

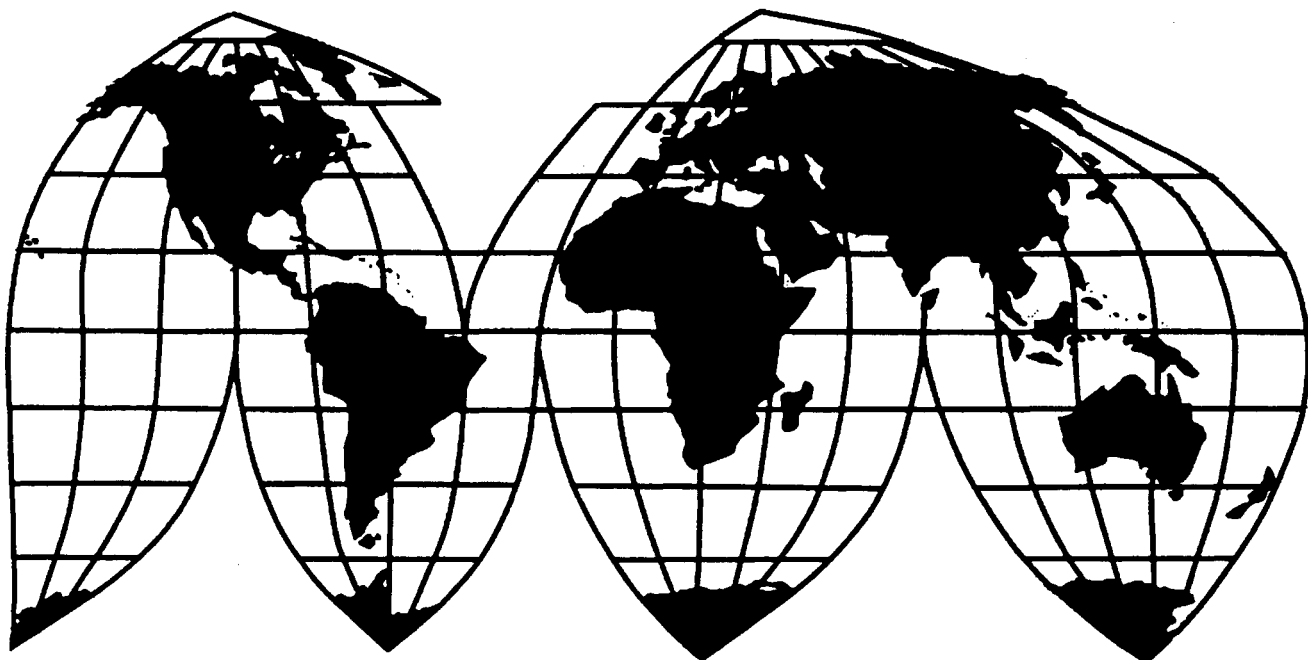
In the Matter of
**Certain Agricultural Tractors Under 50
Power Take-Off Horsepower**

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

Publication 3227

August 1999

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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Thelma J. Askey

**Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436**

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In the Matter of
**Certain Agricultural Tractors Under 50
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UNITED STATES INTERNATIONAL TRADE COMMISSION
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In the Matter of)

CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

NOTICE OF COMMISSION DETERMINATION CONCERNING VIOLATION
OF CEASE AND DESIST ORDERS AND CIVIL PENALTY

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission determined that the respondents in the above-captioned formal enforcement proceeding have violated the Commission cease and desist orders issued to them on February 25, 1997, and determined to impose a civil penalty for the amount of \$2,320,000.

FOR FURTHER INFORMATION CONTACT: Shara L. Aranoff, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3090.

SUPPLEMENTARY INFORMATION: The trademark-based section 337 investigation that preceded this enforcement proceeding was instituted on February 14, 1996, based on a complaint filed by Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America, Inc. (collectively "Kubota"). On February 25, 1997, at the conclusion of the original investigation, the Commission issued cease and desist orders directed, *inter alia*, to Gamut Trading Co., Inc. ("Gamut Trading") and Gamut Imports. The cease and desist orders provide that Gamut Trading and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," shall not "import or sell for importation into the United States" or "sell market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States" covered product, defined as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders further provide that Gamut Trading and Gamut Imports "shall report to the Commission" on an annual basis "the quantity in units and the value in dollars of foreign-produced covered product" that they have "imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." Finally, the orders provide that they "shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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."

On July 16, 1998, Kubota filed a complaint seeking institution of a formal enforcement proceeding against Gamut Trading, Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading), and Darrell J. DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading) (collectively "the Gamut respondents"), alleging that they are violating the cease and desist orders directed to them. Kubota supplemented its complaint on August 26, 1998. On September 28, 1998, the Commission issued an order instituting a formal enforcement proceeding and instructing the Secretary to transmit the enforcement proceeding complaint to the Gamut respondents and their counsel for a response. The following were named as parties to the formal enforcement proceeding: (1) Kubota Corporation, 2-47 Shikitsu Higashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan; Kubota Tractor Corporation, 3401 Del Amo Boulevard, Torrance, California 90503; and Kubota Manufacturing of America Corporation, Industrial Park North, 2715 Ramsey Road, Gainesville, Georgia 30501; (2) Gamut Trading Co., Inc., 13450 Nomwaket Road, Apple Valley, California 92308; (3) Gamut Imports, 14354 Cronese Road, Apple Valley, California, 92037; (4) Ronald A. DePue, Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading Co., Inc.; (5) Darrell J. DuPuy, Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading Co., Inc.; and (6) a Commission investigative attorney to be designated by the Director of the Commission's Office of Unfair Import Investigations. On October 19, 1998, the Gamut respondents filed a joint response to the enforcement complaint denying violation of any of the Commission's remedial orders and infringement of the "KUBOTA" trademark, and asserting that the Commission lacks jurisdiction to address the enforcement complaint.

On October 28, 1998, the Commission issued an order referring the formal enforcement proceeding to an administrative law judge (ALJ) for issuance of an initial determination (ID) regarding whether respondents violated the cease and desist orders and for a recommended determination (RD) regarding what enforcement measures, if any, are appropriate in light of the nature and significance of such violations.

On November 13, 1998, the Gamut respondents filed a motion to dismiss the enforcement complaint contending that the Commission lacked jurisdiction over the subject matter. On November 18, 1998, the Gamut respondents filed a further motion seeking sanctions against complainants under Commission rule 210.4(d)(1) for filing an allegedly frivolous enforcement complaint over which the Commission has no jurisdiction. The ALJ denied both motions by orders dated December 8, 1998 (Orders Nos. 62 and 63). On December 11, 1998, complainants moved for sanctions against the Gamut respondents for filing the two foregoing motions. On January 21, 1999, the ALJ issued Order No. 69, granting complainants' motion for monetary sanctions against the Gamut respondents and their attorney, Lloyd J. Walker, on the grounds that respondents' two motions were "not objectively reasonable under the circumstances when they were filed." Order No. 73, issued March 2, 1999, denied the Gamut respondents' motion for interlocutory appeal of Order No. 69.

Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents. Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of certain accused tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted.

By agreement of the parties, no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page "Final Initial and Recommended Determinations" (ID and RD), finding that the Gamut respondents violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to final disposition of this enforcement proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy. Petitions for review of the ID, comments on remedy, and replies thereto were filed by all parties. The Commission received no public comments.

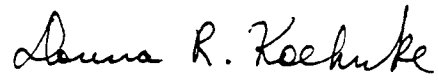
Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determined that the Gamut respondents had violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. The Commission adopted the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. The Commission also determined to adopt ALJ Orders Nos. 62, 63, and 69.

The Commission declined to adopt the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. The Commission determined that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. The Commission further determined to impose a civil penalty in the amount of \$2,320,000 on the Gamut respondents and determined that respondents should have joint and several liability for the payment of this civil penalty.¹ A Commission opinion concerning the Commission's violation and remedy determinations will be issued shortly.

¹ Commissioner Crawford determined to impose a civil penalty in a different amount.

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: July 28, 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of)
)
CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

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RECEIVED
OFFICE OF THE SECRETARY
US INTERNATIONAL TRADE COMMISSION

ORDER

The trademark-based section 337 investigation that preceded this enforcement proceeding was instituted on February 14, 1996, based on a complaint filed by Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America, Inc. (collectively "Kubota"). On February 25, 1997, at the conclusion of the original investigation, the Commission issued cease and desist orders directed, *inter alia*, to Gamut Trading Co., Inc. ("Gamut Trading") and Gamut Imports. The cease and desist orders provide that Gamut Trading and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," shall not "import or sell for importation into the United States" or "sell market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States" covered product, defined as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders further provide that Gamut Trading and Gamut Imports "shall report to the Commission" on an annual basis "the quantity in units and the value in dollars of foreign-produced covered product" that they have "imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." Finally, the orders provide that they "shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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.”

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On October 28, 1998, the Commission issued an order referring the formal enforcement proceeding to an administrative law judge (ALJ) for issuance of an initial determination (ID) regarding whether

respondents violated the cease and desist orders and for a recommended determination (RD) regarding what enforcement measures, if any, are appropriate in light of the nature and significance of such violations.

On November 13, 1998, the Gamut respondents filed a motion to dismiss the enforcement complaint contending that the Commission lacked jurisdiction over the subject matter. On November 18, 1998, the Gamut respondents filed a further motion seeking sanctions against complainants under Commission rule 210.4(d)(1) for filing an allegedly frivolous enforcement complaint over which the Commission has no jurisdiction. The ALJ denied both motions by orders dated December 8, 1998 (Orders Nos. 62 and 63). On December 11, 1998, complainants moved for sanctions against the Gamut respondents for filing the two foregoing motions. On January 21, 1999, the ALJ issued Order No. 69, granting complainants' motion for monetary sanctions against the Gamut respondents and their attorney, Lloyd J. Walker, on the grounds that respondents' two motions were "not objectively reasonable under the circumstances when they were filed." Order No. 73, issued March 2, 1999, denied the Gamut respondents' motion for interlocutory appeal of Order No. 69.

Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents. Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of certain accused tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted.

By agreement of the parties, no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page "Final Initial and Recommended Determinations" (ID and RD), finding that the Gamut

respondents violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to final disposition of this enforcement proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy. Petitions for review of the ID, comments on remedy, and replies thereto were filed by all parties. The Commission received no public comments.

Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determines that the Gamut respondents have violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. The Commission adopts the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. The Commission also determines to adopt ALJ Orders Nos. 62, 63, and 69.

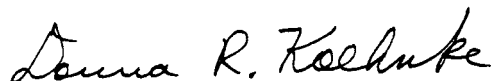
The Commission declines to adopt the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. The Commission determines that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. The Commission

further determined to impose a civil penalty of \$40,000 per violation day, for a total amount of \$2,320,000, on the Gamut respondents and determined that respondents should have joint and several liability for the payment of this civil penalty.

Accordingly, the Commission hereby ORDERS that :

1. Respondents Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue and Darrell J. DuPuy shall forfeit and pay to the United States a civil penalty in the amount of \$ 40,000 for each of the 58 days between February 27, 1997, and October 13, 1998, inclusive, on which a sale of articles occurred in violation of the cease and desist orders issued by the Commission on February 25, 1997, for a total amount of \$ 2,320,000. Respondents shall have joint and several liability for the payment of this civil penalty.
2. 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.
3. Notice of this Order shall be published in the *Federal Register*.

By Order of the Commission.



Donna R. Koehnke
Secretary

Issued: July 28, 1999

PUBLIC CERTIFICATE OF SERVICE

I, Donna R. Koehnke, hereby certify that the attached NOTICE OF COMMISSION DETERMINATION CONCERNING VIOLATION OF CEASE AND DESIST ORDERS AND CIVIL PENALTY, was served upon Shara Aranoff, Attorney-Advisor, and the following parties via first class mail and air mail, where necessary on July 29, 1999.



Donna R. Koehnke, Secretary
U.S. International Trade Commission
500 E Street, S.W., Rm. 112
Washington, D.C. 20436

On Behalf of COMPLAINANTS: Kubota
Tractor Corporation, Kubota
Manufacturing of America Corporation
and Kubota Corporation:

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879 West 190th Street
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On Behalf of MGA INC.

John D. Speciale, Esq.
Speciale & Burton
21300 Victory Boulevard
Suite 1170
Woodland Hills, California 91367

On behalf of: GAMUT TRADING CO.,
GAMUT IMPORTS, WALLACE
INTERNATIONAL TRADING COMPANY,
WALLACE IMPORT MARKETING CO. INC.,
BAY IMPLEMENT COMPANY, SUMA
SANGYO, EISHO WORLD LTD., AND
SANKO INDUSTRIES CO. LTD., CASTEEL
FARM IMPLEMENT CO. (Monticello,
Arkansas), CASTEEL FARM IMPLEMENT
CO., (Pine Bluff, Arkansas), CASTEEL
WORLD GROUP, INC., AND THE
TRACTOR GROUP AND FUJISAWA
TRADING AGENCY:

Lloyd J. Walker, Esq.
Attorney at Law
131 Second Street West
Twin Falls, Idaho 83303-1923

Lloyd W. Walker, II, Esq.
116 Peachtree Ct.
Fayetteville, Georgia 30214

PUBLIC CERTIFICATE OF SERVICE
Page Two

On Behalf of COMMISSION:

Shara Aranoff, Esq.
International Trade Commission
Office of the General Counsel
500 E Street, S.W., Rm. 707-E
Washington, D.C. 20436

PROPOSED RESPONDENTS:

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Bennett, Colorado 80102

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Suite 1010
Washington, D.C. 20005**

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

_____))
CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)
_____)

Inv. No. 337-TA-380
ENFORCEMENT PROCEEDING

COMMISSION OPINION

I. INTRODUCTION

On April 28, 1999, the administrative law judge (ALJ) issued his Final Initial and Recommended Determinations (ID and RD) in this enforcement proceeding, finding that respondents Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue, and Darrell J. DuPuy (collectively, the "Gamut respondents") violated Commission cease and desist orders dated February 25, 1997, and recommending that the Commission impose a civil penalty in the amount of \$652,476.

Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determines that the Gamut respondents have violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. We adopt the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. We also determine to adopt ALJ Orders Nos. 62, 63, and 69.

We determine to review and reverse the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. We determine that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. We further determine to impose a civil penalty on the Gamut respondents in the amount of \$40,000 per violation day, for a total penalty amount of \$2,320,000, and determine that respondents shall have joint and several liability for the payment of this civil penalty.¹

¹ Commissioner Crawford determines to impose a civil penalty in a different amount. See notes 114 and 161, *infra*.

II. BACKGROUND

A. Procedural History

On February 25, 1997, at the conclusion of investigation 337-TA-380, *Certain Tractors Under 50 Power Take-Off Horsepower* (the "original investigation"), the Commission issued, *inter alia*, cease and desist orders directed to respondents Gamut Trading Co., Inc. and Gamut Imports.² The cease and desist orders prohibit Gamut Trading Co., Inc. and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," from importing or selling for importation into the United States, or selling, marketing, distributing, offering for sale, or otherwise transferring (except for exportation) in the United States "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark 'KUBOTA' (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders also include certain reporting and record-keeping requirements.³

On July 16, 1998, Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America Inc. (collectively "Kubota"), complainants in the original investigation, filed a complaint seeking institution of a formal enforcement proceeding against Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading), and Darrell J. DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading), alleging that they are violating the cease and desist orders directed to them. Kubota supplemented its complaint on August 26, 1998. On September 28, 1998, the Commission issued an order instituting a formal enforcement proceeding and instructing the Secretary to transmit the enforcement proceeding complaint to the Gamut respondents and their counsel for a response.⁴ On October 19, 1998, the Gamut respondents filed a joint response to the enforcement complaint denying violation of any of the Commission's remedial orders and infringement of the KUBOTA trademark, and asserting that the Commission lacks jurisdiction to address the enforcement complaint.

On October 28, 1998, the Commission issued an order referring the formal enforcement proceeding to the presiding ALJ in the original investigation for issuance of an ID on violation and an RD on remedy. The Commission order referring the enforcement proceeding to the ALJ stated in pertinent part:

* * * * *

2. The initial determination, which is to be consistent with the Commission's findings in the original investigation, shall rule on the question of whether the Gamut respondents have violated one or more of the Cease and Desist Orders issued on February 25, 1997.

² The cease and desist orders are reprinted in *Certain Tractors Under 50 Power Take-Off Horsepower*, Inv. No. 337-TA-380, USITC Pub. 3026 (Mar. 1997).

³ See Cease and Desist Orders directed to Gamut Trading Co. and Gamut Imports (Feb. 25, 1997), reprinted in USITC Pub. 3026.

⁴ Notice of Institution of Formal Enforcement Proceeding (Sept. 28, 1998), 63 Fed. Reg. 53,925 (Oct. 7, 1998).

4. In the course of the enforcement proceeding, it shall be the burden of Kubota to demonstrate that the Gamut respondents have violated one or more of the Cease and Desist Orders.
5. If the presiding administrative law judge finds a violation of one or more of the Cease and Desist Orders in his initial determination, 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.⁵

On November 13, 1998, the Gamut respondents filed a motion to dismiss the enforcement complaint contending that the Commission lacked jurisdiction over the subject matter because only the U.S. Customs Service ("Customs") could interpret and enforce the Commission's orders. On November 18, 1998, the Gamut respondents filed a further motion seeking sanctions against complainants under Commission rule 210.4(d)(1) for filing an allegedly frivolous enforcement complaint over which the Commission has no jurisdiction. The ALJ denied both motions by orders dated December 8, 1998 (Orders Nos. 62 and 63). On December 11, 1998, complainants moved for sanctions against the Gamut respondents for filing the two foregoing motions. On January 21, 1999, the ALJ issued Order No. 69, granting complainants' motion for monetary sanctions against the Gamut respondents and their attorney, Lloyd J. Walker, on the grounds that respondents' two motions were "not objectively reasonable under the circumstances when they were filed." Commission rule 210.25(d) provides that, unless the ALJ grants leave for an interlocutory appeal to the Commission of an order for sanctions, such orders are reviewable by the Commission at the time it reviews the final ID on the merits. Order No. 73, issued March 2, 1999, denied the Gamut respondents' motion for interlocutory appeal of Order No. 69. Accordingly, Order No. 69 is ripe for Commission review at this time.⁶

Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents.

Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of accused "L" series tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted. From the limited information of record on the Gamut respondents' tractor purchase costs and sales prices, the ALJ inferred that the Gamut respondents' sales prices reflected a mark up over their purchase price of 135 percent on those accused tractors subject to his violation finding.⁷

By agreement of Kubota, the Gamut respondents, and the Commission investigative attorney ("the

⁵ Notice of Referral of Formal Enforcement Proceeding to an Administrative Law Judge for Issuance of an Initial Determination (Oct. 28, 1998), 63 Fed. Reg. 60,020 (Nov. 6, 1998).

⁶ Because we now decline to review Order No. 69, complainants must submit to the ALJ affidavits concerning the appropriate amount of sanctions once the Commission's final disposition of this matter is complete.

⁷ See Order No. 76 (Apr. 28, 1999) at 7-8.

staff”), no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page “Final Initial and Recommended Determinations,” finding that the Gamut respondents have violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to disposition of this proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy.⁸ Petitions for review of the ID, comments on remedy, and replies thereto were filed by complainants, respondents, and the staff. The Commission received no public comments.

This opinion explains the Commission’s final disposition of this enforcement proceeding, including our decisions: (1) to adopt the ID’s findings with respect to jurisdiction; (2) to adopt the ID’s findings on violation with respect to accused “L” series tractors; (3) to adopt ALJ Orders Nos. 62, 63, and 69; (4) to review and reverse the ALJ’s finding of no violation with respect to accused “B” series tractors and to find that respondents’ conduct with respect to such tractors violated the cease and desist orders; and (5) to impose a civil penalty on respondents jointly and severally in the amount of \$2,320,000.

B. The Products at Issue

The products at issue are certain agricultural tractors under 50 power take-off (PTO) horsepower that are manufactured by complainant Kubota Corporation (KBT) in Japan and have been used in Japan prior to exportation to the United States. They are medium-sized tractors used for various agricultural and landscaping applications.

The accused products in the Commission’s original investigation were tractors under 50 PTO horsepower bearing the “KUBOTA” trademark, which is owned by KBT and registered in Japan. These tractors were manufactured in Japan and offered for sale to Japanese consumers through KBT’s Japanese dealer network (“KBT tractors”). The Commission found that various trading companies, including the named foreign respondents in the original investigation, purchased used KBT tractors from Japanese consumers for export to the United States. It also found that the domestic respondents in the original investigation imported the used KBT tractors into the United States or purchased them from other importers for reconditioning and resale to U.S. consumers. At the time of their importation into the United States, these KBT tractors ranged in age from more than 20 years old to as little as three years old.⁹

In the original investigation, the Commission further found that KBT also manufactures agricultural tractors under 50 PTO horsepower specifically for the United States market. These tractors (“KTC tractors”) are manufactured by KBT in Japan, partially assembled in the United States by Kubota Tractor Corporation (KTC), its U.S. affiliate, and sold new to U.S. consumers by KTC through its network

⁸ Notice of Schedule for the Submission of Petitions for Review and Comments on Remedy (Apr. 26, 1999), 64 Fed. Reg. 23,098 (Apr. 29, 1999).

