbines*, "there is no justification for taking the rather unusual and burdensome step of requiring a

complainant to repeatedly confirm the continued existence of a domestic industry.”²²⁹

B. Discussion

Section 337 can be invoked only to protect a domestic industry from unfair practices in import trade, including patent infringement.²³⁰ On August 22, 1997, YBM acquired the ‘439 patent as part of an acquisition of all of the business assets of Crucible.²³¹ Accordingly, in the event YBM (or its successor) were to cease domestic activities related to articles protected by the ‘439 patent, the continued existence of Commission remedial orders would no longer be appropriate or necessary to serve the purposes of the statute.²³² In certain circumstances, the Commission has imposed a reporting requirement on complainants where it was unclear whether domestic activities related to patented products would continue in the future.²³³

We do not believe that such reporting is warranted in this case. We adopted the finding in the ALJ’s final ID that Crucible satisfied the domestic industry requirement inasmuch as “a very substantial number” of Crucible’s magnets contained oxygen in the

²²⁹ The IA also noted that this case is unlike the other investigations cited by respondents in which the Commission required such reports to determine whether a domestic industry will eventually be established.

²³⁰ See, e.g., *EDM*, Commission Opinion at 21.

²³¹ See Motion of YBM Magnex, Inc. To Be Substituted As Complainant In This Investigation, Motion Docket No. 372-53C, at 1, filed on September 25, 1997.

²³² On August 27, 1997, respondents submitted a letter indicating that YBM had completed its acquisition of Crucible. See Letter from Gary Hnath to Donna Koehnke dated August 27, 1997.

²³³ See *EDM* at 20; *Caulking Guns* at 2-3 (March 1984); *Wind Turbines* at 3-4 and Commission Opinion at 26.

patented range.²³⁴ We agree with Crucible and the IA that respondents have not put forth evidence that would indicate that these same domestic facilities no longer satisfy that requirement. Indeed, YBM has stated that it “will continue to manufacture and sell in the United States” magnets covered by the ‘439 patent.²³⁵ In this respect, this case is unlike the unique circumstances involved in *Caulking Guns*, *EDM*, or *Wind Turbines*,²³⁶ and respondents have not, in our view, provided a reasonable basis for us to impose the requested reporting requirement on the domestic industry at this time.²³⁷

²³⁴ See Final Initial Determination at 71, FF 185; see also Commission Opinion on Remedy, the Public Interest, and Bonding at 3; Final Initial Determination at 19 and 68-73, FF 162-195. In addition, as the IA stated, the fact that Crucible was producing magnets outside the scope of the patent does not mean that Crucible was not also still producing magnets within the scope of the patent. Similarly, that a Crucible employee may have discussed a low-oxygen alloy at an industry conference does not mean that Crucible had ceased manufacturing magnets within the scope of its patent.

²³⁵ Motion Docket No. 372-53C at 1.

²³⁶ Both *Caulking Guns* and *EDM* involved domestic industries in the process of being established, rather than an ongoing domestic industry as is the case here. In *EDM* the Commission ultimately suspended its remedial orders after it determined, as a result of reports filed by complainants, that they were not domestically manufacturing the products at issue. Notice of Commission Order Suspending Limited Exclusion Order and Cease and Desist Order (September 5, 1991). In *Wind Turbines*, the complainant voluntarily filed for protection under Chapter 11 of the Bankruptcy Code, 11 U.S.C. § 1101 *et seq.*, after the presiding ALJ had issued his final ID finding a violation of section 337, including the existence of a domestic industry, but before the Commission considered the question of the appropriate remedy. There were also specific admissions by the complainant that it had ceased manufacturing activities with respect to at least some parts of the patented devices. *Wind Turbines*, Commission Opinion at 22-25. Thus, there was a need for information concerning the nature and extent of any remaining domestic activities on the part of the bankrupt complainant.

²³⁷ As the IA noted, if in the future the Commission is presented with sufficient evidence of YBM’s cessation of domestic activities, it can either require YBM to provide information sufficient to determine “whether and to what extent the conditions that led to the [exclusion] order[s] are changed,” or it can impose a reporting requirement at that time. See Rule 210.71(a). Moreover, respondents can always petition again to modify the remedial orders

to add a reporting requirement in the event they obtain more conclusive information that there has been a cessation of domestic activities related to products covered by the '439 patent. *See* Rule 210.76(a).