⁹ USITC Pub. 3026, Commission Opinion at 2 n.1 (“Commission Opinion”).

of over 1100 authorized dealers. The KTC tractors bear the U.S.-registered “KUBOTA” trademark.¹⁰ Because the accused tractors in the original investigation were KBT products intended by the manufacturer KBT for sale in Japan and imported into the United States without its consent, the Commission concluded that the accused KBT tractors were “gray market” or “parallel” imports.¹¹

The products at issue in this enforcement proceeding are tractors under 50 PTO horsepower manufactured by KBT in Japan and sold by KBT to “Zen-Noh,” the Japan Federation of Agricultural Cooperative Associations (“accused tractors” or “KBT/Zen-Noh tractors”).¹² It is undisputed that the accused KBT/Zen-Noh tractors differ from the KBT tractors at issue in the original investigation in two respects: they have the word “Zen-Noh” on the hood, whereas the KBT tractors at issue in the original investigation had the word “KUBOTA” on the hood; and their model numbers (typically “L” or “B” plus a number) are the same as those of KBT tractors except that they have a “Z” prefix added (*i.e.*, “ZL” or “ZB” plus a number).¹³ It is also undisputed, based on Gamut records obtained through discovery in the enforcement proceeding, that the Gamut respondents have sold 172 “L” series and 93 “B” series KBT/Zen-Noh tractors in the United States since February 25, 1997.¹⁴

C. The Commission’s Original Determination

Section 337 prohibits the importation, sale for importation, or sale within the United States after importation of articles which infringe a federally-registered U.S. trademark, so long as there exists a domestic industry relating to the articles bearing the trademark. 19 U.S.C. § 1337(a)(1)(C). In the original investigation, the Commission found that the respondents therein, including Gamut Trading and Gamut Imports, violated section 337 because they infringed the registered trademark “KUBOTA” under Section 32 of the Lanham Act, 15 U.S.C. § 1114, and unlawfully imported goods bearing the “KUBOTA” trademark under Section 42 of the Lanham Act, 15 U.S.C. § 1124.

Relying on federal court precedent, the Commission concluded that, in cases involving gray market goods, trademark infringement is established by proof that there are “material differences” between the accused imported products and the products authorized for sale in the United States. The existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder’s goodwill.¹⁵ Applying this standard, the Commission found 45 models of imported KBT tractors to be materially different from the closest comparable KTC models in one or more respects. Based on the identified material differences, the Commission found that the accused KBT tractors infringed the federally-registered U.S. trademark “KUBOTA” in violation of section 337.

¹⁰ *Id.*

¹¹ *Id.*, citing *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988).

¹² *ID* at 22-23.

¹³ *ID* at 23.

¹⁴ *ID* at 13-18; CEX 52 (Revised Version, Apr. 1, 1999).

¹⁵ Original Determination at 4-5.

At the conclusion of the original proceeding, on February 25, 1997, the Commission issued a general exclusion order, prohibiting the importation of tractors under 50 PTO horsepower manufactured by Kubota Corporation of Japan that infringe the federally-registered U.S. trademark "KUBOTA." The Commission also issued 11 cease and desist orders to the named domestic respondents, including Gamut Trading and Gamut Imports, containing the terms described above. The Commission's remedial orders were not disapproved by the President.¹⁶

III. VIOLATION OF THE COMMISSION'S CEASE AND DESIST ORDERS

A. The ALJ's Findings on Jurisdiction

Throughout the enforcement proceeding, the Gamut respondents have taken the position that the Commission does not have jurisdiction to adjudicate the enforcement complaint. They have argued that Customs has sole authority to interpret the general exclusion order; that Customs permitted the importation of the accused KBT/Zen-Noh tractors and must therefore have made a determination that they were not covered by the exclusion order; and that Kubota's complaint should therefore be directed to Customs. Having already addressed these issues in Orders 62, 63, 69, and 73, the ALJ summarily rejected the Gamut respondents' jurisdictional argument in the ID.¹⁷

As noted above, Order No. 69 (Jan. 21, 1999), granted complainants' motion for sanctions against the Gamut respondents on the grounds that they had filed groundless motions to dismiss and for sanctions against complainants, both based, in part, on the theory that the Commission lacks jurisdiction to address the enforcement complaint in this matter. The ALJ's Orders Nos. 62, 63 and 69 are all subject to Commission review at this time.

Although they do not refer specifically to Orders Nos. 62, 63, and 69, the Gamut respondents continue to insist, in their petition for review and to a greater extent in their response, that they have properly relied on Customs' purported determination that the tractors they imported are not infringing and that the Commission has no jurisdiction to decide otherwise.¹⁸ Complainants contend that the Gamut respondents' objections to the Commission's jurisdiction have already been ruled meritless by the ALJ; that the Gamut respondents have been sanctioned by the ALJ for raising such groundless arguments; and that the Gamut respondents have not petitioned for review of the order sanctioning them.¹⁹

The Gamut respondents' argument fails to recognize the difference between exclusion orders, which are interpreted and enforced by Customs pursuant to 19 U.S.C. § 1337(d), and cease and desist

¹⁶ The appeal of the Commission's original determination, *Gamut Trading Co. v. United States*, No. 97-1414, is still pending before the Federal Circuit. Oral argument took place March 6, 1998.

¹⁷ ID at 12 n.12.

¹⁸ Respondents' Response to the Final Initial [sic] and Recommended Determinations Dated April 28, 1999 (May 10, 1999) ("Respondents' Petition" or "RP") at 2, 6; Respondents' Response to Complainants and Staff Petition for Review Pursuant to 210-43(c) (May 19, 1999) ("RR") at 2-3, 5-6.

¹⁹ Complainants' Reply to the Petition for Review and Comments on Remedy of Respondents and the Staff (May 19, 1999) ("CR") at 8-10.

orders, which are interpreted and enforced by the Commission pursuant to 19 U.S.C. § 1337(f). This is evident from the fact that their petition for review and response refer exclusively to § 1337(d) and never mention § 1337(f). The Commission's authority to issue and enforce cease and desist orders derives from § 1337(f) and the Commission's authority to determine what constitutes a violation of its own cease and desist orders is not circumscribed in any way by Customs' interpretation or enforcement of Commission exclusion orders (even when "covered product" is defined identically in both orders).²⁰ We therefore see no error in the ALJ's conclusion and determine not to review this aspect of the ID.²¹

B. The ALJ's Finding of Violation With Respect to "L" Series Tractors

1. Violation of Paragraphs III(A) and III(B) of the Cease and Desist Orders: Importation and Sale in the United States of Covered Product

a. The ID

The ID concludes that the 172 "L" series KBT/Zen-Noh tractors sold by the Gamut respondents since February 25, 1997, are covered by the cease and desist orders because they (1) bear the "KUBOTA" trademark, and (2) are materially different from the closest corresponding KTC models authorized for sale in the United States.²²

The ALJ's conclusion that all 172 accused "L" series KBT/Zen-Noh tractors at issue bore the "KUBOTA" trademark at the time of their importation is based on the written statement of Mr. Kashihara, a Kubota Corporation engineer. Kashihara stated that "L" series KBT/Zen-Noh tractors with model

²⁰ Moreover, as discussed *infra*, the Gamut respondents' reliance on the fact that Customs inadvertently permitted them to import certain infringing tractors as a justification for their actions is misplaced.

²¹ Similarly, we see no error in the ALJ's Order No. 69, sanctioning respondents for filing a frivolous motion to dismiss and a frivolous motion for sanctions against complainants, and determine, particularly in light of respondents' failure to petition for review of that order, not to review Order No. 69.

²² ID at 21, 24-25. Throughout the ID, the ALJ mischaracterizes the Commission's original determination in one respect. He states that, in order to be covered by the cease and desist orders, the accused tractors must be "materially different from the KTC tractors *of the same model number* authorized for sale in the United States." *See, e.g.*, ID at 21, 24, 28 (emphasis added). In fact, the ALJ himself found, in the original investigation, that the most closely comparable KTC models to the KBT models at issue sometimes had different model numbers. 1996 ID at 76-77. What the Commission actually said was that an infringing KBT tractor was one that was "materially different from *the closest corresponding KTC model*." *See, e.g.*, Commission Opinion at 14. We conclude that the ALJ's mischaracterization of the original determination is not material to his ultimate conclusions on violation of the cease and desist orders. Because Commission silence on this subject might be construed as a modification of the original determination, however, we find that the correct characterization of the Commission's original determination is that an infringing KBT tractor is one that is "materially different from the closest corresponding KTC model."

numbers ending in "00" and "01" all bear the "KUBOTA" trademark on the hour meter,²³ while such tractors with model numbers ending in "02" bear the "KUBOTA" trademark on the hood (right, left, and front), key, hour meter, level grip, and control box.²⁴ The ALJ concluded that because all of the accused KBT/Zen-Noh tractors at issue have model numbers ending in "00", "01", or "02," they all bear the "KUBOTA" trademark at the time of importation. ID at 19-20 and Table 2.²⁵

The ALJ's conclusion that the 172 accused "L" series KBT/Zen-Noh tractors are materially different from the most closely comparable KTC models is based on further testimony from Kashiwara. He stated that a KBT/Zen-Noh tractor is identical in all respects to a KBT tractor of the same model number, with two exceptions: the tractors sold to Zen-Noh have the word "Zen-Noh" on the hood rather than "KUBOTA," and the "L" series model numbers on the KBT tractors sold to Zen-Noh have a "Z" prefix. ID at 23. The ALJ found that all of the accused "L" series KBT/Zen-Noh tractors bear model numbers identical to "L" series models that were expressly found to be materially different from the closest comparable KTC models in the underlying proceeding. ID at 23-24. The ALJ further concluded that the two acknowledged differences between the KBT models at issue in the original investigation and the KBT/Zen-Noh tractors at issue here -- *i.e.*, the additional "Z" prefix to the model number and the "Zen-Noh" name on the hood -- do not affect the materiality of the differences between the KBT and KBT/Zen-Noh tractors, on the one hand, and the closest comparable KTC models on the other. ID at 24.

Based on these findings, the ALJ concluded that complainants have met their burden of demonstrating that the accused "L" series KBT/Zen-Noh tractors are "covered" product as defined in the cease and desist orders. In particular, he concluded that the Gamut respondents imported the 172 accused "L" series KBT/Zen-Noh tractors on 56 separate days and sold them all in the United States. ID at 40. He therefore found that the Gamut respondents have violated both the prohibition on importation contained in paragraph III(A) of the cease and desist orders and the prohibition in paragraph III(B) of the orders on sales, marketing, distribution, offers for sale, or other transfer of imported covered merchandise. ID at 25.²⁶

²³ The hour meter is a large gauge prominently located on the dashboard. *See* CEX 29 (photo).

²⁴ ID at 19-20, *citing* CEX 3, ¶8.

²⁵ One of the models at issue is the ZL240. Technically, the number 240 does not end in "00" and is therefore not covered by Kashiwara's testimony. However, none of the parties disputed the ALJ's conclusion that *all* of the accused "L" series tractors bear the "KUBOTA" trademark at least on the hour meter. *Compare* Joint Stipulated Facts (Mar. 23, 1999) at ¶¶ 26-29 (stating that "nearly all" the accused "L" series tractors bear the "KUBOTA" trademark on the hour meter). Accordingly, we do not review this finding.

²⁶ The ID/RD rejects complainants' argument that either counsel for the Gamut respondents or Mr. DuPuy admitted that importation of the accused "L" series tractors constituted infringement of the "KUBOTA" trademark. It concludes that counsel's statement that "if a tractor imported by the Gamut respondents bore the KUBOTA trademark in addition to another trademark then that tractor would infringe the KUBOTA mark" is not inconsistent with counsel's argument that placing the "KUBOTA" trademark on a "part," such as the hour meter of a tractor, is not tantamount to placing the mark on the tractor itself. The ID/RD similarly finds that Mr. DuPuy's deposition testimony that if the name Kubota appears on a
(continued...)

Although the Gamut respondents did not challenge the factual testimony of Kashihara on which the ALJ's conclusions are based, they did raise a number of legal challenges, all of which were rejected by the ALJ. First, the Gamut respondents argued that the accused tractors are not covered by the cease and desist orders because "ZEN-NOH" tractors are not legally equivalent to "KUBOTA" tractors. Although their argument took several forms, their basic point seems to be that a tractor that bears the name "ZEN-NOH" on the hood where KBT tractors bear a large "KUBOTA" trademark cannot be considered a KBT tractor merely because the "KUBOTA" mark appears on certain parts of the tractor. ID at 22, 29. The ALJ rejected the idea that a "parts label" is inherently different from a "tractor label" for purposes of infringement analysis. In so concluding, he relied on two lines of case law. The first stands for the proposition that the presence of more than one trademark on a product does not exempt a party who sells that product from liability for infringement if the party has not obtained permission to affix any one of those marks to the product. The second holds that the position of a symbol or word on a product is not controlling as to whether it performs a trademark function; rather, the relevant issue is whether, when the mark is noticed, it will be understood as indicating the source of the goods. ID at 22, 29. The ALJ further noted that the Gamut respondents did not cite any legal authority to the contrary. *Id.*

The ALJ also rejected the Gamut respondents' argument that the accused "L" series KBT/Zen-Noh tractors with hour meters bearing the "KUBOTA" trademark do not violate the cease and desist orders because Customs cleared those tractors for importation.²⁷ He noted that, while Customs evidently did permit the importation of the accused "L" series tractors, it blocked the importation of "L" series tractors by letters dated July 31, 1997, and September 23, 1997, on the grounds that they bore the "KUBOTA" trademark. ID at 26. Moreover, in a letter dated January 22, 1999, directed to counsel for the Gamut respondents, Customs stated as follows:

Please be advised that tractors bearing a KUBOTA trademark are subject to exclusion where the tractor is under 50 power take-off horsepower and is materially different from the U.S. model. Accordingly, a KUBOTA trademark appearing anywhere on a tractor, including the hour meter, which is under 50 power take-off horsepower and is materially different from the U.S. model would fall under the order.

Zen-Noh tractors which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order and may be imported.

²⁶ (...continued)

tractor it is a covered product "[i]f we imported or sold it as such" is not inconsistent with counsel's position with respect to the difference between "tractor labels" and "parts labels." ID/RD at 46-47. Although the ALJ addressed this issue in the context of his remedy discussion rather than in the context of discussing violation, we treat it as part of the ID rather than as part of the RD. Complainants do not challenge the ALJ's treatment of this issue in their petition for review, and we do not review it.

²⁷ Again, the Gamut respondents made this argument several ways, arguing alternately that (1) because the general exclusion order and the cease and desist orders define covered product the same way, the Commission cannot view as covered a product that Customs, by virtue of allowing its importation, has determined not to be covered; or (2) such contrary positions by the Commission and Customs subject the Gamut respondents to an unfair sort of double jeopardy; or (3) Kubota must bring its complaint against Customs, not the Gamut respondents, since it is Customs that permitted the importation of the accused tractors. *See, e.g.,* Respondents' Brief [Position Statement] (Mar. 23, 1999) at 6-8; ID at 26.

ID at 26-27 n.18, *citing* REX A. Thus, the ALJ concluded that the Gamut respondents were put on notice at least by the Customs letter dated July 31, 1997, that Customs considered “L” series tractors that bear the “KUBOTA” trademark to be covered by the cease and desist orders. ID at 27.²⁸ He also reasoned that a separate action against Customs is required only when an importer wishes to challenge Customs’ manner of enforcing an exclusion order with respect to particular imports, not when a trademark owner suspects a violation of a cease and desist order. ID at 27-28, *citing Hyundai Electronics Indus. Co. v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204 (Fed. Cir. 1990).

Finally, the ALJ rejected the Gamut respondents’ contention that the accused “L” series KBT/Zen-Noh tractors are not covered by the cease and desist orders because the orders do not specify the model numbers to which they apply and the Commission has never specifically adjudicated the question whether these particular KBT/Zen-Noh models are materially different from the most closely comparable KTC models. The ALJ reasoned that it is not necessary for the cease and desist orders to identify infringing tractors by model number, since all the Gamut respondents needed to know was whether the accused “L” series tractors bear the “KUBOTA” trademark and are materially different from the most closely comparable KTC models. Moreover, the ALJ noted that such a model-by-model comparison has already been performed, since, in its original determination, the Commission specifically identified as infringing 45 models of KBT tractors that (with the exception of the “Z”) prefix, include all the model numbers represented by the accused tractors. ID at 28-29. Therefore, the ALJ concluded that the cease and desist orders’ failure to identify specific infringing model numbers does not render the orders ineffectual. ID at 29.

b. Arguments of the Parties

i. Respondents’ Arguments

The Gamut respondents argue that the Commission should review the ALJ’s finding that their importation and sale of “L” series tractors violated the cease and desist orders. They argue that “[t]here is no distinction . . . between ZB and ZL tractors,” and that the ALJ’s finding of no infringement with respect to “B” series tractors (discussed below) should apply equally to “L” series tractors.²⁹ They challenge the ALJ’s finding that “L” series tractors may bear the “KUBOTA” trademark in locations other than the hour

²⁸ There is no evidence in the record indicating the dates of importation of the 172 accused “L” series tractors. The record indicates only the invoice date for Gamut’s sale of the relevant tractors. Based on Customs’ letter of July 31, 1997, the ALJ concluded that all 172 accused “L” series tractors must have been imported prior to July 31, 1997. We agree that there was nothing in the record before the ALJ to support a different conclusion. In respondents’ Petition for Review to the Commission, however, counsel for the Gamut respondents admits that the tractors sold after July 31, 1997, were imported at about the same time they were sold and therefore were largely imported after July 31, 1997. RP at 7-8. We do not find this fact material to our violation determination since, as we discuss *infra*, we do not believe that the fact that Customs may have erroneously permitted the accused tractors to be imported contrary to its own interpretation of the *general exclusion order* has any bearing on the Commission’s violation determination with respect to the *cease and desist orders* issued pursuant to separate statutory authority. Nor do we believe that the date of entry is critical, so long as there is unquestioned evidence of sale within the United States after July 31, 1997.

²⁹ RP at 2.

meter, stating that it is based on discredited testimony by Kashihara and is inconsistent with the parties' stipulation that "L" series tractors bear the "KUBOTA" mark on the hour meter.³⁰ With respect to the "KUBOTA" trademark on the hour meter, they reiterate that it is a "parts label" rather than a "tractor label."³¹ They also contend that the record in this proceeding contains no evidence of material differences between the accused "L" series tractors and KTC tractors.³²

The Gamut respondents dispute the significance that the ALJ attached to the Customs letter of July 31, 1997. They contend that the ALJ's inference that, because Customs blocked the importation of certain "L" series tractors on July 31, 1997, all of the accused tractors must have been imported prior to that date, is simply untrue. While Customs has stopped several shipments of "L" series tractors, they assert that Customs has not stopped other shipments of "L" series tractors since that date.³³ They also contend that they cannot be accused of intentionally violating the cease and desist orders, since their counsel tried repeatedly to get Customs to define for him what tractor models are infringing by way of telephone calls, letters, and a FOIA request.³⁴ Overall, what the Gamut respondents appear to be arguing is that they relied in good faith on the actions of Customs and that because Customs continued to admit the accused "L" series tractors, they reasonably concluded that they could continue to sell them.³⁵

ii. Complainants' Arguments

Complainants argue that the ALJ erred by finding a violation of the cease and desist orders only with respect to "L" series tractors sold after July 31, 1997. Because Commission cease and desist orders are effective upon issuance, or in this case as of February 25, 1997, they argue that the ALJ should have included all days on which sales of accused "L" series tractors were made, rather than only those after July 31, 1997, in calculating the number of violation days for purposes of assessing the penalty. They contend that there is no rule whereby Commission cease and desist orders are only enforceable after interpretation by Customs.³⁶ Complainants also argue that the ALJ erred in not treating one undated invoice for sale of an accused "L" series tractor as an additional violation day, noting that such an adverse inference is appropriate in light of the Gamut respondents' destruction of the documents that could have indicated that

³⁰ RP at 3-4.

³¹ RP at 5.

³² RP at 5-6.

³³ RP at 6-7. The Gamut respondents offer no proof of their assertion that Customs permitted the importation of "L" series tractors after July 31, 1997. They appear to be reasoning that later imports must have occurred based on the invoice dates of Gamut's sales. RP at 7.

³⁴ RP at 8.

³⁵ RP at 9.

³⁶ Complainants' Petition for Review and Comments on Remedy (May 13, 1999) ("Complainants' Petition" or "CP") at 29-30.

actual date of sale.³⁷

In response to respondents' petition for review, complainants argue that respondents never objected to the admission into evidence of the Kashiwara statement and that the parties' stipulation that the "L" series tractors bear the "KUBOTA" mark on the hour meter was never meant to exclude the appearance of that mark elsewhere on the tractor. They argue that, because the Gamut respondents have never introduced any evidence to rebut the substance of Kashiwara's testimony, there is no reason for the Commission to review the ID on this point.³⁸ Complainants also argue that respondents' claim that the Commission has never identified what tractor models are infringing is without merit, noting that in the Commission Opinion and the 1997 ID, 46 specific infringing models are identified.³⁹ Since the evidence shows that the accused "L" series tractors at issue in this enforcement proceeding are identical in all relevant respects to the "L" series tractors found infringing by the Commission in the original investigation, there is no need for the Commission to review the ALJ's finding of infringement with respect to "L" series tractors.⁴⁰

Finally, complainants dispute respondents' contention that they were entitled to rely on Customs' failure to exclude the accused "L" series tractors as a binding determination that sale of such tractors is permitted under the cease and desist orders. Complainants argue that only the Commission has jurisdiction to adjudicate violations of its cease and desist orders and that the Gamut respondents never sought any clarification or an advisory opinion from the Commission on whether the accused "L" series tractors violated the orders. They also contend that Gamut's violations of the cease and desist orders cannot be excused because they were intentional, occurring even after Customs informed respondents on several occasions that importation of "L" series KBT/Zen-Noh tractors violates the general exclusion order. In light of their intentional conduct, complainants assert that the Gamut respondents should not be allowed to "hide behind" the fact that Customs inadvertently admitted tractors which should have been excluded under Customs' own interpretation of the exclusion order.⁴¹

iii. Arguments of the Staff

Like complainants, the staff argue that the ALJ erred in excluding infringing sales of "L" series tractors made before July 31, 1997, from his penalty calculation. The staff argue that the ALJ is mistaken both in concluding that the Gamut respondents were not made aware of the infringing nature of their sales until Customs notified them on July 31, 1997, and in concluding that, up to that time, the Gamut respondents reasonably relied on the advice of their counsel that their sales activities were legal. The staff contend that there is no evidence in the record that the legal advice on which the Gamut respondents purportedly relied ever dealt with the cease and desist orders, as opposed to the general exclusion order. In particular, staff note that there is no evidence that Mr. Walker, counsel for the Gamut respondents, ever

³⁷ CP at 30-31.

³⁸ CR at 5-7.

³⁹ CR at 7-8. The actual number of models which the Commission specifically found to infringe in the original opinion and the 1996 ID is 45, not 46.

⁴⁰ CR at 7-8.

⁴¹ CR at 8-10.

advised his clients that Customs' failure to exclude all KBT/Zen-Noh "L" series tractors did not control whether Gamut was prohibited under the cease and desist orders from importing or selling them. Moreover, the fact that Mr. DePue admitted that he did not seek legal advice before discarding company records is, in the staff's view, evidence that the Gamut respondents did not seek adequate advice from counsel about their responsibilities under the cease and desist orders. Even if respondents did seek some advice, staff conclude, reliance on that advice with respect to the cease and desist orders was not reasonable. Thus, staff contend that the Commission should consider Gamut's 47 infringing sales of accused "L" series tractors that occurred prior to July 31, 1997, in assessing the appropriate civil penalty.⁴²

In response to the Gamut respondents' petition for review, the staff argue that it does not follow from the ALJ's finding of no infringement with respect to accused "B" series tractors that there is also no infringement by accused "L" series tractors, since the latter bear the "KUBOTA" trademark at least on the hour meter; that the material differences between the accused "L" series tractors and the closest comparable KTC tractors are clear on the face of the record; and that Customs' failure to detect the Gamut respondents' violations of the general exclusion order is not equivalent to a decision by Customs that such importations were permissible and does not excuse respondents' violations of the cease and desist orders, particularly in light of the intentional nature of respondents' conduct.⁴³

c. Analysis and Conclusion

We agree with complainants and the staff that the ALJ's finding that the 172 accused "L" series tractors at issue in this enforcement proceeding are materially different from the closest comparable KTC models and therefore infringe the "KUBOTA" trademark is supported by the record and should not be reviewed. Respondents' objections that the Commission has never identified what models of KBT tractors are infringing and that the record is devoid of proof that the accused tractors are materially different from the closest comparable KTC models are without merit. In the original investigation, the Commission specifically identified 45 infringing models.⁴⁴ Moreover, Kashihara's undisputed testimony establishes that all of the accused "L" series tractors at issue in this enforcement proceeding are identical in all relevant respects to "L" series models specifically identified as infringing in the original investigation.⁴⁵

We also agree with the ALJ that trademark law recognizes no distinction between a "parts label" and a "tractor label" in this context. The Gamut respondents have cited no authority to support their position in this regard. In fact, even if there were case law to support this argument, it would arguably not apply in this case, because the evidence indicates that the Gamut respondents routinely represented to their customers that the accused KBT/Zen-Noh tractors are "KUBOTA" tractors. Having expressly fostered consumer confusion, we do not believe that the Gamut respondents should be given the benefit of the doubt that the assertedly secondary placement of the "KUBOTA" trademark on the accused "L" series tractors

⁴² Petition of the Office of Unfair Import Investigations for Review of Final Initial and Recommended Determinations and Comments on the Appropriate Remedy (May 12, 1999) ("Staff Petition" or "SP") at 30-32.

⁴³ SR at 11-20.

⁴⁴ Commission Opinion at 13; 1996 ID at 93-95, FF 153.

⁴⁵ ID at 23.

will not confuse consumers as to the sponsorship of the tractors themselves.

Similarly, we find no merit in respondents' assertion that they reasonably relied on Customs' failure to exclude the accused "L" series tractors. First, the Commission Opinion and the 1996 ID specifically identify as infringing every accused "L" series model at issue here. Thus, respondents cannot legitimately claim that any confusion they may have experienced in ascertaining whether particular unadjudicated models might be infringing is applicable here. Second, the evidence is clear that Customs' official policy has at all times been to exclude every one of the 45 models of KBT tractors identified in the Commission Opinion and 1996 ID so long as the "KUBOTA" trademark appears anywhere on the tractor.⁴⁶ Third, Customs notified the Gamut respondents of its decision to exclude accused "L" series tractors on several occasions.⁴⁷ Fourth, the Commission issued a seizure and forfeiture order with respect to Gamut Trading on January 26, 1998.⁴⁸ Under these circumstances, the only reasonable conclusion that the Gamut respondents could have reached was that Customs' failures to detect and exclude particular shipments of accused "L" series tractors were inadvertent. In any event, it is the Commission, not Customs, that interprets and enforces cease and desist orders. 19 U.S.C. § 1337(f). The Gamut respondents never sought clarification from the Commission via an advisory opinion or otherwise concerning whether the accused "L" series tractors could be imported and sold consistent with the cease and desist orders.⁴⁹ Accordingly, we adopt the ALJ's findings with respect to infringement by the accused "L" series tractors.

Despite his finding that all 172 accused "L" series tractors bear the "KUBOTA" trademark and are materially different from the closest comparable KTC models, the ALJ included in his count of "violation days" for purposes of establishing the appropriate civil penalty only those sales of accused "L" series tractors that occurred after July 31, 1997. He reasoned that, after receiving a letter from Customs noting the exclusion of a shipment of such tractors on that date, respondents should have had a reasonable belief that such tractors were infringing, whereas they might reasonably have believed otherwise prior to that date.⁵⁰

We disagree with this reasoning on both legal and policy grounds. Commission remedial orders, including cease and desist orders, are effective upon receipt of notice thereof by the affected party.⁵¹ After that date, respondents who have already been found to infringe trademark rights bear the burden of

⁴⁶ See Customs letter dated Jan. 22, 1999, CEX 59.

⁴⁷ See Customs letters dated July 31 and Sept. 23, 1997, CEX 82 and 83.

⁴⁸ CEX 86.

⁴⁹ ID at 69, FF 21.

⁵⁰ ID at 44-45.

⁵¹ 19 U.S.C. §§ 1337(f) and (j)(3); 19 C.F.R. § 210.49(c); *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 (Aug. 1991) at 16-22.

demonstrating that their actions are consistent with the orders,⁵² and may, if in doubt, seek clarification or an advisory opinion from the Commission.⁵³ Therefore, we do not believe that a respondent's subjective belief, be it reasonable or otherwise, that a particular product is or is not infringing is relevant to the objective question of violation of a cease and desist order.⁵⁴ Nor do we believe, as a matter of policy, that it is appropriate for the Commission to, in effect, cede its authority to interpret cease and desist orders to Customs. In this case, the objective criteria for finding a violation of the cease and desist orders were satisfied both before and after July 31, 1997. Accordingly, we do not adopt the ALJ's finding that sales by the Gamut respondents prior to July 31, 1997, should not count toward the calculation of violation days, and find that the Gamut respondents sold infringing "L" series tractors on 56 separate violation days.⁵⁵

2. Violation of Paragraphs V and VI of the Cease and Desist Orders: Reporting and Record Keeping Requirements

a. The ID

Paragraph V of the cease and desist orders requires the Gamut respondents to report annually to the Commission, within 30 days of August 31 of each year, "the quantity in units and the value in dollars of foreign-produced covered product that Respondent has imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." The ALJ found that on November 14, 1997, enforcement respondent DuPuy reported to the Commission on behalf of the Gamut respondents that four units of covered products were in inventory as of February 25, 1997, the date on which the cease and desist orders went into effect, that "Gamut trading Company has not imported any units of covered product since February, 1997 nor has it sold any Kubota tractors since February, 1997," and that all of the tractors on hand as of February 25, 1997 "have been broken down into parts and sold or have been shipped to the scrap yard as metal." ID at 35. The ALJ also found that on August 10, 1998, counsel for the Gamut respondents submitted to the Commission a letter dated July 29, 1998, from Mr. DuPuy to counsel, which stated that "since the report submitted last year Gamut Trading has not imported or sold any 'Kubota' tractors." ID at 35-36.

⁵² Commission Opinion at 31; *Canadian Tarpoly Co. v. U.S. Int'l Trade Comm'n*, 649 F.2d 855 (C.C.P.A. 1981).

⁵³ 19 C.F.R. § 210.79(a).

⁵⁴ As discussed *infra*, respondents' subjective intent, while not relevant to the issue of violation, is relevant to consideration of the appropriate civil penalty.

⁵⁵ We agree with the staff and do not review the ID to find a 57th violation day, as advocated by complainants. Complainants ask the Commission to infer that one sale of an accused "L" series tractor made by the Gamut respondents, for which the invoice is undated, occurred on a separate, 57th, violation day. They contend that such an inference is appropriate, since it was respondents who destroyed the documents necessary to ascertain the actual date of the sale in question. Although there is some merit to complainants' contention, we do not believe that the ALJ's treatment of the undated invoice is wrong as a matter of law or policy, and therefore determine not to review the ALJ's conclusion with respect to the proposed 57th violation day. Rather, we treat respondents' destruction of documents that might have demonstrated additional violation days as an exacerbating factor in our consideration of the appropriate civil penalty.

In light of his finding that the Gamut respondents did indeed import and sell “L” series KBT/Zen-Noh tractors after February 25, 1997, during both of the relevant reporting periods, and his finding that the Gamut respondents were put on notice that Customs considered such tractors to be “covered product” based on Customs’ letter of July 31, 1997, the ALJ concluded that the Gamut respondents “ought to have been aware that any sales of the accused ‘L’ series tractors after July 31, 1997 would be subject to the reporting requirement.” ID at 37-38 (emphasis in original). Accordingly, the ALJ concluded that the Gamut respondents knowingly violated the reporting requirements of the cease and desist orders in issue when they stated on November 14, 1997, and August 10, 1998, that they had neither imported nor sold any covered products since February 25, 1997. ID at 38.

The ALJ further found that on November 1, 1998, after the July 31, 1997, Customs letter and after the July 16, 1998, filing of the complaint in this enforcement proceeding, the Gamut respondents destroyed three types of documents: (1) records relating to importation, (2) records relating to offers for sales and marketing, and (3) records relating to sales, distribution, and transfer. The destroyed material amounted to 3 to 4 four-drawer filing cabinets worth of documents. Those documents included bills of lading, purchase invoices, documents reflecting Customs clearance of imported tractors, accounts payable information, faxes from the trading companies that supplied the tractors, and other importation documents that would have shown from whom the Gamut respondents purchased the accused “L” series tractors and for how much. The documents also included customer lists and files, which would have shown to whom offers for sale were made, letters to and from Gamut Trading’s dealers, and other documents relating to Gamut’s marketing efforts. ID at 38. The ALJ found that the destruction of these documents violated the requirement in paragraph VI(A) of the cease and desist orders that respondents “shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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.” ID at 39. In addition, the ALJ found that, in January of 1999, the Gamut respondents sold the computer containing files on receivables, payables, payroll, and invoice information that had been used to generate the Gamut respondents’ 1997 and 1998 financial statements. He concluded that the sale of the computer, which effectively destroyed those files, is a further violation of the record keeping requirements of the cease and desist orders, because the Gamut respondents ought to have been aware of their obligation to maintain the records contained in the computer files. ID at 39.

b. Arguments of the Parties

The Gamut respondents argue that, since Customs permitted the importation of the accused “L” series tractors, those tractors cannot be infringing and, therefore, the sales in question were not subject to the record keeping and reporting requirements of the cease and desist orders.⁵⁶

c. Analysis and Conclusion

The substance of the Gamut respondents’ reports to the Commission as well as the fact of their destruction of most company records during the pendency of this enforcement proceeding are well documented and have never been denied. The Gamut respondents have given only two justifications for their actions: (1) the documents were destroyed because Gamut Trading supposedly went out of business,

⁵⁶ RP at 9.

ceased all operations, and therefore did not need the documents anymore,⁵⁷ and (2) there is no violation of the reporting and record keeping requirements because the tractors at issues are not infringing. With respect to the first justification, the ALJ found that Gamut Trading is still a legal business entity in California.⁵⁸ Even if it were not, however, the fact that a business shuts down is not a justification for destroying records that are otherwise required by law to be maintained (e.g., tax records). Given our prior determination not to review the ALJ's conclusion that the accused "L" series tractors are infringing and violate the cease and desist orders, we further determine not to review the ALJ's conclusion that the failure to report such sales and the destruction of company records concerning such sales constituted additional violations of the cease and desist orders.

C. The ALJ's Finding of No Violation With Respect to "B" Series Tractors

1. The ID

The ALJ found that, in contrast to the "L" series accused tractors, none of the "B" series accused tractors bear the "KUBOTA" trademark anywhere on them at the time of their importation. This conclusion is based on (1) complainants' stipulation that "[n]one of the tractors identified with a 'ZB' prefix on Gamut Trading Co., Inc., Price Lists, bearing production numbers GE0003-55 or Gamut Trading Co., Inc. invoices bearing production numbers GE00056-152 have an hour meter," ID at 20, *citing* Joint Stipulation of Facts at ¶ 30; and (2) the Commission's instruction that complainants have the burden of demonstrating any violation of the cease and desist orders. ID at 20.

The cease and desist orders define "covered product" as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark 'KUBOTA' (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." Cease and Desist Orders at ¶ I(H). The ALJ reasoned that because complainants have not shown that the accused "B" series tractors bear the "KUBOTA" trademark at the time of importation, and in light of Customs' finding that tractors that do not bear the "KUBOTA" trademark at the time of importation are not infringing, complainants have not established that the accused "B" series tractors are "covered product" within the meaning of the cease and desist orders. ID at 30. Accordingly, he found no violation of paragraph III(A) of the orders.

The ALJ also rejected complainants' argument that there is contributory infringement involving the accused "B" series tractors in that the Gamut respondents induced others to infringe. He reasoned that, although the orders prohibit sale, marketing, distribution or transfer of tractors within the United States, those prohibitions apply only to "imported covered product." Based on his finding that the accused "B" series tractors are not "imported covered product" because they did not infringe the "KUBOTA" trademark at the time of importation, the ALJ found that there was no act of direct infringement. Citing court decisions, he further found that there can be neither inducement of infringement nor contributory infringement in the absence of direct infringement. ID at 31-32.

The ALJ noted that, in its opinion in the original investigation, the Commission stated:

⁵⁷ See, e.g., CEX 35 at 23-27 and CEX 36 at 184-187 (DePue Deposition Transcript); CEX 37 at 97-98 (DuPuy Deposition Transcript).

⁵⁸ ID at 5-6.

The unlawful act defined by section 337 is the “importation into the United States, the sale for importation in to the United States, or the sale within the United States after importation” of an article that infringes a registered trademark. 19 U.S.C. § 1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels [and thereby eliminate the material difference that formed the basis for the finding of infringement].⁵⁹

The ALJ interpreted this passage to mean that the only relevant point in time for determining infringement for purposes of identifying “imported covered product” within the meaning of the cease and desist orders is at the time of importation.

He therefore rejected complainants’ argument that, even though the accused “B” series tractors may not have borne the “KUBOTA” trademark at the time of importation, the Gamut respondents infringed because they used the Kubota trademark extensively in connection with the advertising and sale of those tractors, which, complainants contend, is sufficient to establish infringement under general trademark law. ID at 32. The ALJ also rejected complainants’ argument that the Gamut respondents have violated the cease and desist orders by inducing their dealers to infringe the “KUBOTA” trademark by encouraging the resale of tractors the Gamut respondents sell and by supplying their dealers with counterfeit “KUBOTA” labels with instruction to affix the labels to the accused tractors. ID at 33-34. Finally, the ALJ rejected complainants’ argument that the Gamut respondents are liable for contributory infringement by the offer for sale of infringing KBT/Zen-Noh tractors. ID at 34-35.

In the ALJ’s view, these general principles of trademark law do not apply in the context of section 337, unless there has been a prior showing that the accused products are “imported covered product” within the meaning of the Commission’s cease and desist orders. As previously noted, the ALJ found that there must be an act of direct infringement with respect to the accused goods *at the time of importation* in order for the accused products to be covered by the Commission’s analysis. ID at 35. Accordingly, he expressly stated that he was *not rejecting* complainants’ arguments that the actions taken by the Gamut respondents after importation of the accused “B” series tractors constituted infringement under general trademark law. Rather, he was simply making no finding on those issues because he found that they are irrelevant in the context of this enforcement proceeding absent a showing that the accused “B” series tractors are “imported covered product.” ID at 33 n.21.

2. Arguments of the Parties

a. Complainants’ Arguments

Complainants argue that the ALJ erred in concluding that only tractors that are infringing at the time of importation are “covered product” within the meaning of the cease and desist orders. They contend that section 337 is intended to reach a broad range of unfair activities related to trade and that, consistent with this intent, the Commission has not limited its jurisdiction to find a violation of section 337 in the first instance to articles that infringe an intellectual property right at the time of importation. In particular, complainants cite several cases for the proposition that the Commission has found violations of section 337

⁵⁹ USITC Pub. 3026, Commission Opinion at 9.

based on conduct that occurs after a non-infringing importation.⁶⁰ In addition, complainants argue that there is no reason why the scope of the Commission's remedial authority under a cease and desist order must be limited by Customs' interpretation of an exclusion order, since the Commission can address cease and desist orders to purely domestic activities.⁶¹

Complainants contend that the ALJ erred in reading the Commission Opinion in the original investigation to require that a tractor be infringing at the time of importation in order to violate section 337. They note that, contrary to the ALJ's conclusion, in the opinion in the original investigation the Commission used the term "or" in referring to infringement at the time of importation *or* at the time of sale. Moreover, they contend that the ALJ has taken the Commission's statement out of context. Consequently, complainants assert that any reliance on the quoted language to support the finding that the "B" series tractors are not covered product is legally erroneous.⁶²

Complainants further argue that, after reversing the ALJ's finding that the "B" series tractors are not covered products, the Commission should proceed, based on the record developed by the ALJ, to rule on complainants' claims of infringement, contributory infringement, and induced infringement with respect to the "B" series tractors which the ALJ declined to reach. In this regard, complainants contend that a finding of violation with respect to "B" series tractors is warranted because the Gamut respondents are adjudicated infringers and are therefore under a heightened duty to avoid infringement. Under this "safe distance rule," complainants contend that the Gamut respondents were required to avoid all infringing activities, even if that meant somewhat handicapping their business operations. Rather than staying "several healthy steps" away from infringement, complainants argue that the Gamut respondents deliberately violated the cease and desist orders by importing "B" series KBT/Zen-Noh tractors, using the "KUBOTA" trademark in connection with sales of those tractors, and encouraging their customers to affix counterfeit "KUBOTA" labels to the tractors. They assert that the ALJ's failure to apply the "safe distance rule" warrants reversal of the ID on legal and policy grounds.⁶³

While complainants agree with the ALJ's conclusion that there can be no contributory infringement without direct infringement, they argue that the ALJ erred in requiring that such direct infringement occur at the time of importation and thereby erroneously failed to find that the Gamut respondents violated the cease and desist order by contributorily infringing the "KUBOTA" trademark through their activities with respect to the accused "B" series tractors.⁶⁴ Complainants argue that contributory infringement exists where one party intentionally induces another to directly infringe a trademark or continues to supply a product to one whom it knows or has reason to know uses the product to engage in trademark infringement. They assert that the ID, together with the record from the original investigation, contains sufficient findings

⁶⁰ CP at 17-19.

⁶¹ CP at 20-21.

⁶² CP at 24-25.

⁶³ CP at 21-24.

⁶⁴ CP at 25.

of fact to support a Commission finding that the Gamut respondents' acts satisfy both prongs of this test.⁶⁵

In particular, they contend that the record demonstrates that: (1) the Gamut respondents knew their dealers would not purchase tractors bearing the Zen-Noh name and therefore told their dealers that Zen-Noh tractors are "KUBOTA" tractors and encouraged them to tell their customers the same; (2) respondents identified the accused "B" (and "L") series tractors on their promotional materials and invoices as "Zen-Noh (Kubota)"; (3) respondents sold the accused "B" series tractors to dealers without any brand identifying labels on the hoods of the tractors and later provided the dealers with counterfeit labels bearing the "KUBOTA" trademark and instructed them where to affix the labels on those tractors; and (4) respondents' dealers followed their instructions by affixing the labels to the accused "B" series tractors and selling those tractors to their own customers as "KUBOTA" tractors. In complainants' view, these facts support a finding of direct infringement by respondents' dealers and contributory infringement by respondents themselves. Moreover, complainants contend, because the Gamut respondents encouraged their dealers to infringe the "KUBOTA" trademark, they are liable for any injury caused by virtue of their contribution to the confusion and deception of the ultimate consumers.⁶⁶

b. Arguments of the Staff

Like complainants, the staff argue that the Commission should review and reverse the ALJ's finding of no infringement with respect to the accused "B" series tractors on both legal and policy grounds.⁶⁷ As a policy matter, they argue that if the Commission were to let stand the ID, respondents that have violated section 337 by infringing a trademark could easily circumvent Commission remedial orders by simply applying the trademark to the goods after importation. Such conduct, they contend, is exactly what cease and desist orders are designed to stop. Put differently, it is because the Commission sometimes needs to address post-importation conduct in order to fully remedy a violation of section 337 that it has the authority to issue cease and desist orders in addition to exclusion orders.⁶⁸ They cite to several previous Commission cease and desist orders that have specifically addressed conduct that occurs only after importation.⁶⁹

The staff also argue that the ALJ's restrictive interpretation of the term "covered product" is contrary to law. Staff assert that trademark infringement is not committed by a product, but rather by a person who uses the mark without authority in connection with some act of commerce (*i.e.*, a sale, offer for sale, distribution or advertising of goods or services) in a manner that is likely to cause confusion. As a

⁶⁵ CP at 26.

⁶⁶ CP at 26-29.

⁶⁷ The staff argue that the ALJ's finding of no violation with respect to "B" series tractors may have been based, in part, on a misunderstanding of the position of the staff. While staff took the position that there was no violation with respect to sales of "B" series tractors prior to March 10, 1998, they supported a finding of violation thereafter. The ID, however, states that the staff did not support a finding of violation with respect to any "B" series tractors. SP at 11; ID at 30.

⁶⁸ SP at 17-18, 22, 26.

⁶⁹ SP at 23-25.

consequence, merely advertising an infringing mark is an act of infringement under the Lanham Act.⁷⁰ Thus, although both section 337 and the cease and desist orders at issue refer to products “that infringe” a trademark, the staff contend that this word choice was not intended to limit the scope of protection from trademark infringement that the Lanham Act affords to owners of federally-registered trademarks.⁷¹ In addition, staff argue that the ALJ’s reliance on the Commission statement concerning infringement at the time of importation is misplaced, because the statement refers to both the time of importation or the time of sale. The Commission’s original determination dealt with a situation where goods that were infringing at the time of importation could be rendered non-infringing by certain actions taken later (*viz*, the replacement of Japanese-language labels with English-language labels), and found that actions taken after importation could not support a finding of no infringement where the goods were infringing at one of the relevant times (the time of importation). Similarly here, the staff contend, the fact that the accused “B” series tractors were not infringing at the time of importation cannot support a finding of no infringement if the goods were infringing at the time of sale within the United States.⁷²

Staff also argue that the ALJ’s reliance on Customs’ advice to the Gamut respondents that tractors “which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order . . . may be imported” was legally incorrect. As noted above, the staff contend that infringement at the time of importation is not a controlling factor with respect to violation of the cease and desist orders.

The staff further argue that the Commission should find that the Gamut respondents’ sales of accused “B” series tractors were in violation of the cease and desist orders as of the date when they started using the “KUBOTA” trademark in their sales literature. In staff’s view, the evidence shows that the Gamut respondents began using the “KUBOTA” trademark on advertising materials on or about March 10, 1998, and used the mark in connection with the sale of 15 accused “B” series tractors on or after that date.⁷³ Staff further argue that, inasmuch as the Gamut respondents’ sale of “B” series tractors after March 10, 1998, violated the cease and desist orders, the Commission should also review and reverse the ALJ’s failure to find that the Gamut respondents violated the reporting and record keeping requirements with respect to the “B” series tractors.⁷⁴ The staff do not seek reversal of the ALJ’s finding with respect to accused “B” series tractors sold before March 10, 1998, contending that there is no evidence in the record to suggest that the Gamut respondents used the “KUBOTA” trademark in connection with such sales.⁷⁵

c. Respondents’ Arguments

Respondents object to complainants’ characterizing them as “adjudicated infringers.” They

⁷⁰ SP at 18-19.

⁷¹ SP at 19-20.

⁷² SP at 20-22.

⁷³ SP at 27-28. Because staff’s list includes one accused sale later dropped by complainants, there were actually 14 sales of accused “L” series tractors after March 10, 1998. *See* CP at 29 n.13.

⁷⁴ SP at 29.

⁷⁵ SP at 30 n.15.

contend that until the Commission issued its remedial orders, it was legal to import “KUBOTA” tractors and that since that time they have not imported any “KUBOTA” tractors and therefore have not infringed.⁷⁶ They also argue that they took the required “energetic steps” to avoid infringement by pursuing a FOIA request to get Customs to identify the specific infringing tractor models covered by the Commission’s exclusion order.⁷⁷

3. Analysis and Conclusion

We agree with complainants and the staff and determine to review and reverse the ID’s finding that the accused “B” series tractors are not “covered product” because they were not infringing at the time of importation. We further determine that the Gamut respondents violated the cease and desist orders when they used the “KUBOTA” trademark in connection with their sales of 16 accused “B” series tractors on seven days on or after January 12, 1998, and, consequently, that they violated the reporting and record keeping requirements with respect to those tractors as well. Because the record of the enforcement proceeding contains sufficient evidence to support these conclusions and because the parties have already fully briefed these issues, we see no need either to remand this matter to the ALJ for further findings of fact or to seek further briefing from the parties prior to our resolution of these issues.

a. The Definition of “Covered Product”

We agree with complainants and the staff that the ALJ erred, as a matter of law, in concluding that the accused tractors had to bear the “KUBOTA” trademark at the time of importation in order for their subsequent sale to violate the cease and desist orders.⁷⁸

In reaching his erroneous conclusion, the ALJ appears to have relied on a statement from the Commission opinion in the original investigation. In the passage at issue, the Commission is discussing the KBT model L200, a tractor that is identical to the corresponding KTC L200 with only one exception: the KBT model has warning and instructional labels in Japanese rather than in English. The ALJ found that the KBT L200 was not infringing, because model-appropriate English-language labels could be obtained in the United States and used to eliminate the sole material difference between the KBT and KTC models. In reversing that conclusion, the Commission said:

In our view, the labels attached to a tractor at sale are not non-physical or aftermarket items like the availability of replacements parts, service, or operator’s manuals, but rather

⁷⁶ RR at 3-4.

⁷⁷ RR at 3.

⁷⁸ Vice Chairman Miller bases her decision to review Judge Luckern’s ID regarding the “B” series tractors on policy grounds. In the context of this enforcement proceeding, she finds that the respondents’ actions constitute a clear effort to circumvent the Commission’s cease and desist orders. She believes that Judge Luckern’s interpretation would permit circumvention by these respondents and could encourage similar behavior by respondents subject to other Commission orders. She does not consider Judge Luckern’s determination regarding the “B” series tractors to be legally erroneous. Thus, she does not join the following discussion finding legal error, including the discussion of prior Commission determinations that found violations of section 337 based on post-importation conduct.

an integral part of the tractor, *i.e.*, a physical difference. Accordingly, we agree with complainants and the IA that the fact that a KBT L200 could be rendered non-infringing by affixing English-language KTC L200 labels after importation does not preclude a finding of material differences. The unlawful act defined by section 337 is the “importation into the United States, the sale for importation into the United States, or the sale within the United States after importation” of an article that infringes a registered trademark. 19 U.S.C. § 1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of its importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels.⁷⁹

We do not believe that this passage supports the proposition for which the ALJ cites it, *i.e.*, that accused tractors must be infringing at the time of importation in order to violate the cease and desist orders in this case. As complainants and the staff point out, consistent with the language of section 337, the Commission stated that infringement should be determined at the time of importation *or at the time of sale*. In the case of the L200, the question was whether a KBT tractor that was materially different from the comparable KTC model at the time of importation could nevertheless be considered non-infringing because, at some time after importation, someone could replace its Japanese-language labels with English-language labels and thereby eliminate the material difference. The Commission found that infringement at the time of importation was sufficient to establish a violation of section 337, even if the material difference no longer existed at the time of sale.

This case, by contrast, presents the reverse situation: the accused “B” series tractors do not have any “KUBOTA” trademark on them at the time of importation and therefore are not infringing at the time of importation, but are alleged to become infringing when the “KUBOTA” trademark is used in connection with their domestic sale and/or when counterfeit “KUBOTA” labels are placed on them. Consistent with the Commission’s reasoning in the original investigation, we believe that the appropriate conclusion is that infringement at the time of sale is sufficient to render the accused “B” series tractors “covered product” within the meaning of the cease and desist orders.

This result is consistent with Commission practice. In previous cases, the Commission has found violations of section 337 based on post-importation conduct and has issued remedial orders addressed to wholly domestic conduct. One such case is *Certain Chemiluminescent Compositions and Components Thereof and Methods of Using, and Products Incorporating, the Same*.⁸⁰ In that case, respondent Prolufab manufactured glow necklaces in France and sold them to the domestic importer Crazy Light, which resold them to respondent Nite Lite for distribution to U.S. customers. Acting on the assurances of Prolufab, Nite Lite falsely advertised and promoted the necklaces as containing complainant’s glowing chemical “CYALUME.” The Commission found direct trademark infringement by Nite Lite by the use of the “CYALUME” trademark in connection with the sale, offering for sale, and advertising of the necklaces, and found contributory infringement by Prolufab by virtue of its false assurances which induced and

⁷⁹ Commission Opinion at 9.

⁸⁰ Inv. No. 337-TA-285, USITC Pub. 2370 (Mar. 1991).

foreseeably resulted in the direct trademark infringement.⁸¹ In so concluding, the Commission specifically found that the record did not establish that the Prolufab necklaces infringed complainant's trademark at the time of importation or sale for importation, but rather became infringing sometime after importation.⁸² It reasoned that:

a narrow focus exclusively on the infringing character of the articles at the time of importation would ignore the fact that the new §337 subsection in the alternative expressly applies not only to the moment of importation, but also to the sales for importation, and sales after importation within the United States; the alternative provision establishes that the directly infringing character of the sale of the articles under investigation may be established subsequent to their importation.⁸³

Similarly, in *Certain Hardware Logic Emulation Systems and Components Thereof*,⁸⁴ the Commission found that respondents' emulation system directly infringed complainant's patents and that respondents' software contributorily infringed the patents, because respondents' system was inoperable without the software. In addition to an exclusion order, the Commission issued a cease a desist order prohibiting a wide range of domestic conduct, including domestic sale, lease, loan, distribution, transfer (including electronic transfer), or advertising of imported covered product (defined to include infringing emulation systems, components, and software); aiding or abetting other entities in the importation, sale for importation, or sale after importation, lease, loan, duplication, transfer or distribution of covered product; use, duplication or transfer in the United States (including electronically) of software defined as covered

⁸¹ *Id.*, Initial Determination (March 22, 1989) at 31, 42-45.

⁸² *Id.* at 45.

⁸³ *Id.* at 46 n.13. See also *Sealed Air Corp. v. U.S. Int'l Trade Comm'n*, 645 F.2d 976, 986 (C.C.P.A. 1981) ("the sale in the United States of a foreign manufacturer's articles, by the 'owner,' 'importer,' or 'consignee' of those articles is clearly within the subject matter jurisdiction of the ITC under § 1337(a)"); *Certain Apparatus for Installing Electrical Lines and Components Therefor*, Inv. No. 337-TA-196, USITC Pub. 1858 (May 1986), Initial Determination at 12-13 and Commission Opinion at 5, 7 (finding violation of section 337 based on inducement of infringement where respondents encouraged purchasers to use together imported drill bits and domestically-produced coupling devices which, in combination, infringe complainants' patent for a drill with detachable coupling device); *Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation*, Inv. No. 337-TA-99, USITC Pub. 1246 (May 1982), Commission Opinion at 4-5, 7 (finding a violation of section 337 where respondents purchased sandwich panel inserts from the importer and, by reselling them domestically to purchasers who used them in accordance with the method covered by complainants' patent, contributorily infringed that patent; cease and desist orders prohibit importers, *inter alia*, from engaging in the wholly domestic acts of false advertising and passing off.); *Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-89, USITC Pub. 1132 (Apr. 1981), Commission Opinion at 7, 15-16 (Oct. 30, 1980) (finding a violation of section 337 where respondent's technical assistance enabled the purchaser of an imported rolling mill and domestic caster to infringe a patent covering a rolling mill and caster combination).

⁸⁴ Inv. No. 337-TA-383, USITC Pub. 3089 (Mar. 1998).

product; and furnishing technical support and other services to customers relating to covered product.⁸⁵ In adopting this wide-ranging cease and desist order, the Commission explained:

Our remedial authority extends to the prohibition of all acts reasonably related to the importation of infringing products and is not limited to articles that directly infringe a United States patent. As indicated above, it is not a requirement of section 337 that the unfair trade practice to which the remedial order applies originate outside of the United States. In addition, unfair trade practices can be reached by section 337 when such practices involve a “sale within the U.S. after importation” by an importer or an owner.⁸⁶

Based on this Commission practice, which was not altered by the Commission’s opinion in the original investigation, we determine to review and reverse the ALJ’s conclusion that the accused “B” series tractors are not “covered product” within the meaning of the cease and desist orders because they did not bear the “KUBOTA” trademark at the time of importation. We also note that this interpretation of the scope of the cease and desist orders prevents adjudicated infringers from circumventing Commission cease and desist orders by simply affixing the infringing trademark to the relevant goods after importation and then selling those goods with impunity.

b. Direct Infringement

The Lanham Act imposes liability for infringement of a registered trademark on “any person” who “uses” an infringing mark in interstate commerce “in connection with the sale, offering for sale, distribution or advertising of any goods or services” when such use is likely to cause confusion.⁸⁷ Consistent with this language, courts have held that merely advertising an infringing mark is itself an act of infringement, even if the mark does not appear on the alleged infringer’s goods.⁸⁸ Moreover, it does not matter whether the advertising at issue is written, as on a sign or in a newspaper, or oral, as in a sales presentation or television or radio advertising.⁸⁹

⁸⁵ *Id.*, Commission Opinion at 25-34. See also, e.g., *Certain Plastic Food Storage Containers*, Inv. No. 337-TA-152, USITC Pub. 1563 (Aug. 1984), Commission Opinion at 5 (cease and desist orders directed to domestic acts of false advertising and passing off); *Certain Nut Jewelry and Parts Thereof*, Inv. No. 337-TA-229, USITC Pub. 1929 (Nov. 1986), Commission Opinion at 21 (cease and desist orders directed to domestic activity including selling improperly marked jewelry and misrepresenting the jewelry’s origin).

⁸⁶ USITC Pub. 3089 at 27 (footnotes omitted).

⁸⁷ 15 U.S.C. § 1114(1) (emphasis added).

⁸⁸ See, e.g., *Miller Brewing Co. v. Carling O’Keefe Breweries of Canada, Ltd.*, 452 F. Supp. 429 (W.D.N.Y. 1978); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977), cert. dismissed, 434 U.S. 1052 (1978); see generally McCarthy §25:26 at 25-46 - 25-47.

⁸⁹ See 3A R. Callmann, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.08 (4th ed. 1994) (“There is no limitation on the manner in which the infringer uses the mark; it may be found on labels, signs, prints, packages, wrappers, receptacles or advertisements . . . or it may be referred to orally (continued...)”).

Because he found that only infringement at the time of importation was relevant in this enforcement proceeding, the ALJ did not reach the issue of whether the Gamut respondents' advertising and promotional activities with respect to the accused "B" series tractors after importation could constitute infringement of the "KUBOTA" trademark in violation of the cease and desist orders. Because we find that the accused "B" series tractors are "covered product," however, we have reached this issue.⁹⁰ Based on the statute and case law described, we concur with complainants and the staff that respondents' use of the "KUBOTA" trademark in advertising and promotional materials associated with the domestic sale of the accused "B" series tractors constitutes infringement of the "KUBOTA" trademark, and therefore a violation of the cease and desist orders.

As discussed above, the ALJ concluded that none of the accused "B" series tractors bears the "KUBOTA" trademark anywhere on them at the time of importation.⁹¹ He further found, however, that the Gamut respondents represented to their customers that "KUBOTA" and KBT/Zen-Noh tractors are the same thing and have identified KBT/Zen-Noh tractors as "KUBOTA" tractors in their sales literature. He also found that the reason the Gamut respondents represented to their dealers that the Zen-Noh tractors they were selling were in fact "KUBOTA" tractors was because they realized that their dealers would not purchase tractors bearing the unfamiliar Zen-Noh name.⁹² None of the parties disputes these factual findings in their petitions for review. We concur with complainants and the staff that these facts, by themselves, are sufficient to establish that the Gamut respondents directly infringed the "KUBOTA" trademark when they used the "KUBOTA" mark in connection with their sale of KBT/Zen-Noh tractors that did not bear the trademark at the time of sale.

There is a difference of opinion between complainants and the staff, however, as to the sufficiency of the evidence to establish infringement through advertising with respect to the sales of all 93 accused "B" series tractors or only some of those sales. Staff contend that the evidence shows that, for a period of about one year after the cease and desist orders were issued, the Gamut respondents terminated their previous practice of using the "KUBOTA" trademark in the invoices and sales literature for both "B" and "L" series tractors and identified such tractors only as "Zen-Noh" tractors in such documents. Staff contend that, on or about March 10, 1998, the Gamut respondents began referring to the accused "L" and "B" series tractors in their invoices and sales literature as "ZEN-NOH (Kubota)" tractors. Thus, staff assert that there is no evidence that the Gamut respondents used the "KUBOTA" trademark in sales or advertising materials for accused "B" series tractors prior to March 10, 1998, and that any finding of infringement

⁸⁹ (...continued)
in sales talks or radio advertisement."); *Lindy Pen Co. v. Bic Pen Corp.*, 796 F.2d 254, 256-57 (9th Cir. 1986) (finding infringement by use of similar mark on same product in telephone sales where purchasers could not see the actual product at the time they ordered).

⁹⁰ To be "covered product," an accused tractor must be materially different from the closest comparable KTC model. As in the case of "L" series accused tractors, the record establishes that the "B" series accused tractors at issue in this enforcement proceeding are identical in all relevant respects to "B" series KBT models found to be infringing in the original investigation. ID at 9-10. Accordingly, we find that the accused "B" series tractors are all materially different from the closest comparable KTC models.

⁹¹ ID at 20.

⁹² ID at 63, FF 2, and 69-70, FF 24.

should cover only sales on or after that date.⁹³ By the staff's count, the Commission should find 15 infringing sales of "B" series tractors on seven different days (only two of which are days on which no "L" series tractors were sold).⁹⁴

Complainants assert that staff has failed to consider evidence of respondents' use of the "KUBOTA" trademark in connection with the sale and marketing of accused "B" series (as well as "L" series) tractors prior to March 10, 1998. Complainants rely, first, on a list of "Unsold Tractors in Stock" dated January 12, 1998, that was forwarded to complainants' private investigator by respondents.⁹⁵ This document uses "ZEN-NOH (Kubota)" to identify both "B" and "L" series tractors being offered for sale.⁹⁶ Second, complainants point to additional sales and promotional literature not referenced by the staff, which they contend uses the "KUBOTA" trademark. The referenced documents are a package of information prepared for dealers concerning tractors, implements, parts service, and other services available from Gamut Trading.⁹⁷ The documents include price lists for tractors dated October 1 and October 23, 1997. Unlike the later price lists referenced by the staff, these lists do not identify the accused tractors as "ZEN-NOH (Kubota)," but only as "Zen-Noh." The information is, however, printed on Gamut Trading stationery, which lists, at the bottom, a number of brands of tractors, including "KUBOTA." Subsequent pages dealing with implements and parts refer specifically to "KUBOTA" implements and parts. Finally, complainants rely on the declaration of their private investigator, Mr. Callahan, who contacted respondents and posed as a potential purchaser of used tractors.⁹⁸ Mr. Callahan indicated that in telephone conversations with Mr. DuPuy on both December 30, 1997, and January 20, 1998, DuPuy orally assured him that "Zen-Noh" and "KUBOTA" tractors are the same thing; that there is no difference between the

⁹³ SR at 3-4; Commission Investigative Staff's Direct Position Statement (Mar. 26, 1999) at 17 (proposed FF 61-62). In taking this position, staff relied on three pieces of evidence. The first is an exhibit consisting of Gamut Trading price lists produced in discovery. CEX 42. These price lists bear various dates ranging from March 12, 1997, through September 30, 1998. They show the accused tractors were identified as "Zen-Noh" until March 10, 1998, after which they were identified as "ZEN-NOH (Kubota)." The second referenced exhibit is CEX 50, a collection of Gamut Trading sales invoices produced through discovery. Most of the invoices refer to "Zen-Noh" tractors. Two such invoices refer to "KUBOTA" tractors, but are dated prior to the issuance of the cease and desist orders (Jan. 23 and Jan. 30, 1997). Only three of the invoices refer to "ZEN-NOH(Kubota)" tractors (dated March 25, April 6, and June 1, 1998), and they reflect only sales of "L" series accused tractors. The third referenced item is the transcript of the DePue deposition, CEX 35 at 73-74. In his deposition, Mr. DePue testified that during 1997, when Gamut Trading was referring to the accused tractors as "Zen-Noh" tractors, consumers were confused and wanted to know who actually made the tractors, so respondents added the parenthetical reference to "Kubota" to clarify who was the original manufacturer of the tractors.

⁹⁴ Because complainants withdrew one of the sales at issue, *see* CP at 29 n.13, the correct count according to the staff's position would be 14 infringing sales on 6 days.

⁹⁵ CR at 13.

⁹⁶ CEX 16.

⁹⁷ CEX 51.

⁹⁸ CEX 2 at ¶¶ 7 and 10.

tractors; that the paperwork for sale of the Zen-Noh tractors would not say “KUBOTA” because “I got a stupid order from the court says I can’t”; and that “KUBOTA” labels would be sent separately and could be affixed to the tractors by the dealer. Complainants contend that this evidence, collectively, demonstrates that it has been respondents’ consistent practice, since issuance of the cease and desist orders, to represent to their customers, both orally and in writing, that the accused tractors they were selling were “KUBOTA” tractors, which constitutes infringement.⁹⁹ Thus, complainants would have the Commission find, in addition to the infringing sales identified by the staff, an additional 78 infringing sales on 23 days (including an additional 10 days on which no “L” series tractors were sold).

We find that respondents infringed the “KUBOTA” trademark by using the mark in written advertising and sales related materials beginning at least as early as January 12, 1998. While we believe that the evidence could support complainants’ theory that respondents have been using the “KUBOTA” mark in connection with their sales of accused tractors continuously since the cease and desist orders were issued, we have decided not to make such a finding because we believe the evidence relied on is not as strong as the evidence pertaining to the period beginning January 12, 1998. First, the October 1997 promotional materials, while they do use the “KUBOTA” trademark, use it principally on pages dealing solely with parts and implements, which are not covered by the cease and desist orders. The only use of the mark on pages discussing tractors is in the standard print of the stationery itself, in a list of brand names, and is not associated with the specific Zen-Noh models offered for sale. Thus, with respect to sales made before January 12, 1998, we would have to rely solely on evidence that the Gamut respondents have used the “KUBOTA” trademark orally in sales-related conversations, all of which evidence is derived from the activities of complainants’ private investigators.¹⁰⁰ Accordingly, we find that respondents violated the cease and desist orders by making 16 infringing sales of accused “B” series tractors on seven days (including two days on which no “L” series tractors were sold). We further find, for the same reasons given by the ALJ with respect to the accused “L” series tractors, that respondents have violated the reporting and record keeping requirements of the cease and desist orders with respect to such sales.

Thus, we find a combined total of 188 infringing sales of accused “L” and “B” series tractors on 58 violation days.

c. Contributory Infringement

Contributory infringement occurs when one party (i) intentionally induces another to directly infringe a trademark, or (ii) continues to supply a product to one whom it knows or has reason to know uses the product to engage in trademark infringement.¹⁰¹ Complainants argue that the ALJ erred in not

⁹⁹ CR at 13-14.

¹⁰⁰ This includes both the evidence obtained by complainants’ investigators when they posed as dealers interested in purchasing tractors from Gamut, and also evidence from Pro Truck, a dealer to which the investigators were referred by Gamut. As discussed *infra*, the latter, while probably more disinterested than the investigators’ testimony, is deficient in certain other respects.

¹⁰¹ *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 U.S. 844, 853-54 (1982); *Certain Chemiluminescent Compositions*, USITC Pub. 2370, Commission Opinion at 3.

reaching the issue of contributory infringement by both the “L” and “B” series accused tractors.¹⁰² They argue that by selling the accused tractors to their dealers without any brand identifying labels on the hoods of the tractors and later providing them with “KUBOTA” labels and instructions as to where to affix them, respondents induced their dealers to directly infringe the “KUBOTA” trademark.¹⁰³ Although the staff appear to believe that the evidence would support a finding of contributory infringement,¹⁰⁴ they do not expressly challenge the ALJ’s failure to reach this issue in their petition for review.¹⁰⁵

A finding of contributory infringement requires an initial showing of direct infringement.¹⁰⁶ Thus, in order to find that the Gamut respondents contributorily infringed the “KUBOTA” trademark, the Commission must first find that respondents’ customers directly infringed the mark.

The ALJ found that the Gamut respondents have provided their customers with sticker labels bearing the “KUBOTA” trademark and instructed those customers regarding how to place the labels on the KBT/Zen-Noh tractors they purchased.¹⁰⁷ He also found that the Gamut respondents encouraged their dealers who purchased KBT/Zen-Noh tractors to inform their own customers (the actual end users) that those tractors were actually manufactured by KBT.¹⁰⁸ He did not, however, make any findings of fact that would support a finding that respondents’ customers infringed the “KUBOTA” trademark, *i.e.*, by doing the things they were encouraged to do.

As evidence of direct infringement by respondents’ dealers, complainants refer to the experience of Pro Truck, a Florida truck parts dealer that purchased four tractors from respondents in late 1997. Mr. Wilks, the proprietor of Pro Truck, was told by his tractor salesman, Mr. Livingston, that Livingston had ordered four “KUBOTA” tractors from Gamut Trading. When the tractors arrived, Wilks noticed that they were freshly painted and had no “KUBOTA” emblems on them. He found the labels in a separate cardboard box and attached them to the tractors himself. He did not notice any instructions, but said it was clear to him where the labels belonged. When he asked Livingston why the paperwork referred only to Zen-Noh rather than “KUBOTA,” Livingston indicated that there was some legal reason why Gamut Trading could not sell the tractors if it wrote “KUBOTA” on the documents. Wilks sold these tractors to consumers as “KUBOTA” tractors.¹⁰⁹

There is considerable evidence of record to support the ALJ’s findings with respect to Gamut’s

¹⁰² CP at 25-26.

¹⁰³ CP at 27.

¹⁰⁴ See Commission Investigative Staff’s Direct Position Statement (Mar. 26, 1999) at 26, 28 (referring to “induced” infringement).

¹⁰⁵ SP at 27.

¹⁰⁶ ID at 31.

¹⁰⁷ ID at 63, FF 2, and at 69-70, FF 24.

¹⁰⁸ ID at 69, FF 23.

¹⁰⁹ CEX 34 (Wilks Deposition) at 24-26, 42-49, 57-58, 64.

sales practices and its use of “KUBOTA” labels, including the deposition testimony of Messrs. DePue and DuPuy and the statements of complainants’ private investigators, who posed as tractor dealers and prospective Gamut Trading customers. The experience of Pro Truck, however, is the only direct evidence on the record of trademark infringement by the dealers with whom the Gamut respondents do business. Thus, any conclusion about what Gamut’s other customers did with the labels they received and how they described the KBT/Zen-Noh tractors to their customers would be an inference based on Pro Truck’s experience and the Gamut respondents’ conduct.

Although we believe there is some evidence to support a finding of contributory infringement with respect to both the “B” series and “L” series accused tractors, we do not make such a finding for the following reasons. With respect to the accused “L” series tractors, since we have already found direct infringement with respect to all such sales, an additional finding of contributory infringement would not add to the number of infringing sales or the number of violation days. With respect to the accused “B” series tractors, a finding of contributory infringement would affect the number of infringing sales and the number of violation days, since such a finding would apply to all sales of accused “B” series tractors, including those sold before January 12, 1998. However, as in the case of direct infringement with respect to those sales, the record evidence is somewhat weak. In particular, Wilks did not deal with respondents directly, but only testified as to what Livingston told him. Livingston appears to have left the country and could not be deposed. Without Livingston’s testimony, the experience of the single dealer (Pro Truck) is lacking in the kind of detail about the interaction between Gamut and its dealers that would be desirable to support a finding of contributory infringement.¹¹⁰ Accordingly, we do not make a finding of contributory infringement.

IV. REMEDY: THE APPROPRIATE CIVIL PENALTY AMOUNT

A. Background and Legal Standard

Because we have found that the Gamut respondents violated the cease and desist orders, we must also determine the appropriate amount of the civil penalty to be imposed on the Gamut respondents. As the parties have already fully briefed the remedy issues, this matter is ripe for our consideration. Unlike violation issues, the Commission considers remedy issues *de novo*, and is not bound in any way by the findings of the RD.

Subsection (f)(2) of section 337, 19 U.S.C. § 1337(f)(2), provides that:

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

Thus, the statute sets two alternate ceilings on the magnitude of the civil penalty the Commission can impose for violations of its remedial orders. The legislative history confirms that the Commission has

¹¹⁰ In addition, Wilks apparently did not receive the written instructions on how to affix the “KUBOTA” labels that complainants contend the Gamut respondents were in the habit of providing.

discretion to impose a civil penalty up to the applicable maximum amount. It also provides guidance on the goals that the Commission's authority to impose such a penalty is meant to serve and the factors that the Commission should take into consideration in setting the penalty amount. In particular, the House Report on the Trade Agreements Act of 1979, which added the civil penalty provision to section 337, notes:

The provision for a civil penalty of up to the amount of the domestic value of the articles entered, or sold, on a day in violation of the order is directed to the situation in which the violation may involve a large shipment of an articles of sufficient value so as to make a \$10,000 penalty [the original maximum] not a deterrent to the violation of the order. The 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 unintentional violations and the public interest.¹¹¹

In the two prior cases in which the Commission levied civil penalties under section 337, the Commission adopted a six factor test for assessing whether to impose a civil penalty and determining the amount of such penalty. The six factors are: (1) the good or bad faith of the respondent; (2) the injury to the public; (3) the respondent's ability to pay; (4) the extent to which respondent has benefitted from its violations; (5) the need to vindicate the authority of the Commission; and (6) the public interest.¹¹² The Commission's reliance on these factors to support its determination of the appropriate civil penalty was approved as reasonable by the Federal Circuit in the appeal of the *Magnets* enforcement proceeding.¹¹³

In this enforcement proceeding, there is no real dispute that a civil penalty should be imposed, since there is no other remedy available to the Commission for the types of violations found. Thus, the following discussion addresses each of the six factors in terms of whether they support imposition of the maximum allowable civil penalty or a lesser penalty amount.

¹¹¹ H.R. Rep. 317, 96th Cong., 1st Sess. 191 (1979). See also S. Rep. 249, 96th Cong., 1st Sess. 262 (1979); Statement of Administrative Action, 1979 U.S.C.C.A.N. (93 Stat. 144-317) 542.

¹¹² See *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 23-24, 26 (Aug. 1991) ("EPROMs"); *Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, Inv. No. 337-TA-374 (Enforcement Proceeding), USITC Pub. 3073, Commission Opinion at 12-13 (Nov. 1997) ("Magnets"), *aff'd sub nom. San Huan New Material High Tech, Inc. v. Int'l Trade Comm'n*, 161 F.3d 1347, 1362 (Fed. Cir. 1998) ("San Huan").

¹¹³ See *San Huan*, 161 F.3d at 1364-65.

B. Analysis of the Six Factors¹¹⁴

1. The Good or Bad Faith of the Gamut Respondents

a. The RD

With respect to the first factor, the good or bad faith of the respondent, the ALJ observed that respondents subject to a Commission remedial order have “an affirmative duty to take ‘energetic steps’ to do ‘everything in their power’ to assure compliance,” and that this duty not only means “not to cross the line of infringement, ‘but to stay several healthy steps away.’” RD at 42-43, *citing Magnets* at 24. In making this assessment, the ALJ relied on five factors set forth in *EPROMs* at 28-29, including whether respondent: (1) had a reasonable belief that its product was not within the scope of the Commission’s order; (2) requested an advisory opinion or clarification from the Commission; (3) provided any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation; (4) decided which products were subject to the order based on the decisions of management and technical personnel, without legal advice; and (5) satisfied its reporting requirements under the relevant Commission order.

The ALJ found that the Gamut respondents should have had a reasonable belief, at least by July 31, 1997 (the date of the first Customs letter), that “L” series tractors were within the scope of the cease and desist orders at issue. He found that the evidence “conclusively shows” that respondents sold 125 accused “L” series tractors after July 31, 1997, and that this total disregard of the Customs letter is evidence of bad faith. RD at 44-45. He found no evidence that the Gamut respondents sought an advisory opinion or clarification from the Commission after the July 31, 1997, Customs letter. RD at 45. The ALJ found that the Gamut respondents did rely on advice of counsel, and that therefore this element of bad faith was lacking. He based his conclusion on (1) the fact that counsel for the Gamut respondents has maintained throughout the enforcement proceeding that importation of the accused “L” series tractors is not a violation of the orders because the “KUBOTA” trademark appears only on a part and not on the tractor itself, and (2) the testimony of Mr. DePue that he consulted with his counsel as to whether Zen-Noh tractors infringed the “KUBOTA” trademark. RD at 45. Based on the same facts, the ALJ also found no evidence that the decision to sell accused “L” series tractors after July 31, 1998, was a management decision made without advice of counsel. RD at 45-46. Finally, the ALJ found that the Gamut respondents’ failure to report their imports of accused “L” series tractors, as well as their destruction of relevant documents, is evidence of bad faith. RD at 47. Overall, he found that, while there is evidence of bad faith in the compliance of the Gamut respondents with the cease and desist orders in issue, such evidence does not weigh in favor of imposing the maximum penalty allowable under subsection (f)(2), as argued by the complainants. ID at 47.

¹¹⁴ Commissioner Crawford notes that the methodology by which the ALJ calculated his recommended civil penalty in this proceeding is consistent with her views in *Magnets*. See USITC Pub. 3073, Dissenting Views of Commissioner Carol T. Crawford at 1-3. Because she defers to the ALJ in this regard, she does not find it necessary to join this analysis of the six factors.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred in not finding that the Gamut respondents' bad faith warrants imposition of the maximum allowable civil penalty. In particular, complainants argue that the ALJ should have (1) considered additional evidence of bad faith, and (2) found that all, rather than just some, of the five *EPROMs* factors support a finding of bad faith.

The additional evidence of respondents' bad faith which complainants contend that the ALJ ignored includes: (1) respondents' inducement of their dealers to infringe the "KUBOTA" trademark by supplying counterfeit labels and instructions on how to affix them to the accused tractors; (2) respondents' destruction of documents relevant to their importation, sale, marketing, and profits on accused tractors, which occurred one month after the enforcement complaint was served on them; and (3) respondents' filing with the Commission of false statements relating to their inventory and sales of accused tractors.¹¹⁵

With respect to inducement, they argue that respondents' practice of removing the "KUBOTA" mark from paperwork associated with sales of accused tractors and then supplying separate labels for dealers to affix was a deliberate attempt to circumvent the orders and place the risk of liability for infringement on the dealers. In particular, they rely on Mr. DuPuy's statement to complainants' investigator Mr. Callahan that "I got a stupid order from the court says I can't" use the word "KUBOTA" on any paperwork, "[b]ut I keep selling them" as evidence of deliberate conduct.¹¹⁶ They also point to respondents' testimony that they knew that the name Zen-Noh is not recognized by their customers and that the customers would purchase the accused tractors only if they knew they were "KUBOTAs."¹¹⁷

With respect to destruction of documents, complainants observe that the enforcement complaint put the Gamut respondents on notice that documents relevant to importation, offer for sale, sale and marketing of accused tractors are directly relevant to this proceeding, and that, despite such notice, and in violation of the record keeping requirement of the cease and desist orders themselves, respondents proceeded to destroy virtually all such documents in their possession one month after the enforcement complaint was served on them.¹¹⁸

Finally, complainants criticize the ALJ's failure to find that respondents' violations of the reporting requirements are evidence of bad faith, particularly in light of his finding that respondents should have known that importation of the accused tractors violated the cease and desist orders.¹¹⁹ That respondents' actions were in bad faith is further bolstered, in complainants' view, by evidence, not addressed by the ALJ, that in addition to the accused tractors, respondents continued to import and sell KBT tractors after

¹¹⁵ CP at 33-34.

¹¹⁶ CP at 34-35.

¹¹⁷ CP at 35-36.

¹¹⁸ CP at 36-37.

¹¹⁹ CP at 37-38.

the date of the cease and desist orders.¹²⁰ Complainants contend that the combination of this evidence demonstrates that respondents have acted in bad faith, particularly in light of their obligation to take “energetic steps” to avoid infringement.¹²¹

Next, complainants criticize the ALJ’s finding that the Gamut respondents’ had a reasonable belief that their conduct was outside the scope of the cease and desist orders prior to July 31, 1997. As discussed above, complainants do not view the Customs letter of July 31, 1997, as controlling on the question of when respondents knew or should have known that they were violating the orders.¹²²

Complainants also argue that the ALJ erred in finding that the Gamut respondents received an opinion of counsel prior to engaging in conduct violative of the cease and desist orders. They contend that there is no evidence to suggest that respondents received any such opinion prior to engaging in infringing activity; the opinion relied on by respondents was not competent and not an opinion on which they could justifiably have relied; even if the opinion were competent, respondents continued to import and sell accused “L” series tractors after being explicitly informed by Customs that their conduct infringed the “KUBOTA” trademark; and even if respondents did receive a competent opinion of counsel relating to importation of “L” series tractors, there is no evidence of any opinion relating to their other conduct that violated the cease and desist orders, such as selling, marketing, distributing for sale or otherwise transferring accused tractors, record keeping, or reporting.¹²³

Finally, complainants argue that the ALJ erred in finding that respondents’ decision to engage in conduct violative of the orders was based on legal advice rather than a management decision. They contend that the only legal advice that there is any evidence at all of respondents’ receiving is a conclusory, oral opinion of counsel that the accused tractors do not infringe. Because this purported advice did not address other aspects of respondents’ conduct, complainants contend that there is no record evidence that respondents made their decisions with respect to such conduct on the basis of legal advice.¹²⁴

ii. Respondents’ Arguments

Respondents contend that they have acted in good faith. They argue that they have made continuing efforts, through counsel, to ascertain what models of tractors Customs considers to be infringing. They assert that, despite the Customs letters indicating that Customs stopped several shipments of “L” series tractors, and despite initial questions from Customs regarding tractors with “KUBOTA” on the hour meter, Customs continued to permit the importation of other shipments. Respondents also argue that they have never imported any of the 45 models of KBT tractors which the Commission found to be infringing since the dates of the orders. They also argue that they had no obligation to keep records or

¹²⁰ CP at 39.

¹²¹ CP at 39-40.

¹²² CP at 42-43.

¹²³ CP at 43-49.

¹²⁴ CP at 49-50.

report imports or sales, since the tractors at issue are not infringing.¹²⁵

Respondents object to complainants' contention that any advice of counsel which they received was not competent. Respondents contend that their counsel, "who has practiced a good many years in many Courts, has no concern about his competency or the competency in which this matter has been presented," and urge the Commission to sanction complainants for their disparaging remarks.¹²⁶

Because there was no intentional misconduct, respondents contend that the recommended penalty of \$652,476 is too high.¹²⁷

iii. Arguments of the Staff

The staff agree with complainants that the Gamut respondents have exhibited significant bad faith in failing to comply with the cease and desist orders. In particular, the staff point out that they have sought review of the ALJ's determination that bad faith was sufficiently lacking on Gamut's part to warrant excusing all of Gamut's sales of "L" series tractors prior to July 31, 1997, on the grounds that Gamut had sought the advice of counsel.¹²⁸ The staff contend, however, that while the bad faith factor weighs in favor of assessing a high penalty against the Gamut respondents, two other factors militate against the imposition of the maximum penalty: the injury to the public and the extent of benefit to the violator, discussed below.¹²⁹

c. Analysis of Factor 1

We agree with complainants and the staff that the ALJ has understated the degree of bad faith exhibited by the Gamut respondents with respect to their violations of the cease and desist orders. First, as discussed above, we have determined to reverse the ALJ's finding that the majority of accused sales were not infringing, and instead find that a majority of such sales did infringe the cease and desist orders. Second, although the ALJ considered respondents' violations of the reporting requirements of the cease and desist orders in assessing their degree of bad faith, he did not expressly address their violation of the record keeping requirements and, in particular, the fact that the relevant records were destroyed shortly after respondents received notice of the pendency of this enforcement proceeding. Third, we believe that the ALJ gave insufficient weight to evidence regarding respondents' practice of removing the "KUBOTA" trademark from their advertising and sales materials and providing counterfeit "KUBOTA" labels to their customers. In particular, we do not believe that Mr. DuPuy's statement that, even though a "stupid order" precluded him from using the "KUBOTA" trademark, he would still sell tractors and send the labels under separate cover, were the words of one who was doing his best to stay "several healthy steps" from infringing Kubota's trademark.

¹²⁵ RP at 7-9; RR at 3.

¹²⁶ RR at 4-5.

¹²⁷ RP at 9-10.

¹²⁸ SP at 30-32; SR at 7, 19-20.

¹²⁹ SR at 7.

As discussed above, we disagree with the ALJ's reasoning that, although respondents' sales of accused "L" series tractors prior to July 31, 1997, were in violation of the cease and desist orders, such sales should not be calculated into the penalty amount because respondents may have had a reasonable belief that such sales were not prohibited. The ALJ found some evidence that respondents relied on an opinion of counsel in making their decision to sell KBT/Zen-Noh tractors. The only evidence he could find of such an opinion is counsel's argument, reflected in the briefs in this proceeding, that a "KUBOTA" label that appears only on a tractor part, such as the hour meter, does not infringe the trademark with respect to the tractor as a whole, and Mr. DePue's testimony that he consulted with his counsel on whether Zen-Noh tractors infringe the "KUBOTA" trademark.¹³⁰ There is no record evidence of anything but an oral opinion of counsel; no evidence of the content of that opinion; and no evidence that any such advice addressed the differences between exclusion orders and cease and desist orders, or the requirements of the record keeping and reporting provisions of the cease and desist orders.¹³¹ Moreover, the ALJ himself concedes that reliance on this "opinion" would not have been reasonable after July 31, 1997, when Customs expressly stated that "L" series tractors bearing the "KUBOTA" mark on the hour meter were covered by the general exclusion order.¹³²

In our view, respondents and their counsel should have known, from the date they received notice of the cease and desist orders, that their importation and sale of the accused "L" series tractors violated those orders. Despite counsel's repeated insistence that he has never been provided with a list of all infringing tractor models and that he therefore could not have known that the accused tractors were infringing, he has had such a list in his possession at all relevant times. The Commission Opinion in the original investigation, issued one week after the effective dates of the orders, contained a list of 45 models (25 listed in the ID and an additional 20 identified in the Commission Opinion) which includes all of the KBT model numbers at issue in this enforcement proceeding.¹³³ Moreover, Customs gave Mr. Walker a copy of their instructions to the ports on enforcement of the exclusion order, and those instructions also list the 45 models.¹³⁴ Respondents' argument that the orders do not apply to KBT/Zen-Noh tractors bearing the same model numbers because the "KUBOTA" mark appears on one or more parts and not in large letters on the hood of the tractor appears to us to be at best a *post hoc* rationalization for conduct which cannot reasonably be described as keeping several healthy steps away from infringement. This is particularly true in light of respondents' failure to seek clarification or an advisory opinion from the Commission, options that are plainly set forth in the Commission's rules and should not have escaped counsel's notice. Moreover, we find that respondents' failure to maintain the information specified in the record keeping provision of the cease and desist orders is further evidence of their bad faith in complying with the orders.

¹³⁰ RD at 45.

¹³¹ Indeed, we have not reviewed ALJ Order No. 69. That order sanctioned respondents for bringing a frivolous motion to dismiss the proceeding to enforce the cease and desist orders because the motion was based solely on arguments regarding the scope of the exclusion order issued in the original investigation.

¹³² RD at 44-45.

¹³³ See Commission Opinion at 13 and 1996 ID at 91-95, FF 153.

¹³⁴ See RR at Exhibit A.

In sum, we do not agree with the ALJ that there is evidence in the record to support giving respondents the benefit of the doubt with respect to the degree of bad faith they exhibited in connection with this matter. Accordingly, we find that respondents have acted in bad faith and that this factor weighs in favor of a significant civil penalty.

2. Injury to the Public

a. The RD

With respect to the second factor, injury to the public, the ALJ stated that the Commission's focus is not on harm to the public at large, but on whether respondent's violation of a remedial order caused sufficient injury to the domestic industry to warrant the maximum penalty. RD at 48, *citing San Huan*, 161 F.3d at 1362. He noted that in *Magnets*, the Commission found that harm to the domestic industry can generally be measured in terms of the respondents' unlicensed sales. The ALJ found that the Gamut respondents represented to their customers that the accused "L" series tractors were in fact "KUBOTAs," and, in doing so, traded on the goodwill of the "KUBOTA" trademark in the United States market and sold their tractors to customers who wanted to purchase "KUBOTA" tractors. ID at 48-49. The ALJ noted that evidence of record in the original investigation demonstrates that such sales are potentially damaging to complainants' reputation in the U.S. market. Nevertheless, he found that every sale of Gamut's used gray market KBT/Zen-Noh tractors in the U.S. market is not necessarily a lost sale to complainants since, in the original investigation, complainants conceded that they do not consider new KTC tractors to be in direct competition with used gray market KBT tractors and that they do not prohibit their own U.S. authorized dealers from selling gray market KBT tractors taken in trade. Accordingly, the ALJ found that, while the Gamut respondents' infringing activities with respect to the accused "L" series tractors may damage the reputation of complainants, which he found to warrant a civil penalty, the fact that not every gray market sale by the Gamut respondents is a loss to the authorized KTC dealer mitigates the harm to the domestic industry and thus this factor does not warrant imposition of the maximum allowable civil penalty. ID at 49.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred by giving more weight to the absence of lost sales than to the harm to complainants' reputation due to respondents' infringing conduct. Complainants contend that the true injury suffered in this case, as in any trademark infringement case, must be assessed in terms of injury to the trademark owner's reputation and goodwill. They note that, in the original investigation, the Commission found that KTC has made a considerable investment in the goodwill of the "KUBOTA" trademark in the United States and that, consequently, the ALJ should not have treated the lack of substantial lost sales to KTC and its dealers as a mitigating factor.¹³⁵

ii. Respondents' Arguments

Respondents do not address this factor.

¹³⁵ CP at 50-51.

iii. Arguments of the Staff

The staff argue that, in past decisions assessing the injury to the public factor, the Commission has focused on harm to the domestic industry as measured in terms of the respondents' unlicensed sales. In that regard, staff contend that Kubota's own testimony in the underlying investigation suggests that the Gamut respondents' gray market sales have not diminished the authorized sales of Kubota's U.S. dealers. In particular, they note that KTC's senior vice president for sales and marketing testified at the trial that KTC and its dealers are not in direct competition with dealers who sell used gray market tractors, because there is little overlap between consumers considering a new tractor and consumers considering a used tractor. Staff submit that, where respondents' infringing sales adversely affect complainants' goodwill and reputation, but do not adversely affect their sales of new tractors, this factor weighs against imposition of the maximum civil penalty.¹³⁶

c. Analysis of Factor 2

In *EPROMs* and *Magnets*, the Commission addressed the harm to the public in terms of the harm to the domestic industry. In *EPROMs*, the Commission found that respondent's unlicensed sales harmed complainant by depriving it of sales to which it was entitled by virtue of its patent rights and that no quantification of such harm was required in light of the elimination of the injury requirement from section 337 in patent-based cases.¹³⁷ In *Magnets*, the Commission declined to rely on the ALJ's analysis of harm to the general public, stating: "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. In this case, 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."¹³⁸

Although the Commission opined in *EPROMs* and *Magnets* that harm to the domestic industry could be measured in terms of respondent's unlicensed sales, we do not read those opinions as holding that no other measure of harm to the domestic industry can ever be appropriate. *EPROMs* and *Magnets* were both patent-based cases in which the patent owner has a right to exclude all others such that each sale made by the respondent was at a minimum a sale lost to the complainant. The same is not true in this trademark-based case.¹³⁹

Unlike a patent infringement case where the harm to the patent holder takes the form of lost sales, in a trademark case involving goods that are not directly competitive, the harm to the trademark holder results from the damage to its reputation and the loss of good will arising from consumer confusion.¹⁴⁰ Since this case has, from the beginning, been about harm to complainants' reputation and not about harm

¹³⁶ SR at 8-9.

¹³⁷ *EPROMs*, Commission Opinion at 25.

¹³⁸ *Magnets*, Commission Opinion at 25.

¹³⁹ 1996 ID at 51.

¹⁴⁰ 1996 ID at 13-14.

to their sales figures, we conclude that the absence of lost sales is not a mitigating factor in this case. Rather, we conclude that respondents' sales in violation of the cease and desist orders substantially harmed Kubota.¹⁴¹

3. The Gamut Respondents' Ability to Pay

a. The RD

With respect to the ability of the Gamut respondents to pay a civil penalty, the ALJ concluded that the affidavits of respondents DePue and DuPuy claiming that they are "broke" and unable to pay any penalty, as well as the Gamut respondents' financial statements showing losses in 1996 and 1997, are entitled to little or no weight. With respect to personal assets, the ALJ found evidence that DePue has financial interest in other businesses and is the owner of Homestead Tractor and Feed; that sometime in late 1998 Homestead purchased 5 KBT/Zen-Noh tractors from Gamut Trading, two of which were being offered for sale by Homestead; and that DePue received \$65,000 from the sale of another company, Apple Implement. He also noted that the affidavit of DuPuy makes no reference to a checking account, savings account, equities or other assets that may have a bearing on his ability to pay. ID at 52-53. With respect to business assets, the ALJ found that, because the 1996 and 1997 financial statements of Gamut Trading were not audited, and because the Gamut respondents sold the computer containing the underlying records in January of 1999, their claim of losses in those years is "questionable." RD at 52. He further found that the Gamut respondents made a profit of 135 percent over cost in the sale of accused "L" series tractors and that they had sales of both "L" and "B" series tractors that totaled nearly one million dollars in revenue between February of 1997 and October of 1998. RD at 53, *citing* Table 1, ID at 13-18, and Order No. 76 (Apr. 28, 1999).¹⁴² Accordingly, the ALJ found that the Gamut respondents' ability to pay is not a mitigating factor in assessing any civil penalty. RD at 53.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants do not address this factor in their Petition for Review.

ii. Respondents' Arguments

Respondents contend that the ALJ should not have rejected the credibility or sufficiency of Messrs. DePue and DuPuy's affidavits stating that they are "broke" and cannot pay a penalty. They contend that since complainants and the staff failed to disprove the veracity of respondents' affidavits, it was not proper

¹⁴¹ This conclusion is supported by record evidence that used tractor dealers and consumers do not recognize the "Zen-Noh" name and were only interested in the accused KBT/Zen-Noh tractors when they were assured that the tractors were genuine "KUBOTAs". ID at 70, FF 24.

¹⁴² The 135 percent profit margin which the ALJ adopted as an adverse inference in Order No. 76 was calculated using an analysis proposed by the staff. Order No. 76 at 8 and Exhibit A. Using the same methodology, the staff calculated a profit margin of 118 percent on all "L" and "B" series accused tractors combined. *See* Commission Investigative Staff's Response to Complainants' Motion for Adverse Inferences Against Respondents (Apr. 16, 1999) at 5.

to reject them.¹⁴³

iii. Arguments of the Staff

Staff argues that, unlike in prior enforcement proceedings, the Commission has very little information on the Gamut respondents' profits or their ability to pay a civil penalty, principally because they destroyed most of the pertinent records and because the ALJ found that the few records submitted were of limited probative value. Because all of the information necessary to assess and collect a civil penalty should be obtained at the enforcement stage (and not at the time of any later court proceeding to enforce a civil penalty), the staff urge the Commission to make it clear that enforcement respondents must provide evidence that is necessary to evaluate properly the ability to pay and extent of benefit factors.¹⁴⁴ On the other hand, staff state that this case differs from the two previous formal enforcement proceedings in that the respondents are individuals and relatively small entities, which are unlikely to have extensive amounts of reliable and probative financial data.¹⁴⁵

c. Analysis of Factor 3

We disagree with respondents' argument that the ALJ should have given probative weight to the affidavits of DePue and DuPuy asserting that they have no assets from which to pay a civil penalty. While respondents assert that there was no record evidence to support a finding that they have substantial assets, the ALJ did, in fact, refer to record evidence of assets of the individual respondents and significant recent revenues received by Gamut Trading. Moreover, as the staff point out, it was respondents' own conduct in destroying relevant business records after the commencement of this enforcement proceeding, as well as their refusal to cooperate with complainants' and the staff's discovery requests, that has deprived the Commission of information from which it could make a more accurate assessment of respondents' current financial means.¹⁴⁶

On the other hand, as the staff point out, this case, unlike *EPROMs* and *Magnets*, involves two individuals and their small business, rather than a large corporation. Although we are deeply troubled by respondents' failure to provide full and accurate information on their financial condition, we note that there is some record evidence concerning their assets and income identified by the ALJ, which demonstrate that respondents' means are not unlimited.

Overall, therefore, while we agree with the ALJ's conclusion that respondents have the ability to pay a significant civil penalty, we find that their ability to pay should, to some extent, place an upward boundary on the penalty amount.

¹⁴³ RR at 7.

¹⁴⁴ SP at 33-37.

¹⁴⁵ SP at 36.

¹⁴⁶ It would appear to be no coincidence that Gamut Trading, which continued to operate with numerous employees after issuance of the Commission's remedial orders, suddenly ceased all operations and went out of business shortly after institution of this enforcement proceeding.

4. Extent to Which the Gamut Respondents Benefitted from Their Violations

a. The RD

With respect to the extent of benefit to the Gamut respondents, the ALJ found that no substantial competitive advantages have accrued to the Gamut respondents as a result of their violation of the Commission's orders. He based this conclusion on his prior finding that the sale of an accused "L" series tractor does not necessarily represent the loss of a sale by authorized KTC dealers. Comparing this case to *EPROMs*, in which the Commission found that the respondent had accrued substantial competitive advantages, the ALJ found that the absence of such advantages here weighs against imposition of the maximum civil penalty. RD at 55-56. Nevertheless, he found that the Gamut respondents did benefit from their violation of the cease and desist orders, in that the total sales value of the 172 infringing "L" series tractors sold since February 25, 1997, was \$741,211, of which \$425,803 represents the profit over cost to the Gamut respondents. RD at 56.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants do not address this factor in their petition for review.

ii. Respondents' Arguments

Respondents do not address this factor.

iii. Arguments of the Staff

The staff argue that, because respondents gained no substantial competitive advantages from their violations of the cease and desist orders, this factor weighs against imposition of the maximum civil penalty. Staff assert that the ALJ's reasoning in this regard is consistent with the Commission's treatment of this factor in *Magnets*, where the Commission indicated that it sought to ensure that the penalty amount was not disproportionate to the extent of the benefit derived by respondents from their violations of the order, and that it was sufficient to examine the general order of magnitude of the benefit rather than seeking a precise quantification.¹⁴⁷ The staff argue that assessing a penalty of \$6.9 million, as advocated by complainants, would be many orders of magnitude in excess of the extent to which the Gamut respondents have been shown to have benefitted from their activities in violation of the cease and desist orders. Thus, while the staff agree that a significant penalty is appropriate in light of respondents' bad faith and the need for an appreciable deterrent effect on future activities, staff do not believe that the objective of meaningful deterrence requires the imposition of such a mammoth penalty as complainants advocate.¹⁴⁸

c. Analysis of Factor 4

We believe that the ALJ's conclusion that no substantial competitive advantage accrued to the

¹⁴⁷ SR at 10, *citing Magnets*, Commission Opinion at 28.

¹⁴⁸ SR at 11.

Gamut respondents by virtue of their violation of the Commission's orders is based on too narrow an interpretation of this factor. As stated in *Magnets*, the benefit to a violating party may be measured in a number of ways, including revenues received from infringing sales, profits from those sales, or even revenues from sales of related products where those sales would not have occurred but for the sales of the infringing goods.¹⁴⁹ In this case, as in *Magnets*, we find that the sales revenues respondents received from their sales of tractors in violation of the orders is a reasonable measure of the extent to which they have benefitted, since respondents should not have made any such sales.¹⁵⁰

We find, however, that the relatively modest magnitude of respondents' revenues derived from infringing sales is a mitigating factor in setting the appropriate penalty in this case. The total sales revenue received by respondents from selling infringing tractors on the 58 identified violation days is \$753,976, for an average of about \$13,000 per violation day.¹⁵¹

5. Need to Vindicate the Authority of the Commission

a. The RD

With respect to the need to vindicate the Commission's authority, the ALJ found that such an interest does exist in this case. He noted that in *Magnets*, the respondents actively urged the Commission to issue the consent order at issue in order to obtain a termination of the investigation as to them, but then continued to import the infringing product. On appeal, the Federal Circuit found that the respondents' act of inducing the Commission to issue an order that would save them significant further litigation costs and which they evidently had no intention of obeying made the Commission's interest in vindicating its authority "particularly strong" in the circumstances of that case. ID at 54, citing *San Huan*, 161 F.3d at 1363. Nevertheless, the ALJ concluded that the lack of evidence that the Gamut respondents actively induced the Commission to issue the cease and desist orders at issue does not suggest a lack of interest in vindicating the Commission's authority in this case. RD at 54.

b. Arguments of the Parties

None of the parties addresses this factor in their Petitions for Review.

c. Analysis of Factor 5

We agree with the ALJ that there is an interest in vindicating the authority of the Commission in

¹⁴⁹ *Magnets*, Commission Opinion at 28 ("there are several means by which benefit can be evaluated. Given that respondents should not have made any sales in violation of the order, we think that at least one appropriate measure of the benefit is the value of the sales made in violation of the order").

¹⁵⁰ Thus, we find that sales revenue is an appropriate measure of the benefit regardless of whether complainant Kubota would have made those sales absent respondents' sales.

¹⁵¹ The ALJ found that the total sales value of respondents' 172 sales of accused "L" series tractors in violation of the orders is \$741,211. RD at 56. Adding the 16 sales of accused "B" series tractors that we have found to be infringing brings the total to \$753,976. ID at 13-18; CEX 52 (Revised Version, Apr. 1, 1999).

this case, particularly in light of respondents' manifest bad faith. The ALJ suggested that differences between the facts in this case and the facts in *Magnets* may lessen the weight that should be afforded to this factor.¹⁵² In *Magnets*, the Commission found that respondents unilaterally proposed a consent order that would permit them to avoid significant further litigation costs and to import free of interference by the Customs Service. Distinguishing other cases where respondents are subjected to remedial orders after they default or even participate fully on the merits, the Commission stated that its interest in vindicating its authority was particularly strong in that case, because respondents actively induced the Commission to adopt a consent order they had no intention of obeying.¹⁵³ In the present case, respondents did not induce the Commission to issue the cease and desist orders or gain any advantages over other respondents in the original investigation by virtue of those orders. However, in addition to making infringing sales, respondents here also violated the reporting and record keeping requirements of the cease and desist orders, which directly requires that the Commission vindicate its authority. In addition, the record indicates that respondents engaged in a pattern of activity intended to circumvent the Commission's orders. Accordingly, we find that the need to vindicate the Commission's authority is an aggravating factor with respect to the penalty amount in this case.

6. The Public Interest

A. The RD

With respect to the final factor, the public interest, the ALJ found that the public interest weighs in favor of protecting the complainants' intellectual property rights in the United States, and that assessing a civil penalty is some assurance that Commission orders protecting such rights will be obeyed and that its reporting and record keeping requirements will be observed. He noted, however, that in *Magnets* the Commission found that while this factor warranted a "significant" penalty, it did not warrant the maximum allowable penalty. He also noted that complainants offered no precedent to support their argument that "potential harm" to the public, in the form of possible physical injuries arising out of the operation of unsafe gray market KBT tractors in the United States, should be considered. Accordingly, the ALJ concluded that the public interest warrants a civil penalty, but not the maximum allowable penalty. RD at 50-51.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred in failing to find that the public interest factor warrants the maximum allowable civil penalty and that he did so without any explanation. They assert that, in accordance with *Magnets*, the appropriate inquiry is whether there are any significant public interest factors that would militate against the imposition of a civil penalty. Since the ALJ found no such factors in this case, and in fact found that the public interest factor weighs in favor of a civil penalty, they contend that the maximum penalty is warranted. In addition, they urge the Commission to consider safety concerns associated with the sale of accused tractors in the United States. In particular, they point to the fact that KBT and KTC have been named as defendants in product liability lawsuits wherein it is alleged that

¹⁵² RD at 54.

¹⁵³ *Magnets*, Commission Opinion at 33.

plaintiffs' injuries were caused by the negligent design of gray market KBT tractors. They contend that the safety concerns associated with gray market tractors, together with the continued damage to KTC's goodwill, warrant imposition of the maximum allowable civil penalty.¹⁵⁴

ii. Respondents' Arguments

Respondents do not address this factor.

iii. Arguments of the Staff

Staff agree with the ALJ's reasoning that the public interest favors protection of complainants' intellectual property rights, but that the public interest does not warrant imposition of the maximum allowable civil penalty. Staff argue that the Commission's determination to review and reverse with regard to the substantive issues raised in staff's petition for review will further serve the public interest by assuring that the Commission's remedial orders will be obeyed and not circumvented, and will assist in preserving the integrity of the enforcement process and the Commission's ability to apply that process in future cases.¹⁵⁵

c. Analysis of Factor 6

We adopt the ALJ's analysis of the public interest factor and find that the public interest weighs in favor of a civil penalty, but not necessarily the maximum civil penalty, in this case. The public interest at issue in this case, as in most section 337 investigations, is the protection of intellectual property rights. We disagree with complainants' assertion that public safety is an additional public interest factor in this case. In the original investigation, complainants argued that one of the reasons the Commission should issue an unconditional general exclusion order, rather than adopting the ALJ's recommended remedy of permitting gray market imports with a special label attached, was because used gray market tractors are not as safe as new KTC tractors. The Commission rejected that argument, noting that its "statutory obligation under section 337 is to substantially eliminate any likelihood of confusion, not to make sure that the accused imports are made perfectly safe. . . . Nothing in section 337 forbids a consumer from purchasing a product that is not completely safe, so long as he is not acting under any misimpression resulting from a violation of the statute."¹⁵⁶ Thus, we do not believe that the fact that complainants have been subject to two product liability lawsuits involving KBT tractors is an additional public interest factor favoring the maximum penalty in this case.

¹⁵⁴ CP at 52-53.

¹⁵⁵ SP at 37-38.

¹⁵⁶ Commission Opinion at 28-29. In so concluding, the Commission noted that there is no law requiring used tractors to be retrofitted to conform to current safety standards and that there was evidence that used authorized KTC models (as well as other manufacturers' tractors) are sold without current safety equipment. *Id.*

C. The Appropriate Penalty Amount

1. The RD

To determine his recommended penalty amount, the ALJ weighed all of the above six factors and compared this case to the circumstances in *Magnets* and *EPROMs*. He concluded that the Gamut respondents have not shown the level of bad faith that led the Commission to impose the maximum allowable penalty in *EPROMs*, particularly in light of: (1) the fact that the ALJ found only 172 of the 265 tractors put in issue by complainants to be infringing; (2) the fact that some of the infringing sales took place before Customs put the Gamut respondents on notice that the accused tractors were covered by the order; and (3) the limited competitive advantage accruing to the Gamut respondents from their infringing activities. RD at 58-60. The ALJ further found that the circumstances of this case are not as grave as those in *Magnets*, where the Federal Circuit let stand a Commission penalty of three times the sales value of the infringing goods. He concluded, however, that in order to have a deterrent effect the appropriate penalty must be a multiple of the profit gained by the Gamut respondents from their infringing sales. Accordingly, the ALJ recommended that the Commission impose a “significant penalty” in the amount of two times the profit made by the Gamut respondents on the sale of the infringing “L” series tractors after July 31, 1997, the date on which they were put on notice by Customs that “L” series tractors are in violation of the cease and desist orders at issue. Based on the adverse inference that the profit on the sale of each “L” series tractors was 135 percent over cost and a total sales value for infringing tractors of \$567,895, the ALJ found that the profit on such sales was \$326,238, and recommends a civil penalty of twice that amount or \$652,476. RD at 61-62.

2. Arguments of the Parties

a. Complainants’ Arguments

Complainants argue that the ALJ should have based his penalty calculation on the number of violation days rather than on the profit from the sale of infringing tractors. They argue that section 337(f), as well as the legislative history, indicate that calculating the civil penalty based on the number of violation days found is the favored method, unless the \$100,000 daily penalty is less than twice the value of infringing sales on any given violation day, which is not true in this case. They also note that in *EPROMs* the Commission rejected the ALJ’s recommended determination on the penalty where it was based on the domestic value of infringing goods sold rather than on the days of violation, based on the legislative history, and that the Federal Circuit approved a penalty based on violation days in *San Huan*.¹⁵⁷ Thus, complainants argue that the Commission should impose a civil penalty of \$6.9 million, *i.e.*, \$100,00 times 69 violation days.¹⁵⁸

b. Respondents’ Arguments

Respondents do not address the ALJ’s methodology for calculating the civil penalty, arguing only that the recommended penalty amount is too high in view of the absence of any violation or intentional

¹⁵⁷ CP at 53-55; CR at 1617.

¹⁵⁸ CP at 55-56. Complainants further argue that, in the event that the Commission finds fewer than 69 violation days, it should assess a penalty equal to the number of violation days found times \$100,000.

conduct and in light of respondents' inability to pay.¹⁵⁹

c. Arguments of the Staff

The staff state that they do not object to the manner in which the ALJ calculated the recommended penalty amount based on respondents' profits on the sale of accused tractors, even though they argued before the ALJ for a penalty of \$1 million. Staff contend, however, that the Commission should adjust the civil penalty amount upward to \$840,848, to reflect profits on the additional infringing sales that staff have urged the Commission to find.¹⁶⁰

3. Discussion¹⁶¹

Because twice the domestic value of the accused tractors sold on any given violation day is less than \$100,000,¹⁶² the maximum civil penalty that we could assess in this enforcement proceeding is \$100,000 for each of the 58 violation days, or \$5.8 million. We are to exercise our discretion in determining whether it is appropriate to impose the maximum daily civil penalty statutorily permitted or to adopt a lesser daily penalty.¹⁶³

Several factors warrant imposing a significant daily penalty in this case. As discussed above, we

¹⁵⁹ RP at 9-10; RR at 6-7.

¹⁶⁰ SP at 33.

¹⁶¹ As noted, Commissioner Crawford defers to the ALJ in the methodology by which he calculated the civil penalty as consistent with her view of achieving the requirement of the legislative history to "insure the deterrent effect of [an] order." *Magnets*, USITC Pub. 3073, Dissenting Views of Commissioner Carol T. Crawford at 1. However, Commissioner Crawford joins her colleagues in finding a total of 58 violation days and in finding a violation with respect to sales of "B" series tractors made on or after January 12, 1998. Accordingly, while deferring to the ALJ's methodology for calculating the civil penalty amount, she has made two adjustments to the calculation. First, rather than a total sales value for infringing tractors of \$741,211, she finds a total sales value for infringing tractors sold on the 58 identified violation days of \$753,976. Second, in calculating the profits made by the Gamut respondents on those sales, she uses the profit margin of 118 percent over cost estimated for "L" and "B" series tractors combined, rather than the 135 percent figure for "L" series tractors alone applied by the ALJ. *See* RD at 56. Applying the ALJ's formula ((invoice price) = (purchase price) + (1.18)(purchase price)), results in profits on the infringing sales of \$408,116. Accordingly, Commissioner Crawford determines that the appropriate civil penalty in this case is double the profits on infringing sales, or \$816,232.

¹⁶² *See* ID at 13-18, Table 1; Revised CEX 52 (Apr. 1, 1999).

¹⁶³ In this regard, we have not adopted the ALJ's penalty recommendation. For the reasons discussed above, we do not agree in all respects with the ALJ's application of the six factor analysis we utilize in setting the appropriate penalty amount. *See San Huan* at 1362. In addition, he did not recommend a *per diem* penalty amount. We are authorized only to impose a penalty for each day on which the cease and desist order was violated. 19 U.S.C. § 1337(f)(2). Accordingly, we have exercised our discretion in accordance with the six factor analysis in assessing an appropriate penalty amount for each violation day.

find that respondents have exhibited bad faith in failing to comply with the cease and desist order. This case also presents a significant need to vindicate the Commission's authority: in addition to our interest in ensuring meaningful enforcement of our orders, we are troubled by the fact that in this case respondents destroyed important documents soon after the enforcement proceeding was instituted. The destruction of those documents severely hampered our ability to assess both the extent to which respondents benefitted from their violation of the cease and desist order and their ability to pay the civil penalty imposed. Moreover, we find that respondents' marketing of the infringing tractors has injured complainant Kubota and that the public interest favors the protection of intellectual property rights. Thus, these factors point to imposing a significant daily penalty.

The legislative history to the civil penalty provision counsels that, while we are to take into account other factors, we are principally to exercise our discretionary authority "so as to insure the deterrent effect of [our] order."¹⁶⁴ In this case, while we have given little weight to respondents' self-serving claims to be completely without assets, particularly in light of their destruction of company records and their failure to provide requested information on their personal assets through discovery, we have taken into consideration that respondents are relatively small businesses and not large corporate entities. Respondents appear to have received gross revenues of less than one million dollars from their sales of tractors in violation of the order -- a substantial amount, but not one that calls for a penalty approaching the statutory maximum.

Therefore, balancing these aggravating and mitigating factors, we determine that a civil penalty in the amount of \$40,000 per violation day, for a total penalty of \$2,320,000, is necessary and sufficient to deter respondents and those similarly situated from violating our orders.¹⁶⁵ We find that a penalty of this amount represents an appropriate balance of the factors we consider and adequately penalizes respondents for their violations of the order. Such a penalty is commensurate with the overall extent to which respondents benefitted from their violations and harmed Kubota and, at the same time, sufficiently punitive so as to deter respondents and others similarly situated from violating the Commission's orders.

Finally, we adopt the ALJ's recommendation that the penalty be assessed against the Gamut respondents jointly and severally.¹⁶⁶ Joint and several liability means that "each individual [entity] remains responsible for payment of the entire liability, so long as any part is unpaid."¹⁶⁷ In *Magnets*, the Commission found that joint and several liability was appropriate where all the enforcement respondents participated in both the underlying section 337 investigation and the enforcement proceeding; the consent

¹⁶⁴ H.R. Rep. No. 317, 96th Cong., 1st Sess. 191 (1979); S. Rep. No. 249, 96th Cong., 1st Sess. 262 (1979).

¹⁶⁵ We note that the record evidence indicates that respondents have garnered \$753,976 in gross revenues from their infringing sales in violation of the cease and desist orders, or an average of just under \$13,000 per violation day. In *San Huan*, the Federal Circuit found that a penalty amount equal to approximately three times the sales value of the infringing goods was reasonable and not a constitutionally excessive fine. 161 F.3d at 1363-65. Indeed, the court stated that the Commission's penalty amount "represents a relatively low ratio of penalty to value of infringing goods." *Id.* at 1364. In *EPROMs*, the Commission's penalty was equal to about six times the sales value of the infringing merchandise.

¹⁶⁶ RD at 62.

¹⁶⁷ *United States v. Scop*, 940 F.2d 1004, 1010 (7th Cir. 1991) (citations omitted).

order at issue stipulated that the Commission had *in personam* jurisdiction over all three entities; and section 337(f)(2) authorizes the imposition of civil penalties on “any person” who violates the relevant Commission remedial order.¹⁶⁸ In this case, respondents Gamut Trading and Gamut Imports participated in both the original investigation and the enforcement proceeding. Respondents DePue and DuPuy were not parties to the original investigation. The cease and desist orders addressed to Gamut Trading and Gamut Imports, however, state that they apply to those entities’ “principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns,” several of which categories apply to Messrs. DePue and DuPuy. Further, the Commission has *in personam* jurisdiction over all four respondents in this enforcement proceeding. Finally, the record indicates that respondents DePue and DuPuy are doing or have done business under a number of names, including Gamut Imports, Gamut Trading, Apple Implement, and Homestead Tractor, at various times, and it is unclear which assets are held by which business entity at any given time. Accordingly, we concur with the ALJ that joint and several liability is appropriate in this case.

¹⁶⁸ *Magnets*, Commission Opinion at 34 n.103.

PUBLIC VERSION

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

In the Matter of)

CERTAIN AGRICULTURAL)
TRACTORS UNDER 50 POWER)
TAKE-OFF HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

Final Initial And Recommended Determinations

Pursuant to the Notice of Investigation (63 Fed. Reg. 60020-21), this is the administrative law judge's final initial and recommended determinations in this enforcement proceeding. The administrative law judge determines that the Gamut respondents have violated Cease and Desist Orders which the Commission issued on February 25, 1997. He also recommends, as an enforcement measure, that a penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476.

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TABLE OF CONTENTS

I. PROCEDURAL HISTORY 1

II . GAMUT RESPONDENTS 4

III. THE CEASE AND DESIST ORDERS IN ISSUE 6

IV. VIOLATION OF THE CEASE AND DESIST ORDERS IN ISSUE 12

A. The Accused Tractors 12

B. The "L" Series Accused Tractors Violate The Cease and Desist Orders 21

**C. The "B" Series Accused Tractors Do Not Violate The Cease and
 Desist Orders 29**

**D. The Gamut Respondents Have Violated The
 Reporting And Record Keeping Requirements 35**

E. Conclusion (Violation) 39

V. ENFORCEMENT MEASURES 41

A. The Good Or Bad Faith Of The Gamut Respondents 42

B. Injury To The Public 47

C. Public Interest Factor 49

D. Ability Of Gamut Respondents To Pay 51

E. Need To Vindicate Commission Authority 53

F. Extent Of Benefit To Gamut Respondents 54

G. Conclusion (Amount Of Penalty) 56

VI. ADDITIONAL FINDINGS 63

VII. CONCLUSIONS OF LAW 71

VIII. ORDER 71

ABBREVIATIONS

CBr	Complainants' Initial Submission
CEFF	Complainants' Proposed Finding
CEX	Complainants' Enforcement Exhibit
CRBr	Complainants' Rebuttal Submission
RBr	Gamut Respondents' Initial Submission
REX	Gamut Respondents' Enforcement Exhibit
RRBr	Gamut Respondents' Rebuttal Submission
SBr	Staff's Initial Submission
ESX	Staff's Enforcement Exhibit
SPFF	Staff's Proposed Finding

VIOLATION

I. PROCEDURAL HISTORY

By Notice of Referral (notice) and Order dated October 28, 1998, the Commission certified this enforcement proceeding to this administrative law judge for appropriate proceedings and the issuance of an initial determination, which is to be consistent with the Commission's findings in the original investigation, and shall rule on the question of whether respondents Gamut Trading Co., Inc, Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading Co., Inc.) and Darrel J. Du Puy (Chief Financial Officer, President and member of the Board of Directors of Gamut Trading Co., Inc.) (Gamut respondents)¹ have violated one or more of the Cease and Desist Orders which issued on February 25, 1997. The notice stated that an initial determination should issue no later than six (6) months from the October 28, 1998 date of the Order.

The Commission's Order provided that the administrative law judge may allow discovery of third parties to the extent he deemed necessary in order to generate an adequate record on the issues raised in the enforcement proceeding; that in the course of the enforcement proceedings, it shall be the burden of complainants Kubota Corporation, Kubota Tractor Corporation and Kubota Manufacturing of America Corporation (Kubota)² to demonstrate that the Gamut respondents have violated one or more of the Cease and Desist

¹ Respondents DePue and DePuy in this enforcement proceeding were not respondents in the underlying violation proceeding. Thus, the administrative law judge will use the term "underlying Gamut respondents" to refer only to those Gamut entities which were respondents in the violation proceeding, *viz.*, Gamut Trading Co. Inc. and Gamut Imports.

² Complainant Kubota Corporation is a Japanese Corporation with corporate offices in Japan. Complainant Kubota Tractor Corporation is a corporation organized and existing under the laws of the State of California.

Orders; and that if he finds a violation of one or more of the Cease and Desist Orders in his initial determination, 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.

Order No. 58, which issued on October 29, 1998, directed the parties to respond regarding a procedural schedule. Following submissions of the parties, Order No. 59, which issued on November 9, set a discovery cutoff date, a discovery completion date and a cut-off date for motions to compel discovery. The order also ordered the parties no later than February 2, 1999, to resubmit proposals regarding a further procedure.

Order No. 69, which issued on January 21, 1999, granted complainants' Motion No. 380-68 for sanctions on the Gamut respondents and their attorney Lloyd J. Walker. Order No. 73, which issued on March 2, denied Motion No. 380-78 of the Gamut respondents for interlocutory appeal of Order No. 69.

Order No. 71, which issued on February 9, 1999, based on the submissions of the parties which, inter alia, proposed hearing dates of March 22 to 25, set a final procedural schedule including hearing dates of March 22 to 25. Order No. 72, which issued March 2, 1999, denied the Gamut respondents' Motion No. 380-72 to suppress the use of any and all information that has been acquired through the use of recording of telephone communication between Mr. Lou Celentro and/or William Callahan with Daniel Du Puy, Ronald Depue, Leo Livingston and others. Order No. 72 stated that, in connection with the forthcoming hearing on March 22 to 25, submission of direct exhibits and witness statements would not occur until March 5 with objections to be made by March 17 and that since the audiotapes and transcripts had not yet been offered into evidence, Motion No. 380-72 was denied on procedural grounds.

Order No. 74, which issued on March 4, based on joint Motion No. 380-79 of the private parties and on the representation of the staff to the effect that there should be no hearing, waived the hearing requirement of Order No. 71 and set a new procedural schedule. Because there was to be no submission of direct exhibits and witness statements, Order No. 74, referring to Order No. 72, included in the procedural schedule a date of March 30 for the filing of any objections to any documents relied on by the parties in any forthcoming submissions. Any response to any objections was to be made with an April 1 rebuttal submission.

Complainants, in a submission dated March 30, 1999, objected to the affidavit of Ronald DePue (ESX 15) and the affidavit of Darrel Du Puy (ESX 14), said to be submitted by the Gamut respondents³ and the staff on the grounds that they are incomplete and misleading to the extent that they relate to the personal assets of DePue and Du Puy. In support it was argued that complainants requested and were refused discovery relating to the personal assets of respondents' DePue and Du Puy, citing CEX 73 p. 4, and deposition of Du Puy CEX 37 pp. 306-307 and as such the statements made in those affidavits regarding the personal assets of DePue and Du Puy are incomplete and misleading. Complainants also objected to the admission of ESX5, which is represented as the annual financial statements of respondent Gamut Trading for 1996 and 1997, on the grounds that those statements are incomplete and misleading and that the Gamut respondents during the pendency of the enforcement proceeding

³ Complainants noted that while the Gamut respondents did not specifically designate the affidavits as exhibits to their submissions on March 23, said respondents referred to them in those submissions at 9.

destroyed "numerous documents" relating to the financial condition of Gamut Trading.

The Gamut respondents, in a submission dated March 30, 1999, objected "to the admission into evidence of certain exhibits of Complainants and the Commission Investigative Staff" although it was also represented that the Gamut respondents "do not object to the exhibits as submitted by Staff's Exhibits and or Complainants, but object that the exhibits are misstated in the Proposed Findings of Fact and Conclusions of Law" and that the Gamut respondents' objections to complainants' and the staff's proposed findings of fact and conclusions of law "will set out the misuse of the exhibits."

The objections of complainants and the Gamut respondents in their submissions dated March 30 are overruled and the exhibits objected to by the private parties will be considered by the administrative law judge and given the weight he finds appropriate.

On April 1, 1999, complainants filed Motion No. 380-80 for leave to file Motion No. 380-81 for adverse inferences. On April 8 Motion No. 380-80 was granted and each of the Gamut respondents and the staff was ordered to respond to Motion No. 380-81. Order No. 76, which issued on April 28, 1999, granted in part said Motion No. 380-81.

Submissions, pursuant to Order No. 74, have been made and the matter is now ready for a determination of violation and recommendation of any enforcement measures.

II. GAMUT RESPONDENTS

Complainants argued that Gamut Trading Co., Inc (Gamut Trading) is a company with an office and place of business in Apple Valley, California, (CEFF 12); that Gamut Trading is a legal entity under the laws of the State of California, (CEFF 14); that Gamut Imports is a company with an office and place of business in Apple Valley, California, (CEFF 13); and

that Ronald A. DePue and Darrell J. DuPuy are principals of Gamut Trading and Gamut Imports.

The staff argued that Gamut Trading is a company having a principal place of business in Apple Valley, California; that Gamut Trading is still a legal entity under the laws of California; that Gamut Imports was a company having a principal place of business in Apple Valley, California but has discontinued operations; and that DuPue and DuPuy are officers and directors of Gamut Trading and have done business as Gamut Imports. (SBr at 6). The staff however in its SPFF 6 states that "Gamut Imports ... is a company having a principal place of business in Apple Valley, California," and "[a]pparently, Gamut Imports was affiliated with Gamut Trading but has discontinued operations", referring to response to enforcement complaint at 5. (Emphasis added).

The Gamut respondents in their submission dated March 24, 1999 argued that Gamut Trading and Gamut Imports are no longer in business; and that DePue and DuPuy have no ability of going back into the tractor business. (RBr at 10). However, with respect to whether or not Gamut Trading and Gamut Imports are still in business, the Gamut respondents in their later "Respondents' Objections To Complainants' Proposed Findings Of Fact" dated April 15, 1999 made no objections to complainants' proposed findings of fact 12, 13 and 14, supra.

The Commission's Order of October 28, 1998 identified as the respondents in this proceeding Gamut Trading, Gamut Imports, DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading) and DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading). In view of the lack of objections by the Gamut respondents to CEFF 12, 13 and 14, the administrative law judge finds that both Gamut

Trading and Gamut Imports are still legal entities under the laws of California. The administrative law judge also finds that DuPue and DuPuy are officers and directors of Gamut Trading. Thus, the term "the Gamut respondents," as used in the "Final Initial And Recommended Determinations," refers to each of Gamut Trading, Gamut Imports, DePue and DuPuy.

III. THE CEASE AND DESIST ORDERS IN ISSUE

The Cease and Desist Orders in issue resulted from the underlying violation proceeding. In that proceeding complainants had accused certain respondents, including Gamut Trading and Gamut Imports, of infringing registered trademarks under Section 32 of the Lanham Act, 15 U.S.C. § 1114, and of unlawful importation of goods bearing infringing trademarks under Section 42 of the Lanham Act, 15 U.S.C. § 1124.⁴ The registered trademarks at issue were (1) KUBOTA[®], U.S. Reg. No. 922,330, and (2) KUBOTA

⁴ Section 32 of the Lanham Act declares unlawful:

(1) Any person who shall, without the consent of the registrant --

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive

15 U.S.C. § 1114

Section 42 of the Lanham Act provides in relevant part:

no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States. . . .

15 U.S.C. § 1124.

(Stylized)* U.S. Reg. No. 1,775,620, which are owned by Kubota Corporation, and exclusively licenced to its affiliates, Kubota Tractor Corporation and Kubota Manufacturing of America Corporation, and which were alleged to be infringed through importation and/or sale of certain used agricultural tractors under 50 power take-off horsepower. (Initial and Recommended Determinations in the underlying violation proceeding (ID at 7, 8)).

A nine-day evidentiary hearing was held in which Gamut Trading and Gamut Imports fully participated. Thereafter on November 22, 1996, this administrative law judge issued his ID holding that of the 25 representative models termed "KBT models"⁵ there was the unauthorized importation and sale of 24 models (KBT tractors) which were originally sold in Japan and which infringed the registered KUBOTA trademark because the KUBOTA trademark appear on those models and because material differences existed between those models and the corresponding model number KTC tractors manufactured by Kubota Corporation for the United States market. (ID 10, 20-41).

This administrative law judge, in his ID, pointed out that a gray-market good is a foreign-manufactured good, bearing a valid United States trademark that is imported without the consent of the United States trademark holder, citing K-Mart Corp. v. Cartier, Inc. 486 U.S. 281, 285 (1988) (K-Mart); that a gray market may arise in a situation where a foreign manufacturer (Kubota Corporation in the underlying proceeding) sells goods abroad (KBT tractors) bearing a trademark, and that foreign manufacturer also sells goods in the U.S. market (KTC tractors) through a U.S. subsidiary (Kubota Tractor Corporation in the

⁵ The staff in its SX-1 in the underlying violation proceeding identified the twenty-five (25) representative models.

underlying proceeding) bearing an identical U.S. registered trademark; that if those foreign goods (i.e., KBT tractors) are purchased abroad by third parties and imported into the United States without the consent of the trademark holder, viz; Kubota Corporation, a "gray market" is created, K-Mart 486 U.S. at 286,⁶ Certain Alkaline Batteries, Inv. No. 337-TA-165, USITC Pub. 1616, 6 ITR 1849, 1851 (Nov. 1984) and 4 McCarthy and Trademarks, § 29.18[1]; that in that type of gray market situation, which this administrative law judge found was involved in the underlying proceeding, there will always be a first authorized sale of the trademarked goods to a foreign purchaser;⁷ and that a "first sale" abroad has not been found to exhaust the rights of the domestic trademark owner if the foreign goods bearing the KUBOTA trademark issue are materially different from the domestic goods, Original Appalachian Artwords, Inc. v. Granada Electronics, Inc., 816 F.2d 68, 73, 2 USPQ2d 1343, 1349 (2d. Cir.), cert. denied, 484 U.S. 847 (1987). ID at 10, 11.

The Commission adopted this administrative law judge's findings of infringement in his ID for 24 of the 25 representative KBT models and also found a violation with respect to the 25th representative KBT model as well as additional models of KBT tractors (a total of 45

⁶ It was noted in the ID that the three "gray market" case scenarios identified in K-Mart were (1) where a domestic firm purchases from an independent foreign firm the right to use the trademark to sell foreign manufactured products in the United States, (2) where a domestic firm registers the U.S. trademark for goods that are manufactured abroad by an affiliated manufacturer, and (3) where the domestic trademark holder authorizes an independent foreign manufacturer to use it, K-Mart, 486 U.S. at 286-287; that in the original investigation, the foreign manufacturer Kubota Corporation, is the owner of the U.S. trademarks in issue, and licenses the right to use those marks to its U.S. subsidiary; and that such is found most similar to (2) because each of the foreign manufacturer, the trademark owner and the domestic distributor are under common control.

⁷ It was noted in the ID that in this sense all gray market goods are "used" goods, because ownership of the goods has transferred from the foreign manufacturer to a third party.

different models) for which there was evidence of importation. In Re Certain Agricultural Tractors, 44 USPQ2d 1385, 1389-1394 (February 25, 1997). (Tractors)^{8, 9} The Commission, in finding infringement, found that certain KBT tractors bearing the KUBOTA trademark which complainant Kubota Corporation designed for use in the Japanese market were materially different from certain KTC tractors of the same model number which Kubota Corporation designed for use in the United States market, thus creating a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the marketholder's goodwill. Id. at 1389 -1394.

Complainants have represented that "to simplify issues in this Enforcement Proceeding the tractors accused of infringement in this proceeding are limited to those tractors identified on SX-1 (CEX 30)." (CRBr at 10, fn. 6). Thus the accused tractors in this enforcement proceeding are limited only to those which correspond to the 25 KBT tractor model numbers

⁸ Specifically, the Commission, with respect to finding infringement of the KBT L200 tractor for which the administrative law judge did not find infringement, compared the KBT L200 with the corresponding KTC L200 and stated:

We therefore find that the absence of English-language warning labels and instructional labels on the KBT L200 at the time of its importation and sale constitutes a material difference from the otherwise identical KTC L200 and reverse the ALJ's finding of no violation by the KBT L200.

Tractors 44 USPQ2d at 1392.

⁹ While complainants asserted that the Commission found infringement of the KUBOTA trademark by 46, not 45, different models of KBT tractors (CBr at 16, CEFF 98), the Commission found infringement of the 25 models considered by the administrative law judge as well as an additional 20 models which the administrative law judge did not consider, which is a total of 45 tractors. See Id. Consistent with the Commission's finding, both the Gamut respondents and the staff represented that the Commission found infringement of 45 models.

corresponding to the 25 KBT tractor model numbers identified in its SX-1 in the underlying proceeding.

The Commission on February 25, 1997 issued a general exclusion order. The general exclusion order ordered the Customs Service (Customs) to exclude from entry for consumption in the United States agricultural tractors under 50 power take-off horsepower that are manufactured by Kubota Corporation of Japan and infringe the "KUBOTA" trademark (U.S. Reg. No. 922,330), the Commission, noting that because the "KUBOTA" (block letters) trademark registration covers use of the trademark "KUBOTA" in any "kind of type," tractors "bearing the new stylized version of the 'KUBOTA' trademark (U.S. Reg. No. 1,775,620)" were also covered by the exclusion order. *Id.* at 1404. (Emphasis added). The Commission on February 25, 1997 also issued eleven Cease and Desist Orders to the individually-named domestic respondents in the original investigation.¹⁰ Of those Cease and Desist Orders, one is directed to Gamut Imports and another is directed to Gamut Trading. Those two Cease and Desist Orders are in issue in this enforcement proceeding.

Part III of the Cease and Desist Orders, to each of Gamut Trading and Gamut Imports, provide, inter alia:

Respondent shall not:

- (A) import or sell for importation into the United States covered product; or

¹⁰ Certain respondents in the underlying investigation filed an appeal in the Federal Circuit, Gamut Trading v. U.S.I.T.C Appeal Docket No. 97-1414 which is still pending. In said caption "Gamut Trading" includes all respondents in the underlying investigation represented by Lloyd J. Walker. On April 27, 1999 the Federal Circuit's disposition sheet, as posted on its electronic web page, did not display a decision for Appeal Docket No. 97-1414.

- (B) sell, market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States imported covered product.

The definition section of the Cease and Desist Orders define "covered product" as:

agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner.
[Emphasis added]

Part II of the Cease and Desist Orders in issue states they apply not only to the named respondent in the underlying proceeding but also 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." The administrative law judge finds that such language would include Ronald A. De Pue and Darrel J. Puy which the Commission Order of October 28, 1998 designated respectively as "Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading" and "Chief Financial Officer, President and member of the Board of Directors of Gamut Trading."

The Cease and Desist Orders issued to the Gamut respondents further includes the following:

Within (30) days of the last day of the reporting period, respondent shall report to the Commission the following: the quantity in units and the value in dollar of the foreign-produced covered product that respondents has imported or sold in the United States during the reporting period or that remains in inventory at the end of the period.

Any failure to make the required report shall constitute a violation of this Order.¹¹

(Emphasis added). The Cease Desist Orders also require:

For the purpose of securing compliance with the [Cease and Desist] Order, Respondent shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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.

(Part VI(A), at 4).

IV. VIOLATION OF THE CEASE AND DESIST ORDERS IN ISSUE

As indicated in Section I, supra, according to the Commission Order it shall be the burden of complainants to demonstrate that the Gamut respondents violated the Cease and Desist Orders in issue.¹²

A. The Accused Tractors

An examination of the invoices of Gamut Trading Co. Inc. (Gamut) (CEX 50) shows the accused tractors sold by the Gamut respondents after the issuance of the Commission's Cease and Desist Orders. The following Table 1, based on said invoices, sets forth, inter alia, the date of sale of the accused tractors as well as the model numbers of the tractors sold and

¹¹ This paragraph further requires that, starting with 1997, such reporting be made within thirty (30) days of August 31, of each year until expiration or abandonment of the KUBOTA trademark. (FF 10).

¹² The Gamut respondents argued that the "complaint is with the United States Customs Service, not with Gamut" (RBr at 7). However it is the Commission that is responsible for the enforcement of its Cease and Desist Orders. See 19 U.S.C. § 1337 (f). This is apparent from the Commission's issuance of its Order dated October 28, 1998.

the price paid.¹³

Table 1

LIST OF GAMUT INVOICES SHOWING SALES OF ACCUSED TRACTORS

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
1	N/A	GE 00085	ZL1801DT	1	\$4,890
2	02/27/97	GE 00139	ZL1501DT	2	\$8,346
			ZB7001DT	1	\$3,740
3	03/13/97	GE 00144	ZL2402DT	1	\$6,200
			ZB7001DT	1	\$3,740
			ZB1500DT	1	\$4,950
			ZL1500DT	1	\$3,770
4	03/19/97	GE 00111	ZB5000	1	\$2,475
			ZB5001	1	\$2,775
			ZB7000	2	\$6,210
5	03/20/97	GE 00147	ZL1500	8	\$15,200
			ZL1501	2	\$3,800
6	03/26/97	GE 00124	ZB7000DT	1	\$3,105
7	03/31/97	GE 00133	ZL2002DT	1	\$5,375
			ZL1801DT	1	\$4,405
			ZB7000DT	2	\$6,210
	03/31/97	GE 00114	ZB7000DT	1	\$3,105
			ZB7001DT	2	\$7,480
			ZB1600DT	1	\$3,960
8	04/01/97	GE 00118	ZB6000DT	1	\$2,475
			ZB7000DT	3	\$9,315

¹³ While the record is devoid of any documentation relating to the precise days on which the accused tractors were imported and/or when Customs received the tractors there is no denial that the accused tractors were imported.

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
	04/01/97	GE 00148	ZB6000DT	1	\$2,475
			ZB7000DT	3	\$9,315
9	04/10/97	GE 00132	ZB7000DT	4	\$12,420
	04/10/97	GE 00113	ZB5000DT	1	\$2,475
			ZB7000DT	2	\$6,210
			ZB7001DT	1	\$3,740
10	04/17/97	GE 00129	ZB7001DT	1	\$3,740
11	04/18/97	GE 00117	ZB6001DT	1	\$3,105
			ZB7001DT	2	\$7,480
12	04/22/97	GE 00134	ZB7000DT	1	\$3,105
			ZL1501DT	1	\$4,173
			ZL1801DT	1	\$4,405
			ZL2201DT	1	\$5,355
	04/22/97	GE 00123	ZB7000DT	4	\$12,420
	04/22/97	GE 00121	ZL2201DT	2	\$10,710
13	05/06/97	GE 00149	ZB6000DT	2	\$4,950
			ZB7000DT	2	\$6,210
14	05/12/97	GE 00119	ZL2201DT	1	\$5,355
			ZB1600DT	1	\$4,650
			ZL1501DT	1	\$4,173
15	05/16/97	GE 00150	ZB7000	4	\$12,420
16	05/22/97	GE 00122	ZB1400DT	1	\$4,200
			ZL1501DT	2	\$8,346
			ZB6000DT	2	\$4,950
17	05/28/97	GE 00143	ZB7001DT	1	\$3,740
			ZB1500DT	1	\$4,950
			ZL1500DT	1	\$3,700
	05/28/97	GE 00142	ZL2402DT	1	\$6,200

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
18	06/02/97	GE 00135	ZB5001	1	\$2,775
			ZB1600	1	\$5,200
19	06/16/97	GE 00152	ZL1500	9	\$17,550
20	06/19/97	GE 00126	ZL2000DT	1	\$4,560
			ZL2201DT	1	\$5,355
			ZB7001DT	2	\$7,480
	06/19/97	GE 00136	ZL1501DT	1	\$4,173
			ZB7001DT	1	\$3,740
			ZB7000DT	2	\$6,210
21	06/30/97	GE 00140	ZB7001DT	2	\$7,480
			ZL2601DT	2	\$13,600
			ZL1500DT	2	\$7,540
22	07/15/97	GE 00112	ZL1500	1	\$2,450
23	07/23/97	GE 00151	ZB5000	1	\$2,475
			ZB6000	2	\$4,950
			ZL2000	1	\$2,650
24	08/12/97	GE 00127	ZB7000	5	\$5,000
			ZB7001	3	\$3,600
			ZL1501DT	2	\$3,000
			ZL2202DT	1	\$2,000
25	08/14/97	GE 00146	ZB7000DT	1	\$3,740
26	12/18/97	GE 00103	ZL1500DT	2	\$8,510
27	12/19/97	GE 00089	ZL1500DT	2	\$8,510
			ZL1501DT	1	\$4,658
28	12/23/97	GE 00081	ZL1501DT	1	\$4,323
			ZB6001DT	1	\$3,885
			ZB6000DT	1	\$3,885
29	01/15/98	GE 00080	ZL2201DT	1	\$5,840

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
			ZL1801DT	1	\$4,890
			ZB7001DT	2	\$8,510
30	01/22/98	GE 00108	ZL1500DT	1	\$4,255
			ZL1501DT	2	\$9,316
31	02/04/98	GE 00073	ZL1500DT	2	\$8,510
			ZL1501DT	2	\$9,316
32	02/06/98	GE 00106	ZL1500DT	1	\$4,255
			ZL1501DT	1	\$4,657
			ZL7001DT	1	\$4,255
			ZL2202DT	1	\$6,350
33	02/23/98	GE 00079	ZL1500	1	\$2,955
			ZL1500DT	1	\$4,255
34	03/05/98	GE 00082	ZL1500	1	\$2,955
35	03/11/98	GE 00063	ZL1501DT	4	\$18,632
36	03/16/98	GE 00059	ZL1500	1	\$2,955
37	03/23/98	GE 00104	ZL1500DT	3	\$12,765
38	03/24/98	GE 00058	ZL1500DT	2	\$8,510
39	03/25/98	GE 00097	ZL1500DT	2	\$8,510
			ZL1501DT	2	\$9,316
40	04/06/98	GE 00084	ZL1501DT	4	\$17,020
41	04/14/98	GE 00066	ZB6000	1	\$680
42	04/16/98	GE 00109	ZL2002DT	1	\$5,600
			ZL2201DT	2	\$11,680
43	04/17/98	GE 00088	ZL1501DT	1	\$4,658
44	04/20/98	GE 00074	ZL1500DT	4	\$17,020
45	04/27/98	GE 00105	ZL1500DT	3	\$12,765
			ZL1501DT	2	\$8,510
46	04/30/98	GE 00067	ZB6000	4	\$2,700

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
	04/30/98	GE 00087	ZL2000DT	1	\$5,045
47	05/05/98	GE 00065	ZL1500DT	2	\$8,510
			ZB6000DT	1	\$2,960
48	05/18/98	GE 00057	ZL2000DT	1	\$5,045
49	05/20/98	GE 00069	ZB6000	2	\$1,350
	05/20/98	GE 00091	ZB6000	2	\$1,350
	05/20/98	GE 00075	ZL1501DT	2	\$8,510
			ZL2000DT	2	\$10,090
50	05/27/98	GE 00107	ZL1500DT	4	\$17,020
	05/27/98	GE 00076	ZL1500DT	3	\$12,765
			ZL2000DT	1	\$5,045
51	06/01/98	GE 00060	ZL1501DT	3	\$13,974
52	06/04/98	GE 00094	ZL1501DT	1	\$4,658
	06/04/98	GE 00092	ZL1501DT	1	\$4,658
			ZB1702DT	1	\$5,365
			ZL2202DT	1	\$5,950
53	06/08/98	GE 00093	ZL1501DT	2	\$9,316
			ZL1500DT	1	\$4,255
	06/08/98	GE 00064	ZL1500DT	2	\$8,510
			ZL1501DT	1	\$4,658
54	06/11/98	GE 00098	ZL1501DT	1	\$4,255
			ZL1500DT	3	\$12,765
55	06/15/98	GE 00099	ZL2202DT	1	\$5,950
56	06/23/98	GE 00095	ZL1500DT	2	\$8,510
57	06/30/98	GE 00071	ZB6000	3	\$2,025
58	07/01/98	GE 00086	ZL1501DT	1	\$4,658
59	07/06/98	GE 00100	ZL1500DT	4	\$17,020
60	07/17/98	GE 00077	ZL1500DT	1	\$4,255

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
			ZL2000DT	1	\$5,045
			ZL2202DT	2	\$11,900
61	08/18/98	GE 00061	ZL1501DT	3	\$13,974
62	08/19/98	GE 00110	ZL7001DT	2	\$8,450
			ZL1501DT	2	\$8,510
63	08/26/98	GE 00101	ZL1500DT	4	\$17,020
64	09/09/98	GE 00078	ZL1802DT	1	\$5,280
			ZL2000DT	2	\$10,090
			ZL2002DT	1	\$5,600
65	09/14/98	GE 00102	ZL2201DT	1	\$5,840
66	09/21/98	GE 00056	ZL2000DT	1	\$5,045
67	09/23/98	GE 00083	ZL1500DT	4	\$17,020
			ZL1501DT	4	\$18,632
68	10/02/98	GE 00072	ZL1501DT	1	\$4,658
			ZB7001DT	1	\$4,225
69	10/13/98	GE 00096	ZL1501DT	1	\$4,658

The parties are in agreement that there are two types of accused KBT tractors at issue in this enforcement proceeding, viz., the "B" series and "L" series tractors. The accused "L" series tractors are identified on invoices of Gamut and promotional materials as "Zennoh" and as indicated in Table 1 a model number with the prefix "ZL", such as "ZL 1500." (FF 1, 2). The accused "B" series tractors are identified on said invoices and promotional materials as "Zennoh" and as indicated in Table 1 a model number with the prefix "ZB", such as "ZB 5000" ("B" series caused tractors"). (FF 1, 2).

A summary of accused tractors by series, taken from the said invoices and promotional

materials are in the following Table 2 ("L" series) and Table 3 ("B" series):¹⁴

Table 2

L Series Accused Tractors
ZL240*
ZL1500, ZL1500(DT)
ZL2000(DT)
ZL1501, ZL1501(DT)
ZL1801(DT)
ZL2201*, ZL2201(DT)
ZL2601(DT)
ZL1802(DT)
ZL2002*, ZL2002(DT)
ZL2202*, ZL2202(DT)
ZL2402*, ZL2402(DT)**

Table 3

B Series Accused Tractors
ZB5000, ZB5000(DT)
ZB6000, ZB6000(DT)
ZB7000, ZB7000(DT)
ZB5001, ZB50001(DT)
ZB6001(DT)
ZB7001(DT)
ZB1200(DT)*
ZB1400(DT)
ZB1500*, ZB1500(DT)
ZB1600**, ZB1600(DT)

(FF 3).

In support of complainants' initial submission, Shigeru Kashihara (CEX 3), an engineer of Kubota Corporation who testified in the underlying proceeding, stated:

L-Series KBT tractors (tractors which include an "L" in the prefix of the model number) made for Zen-Noh bear the KUBOTA trademark in various locations:

(i) L Series KBT tractors made for Zen-Noh in the "00" series, namely, those tractors where the last two numbers of the model are "00", such as model numbers ZL1500 and ZL2000, bear the KUBOTA trademark on the hour meter.

¹⁴ Accused tractors identified in Tables 2 and 3 and the following Table 5 with an asterisk are included on Gamut promotional materials, but not on said invoices while those identified with a double asterisk are included on Gamut invoices, but not on Gamut promotional materials (FF 3).

(ii) L Series KBT tractors made for Zen-Noh in the "01" series, namely, those tractors where the last two numbers of the model number are "01", such as model numbers ZL1501 and ZL2201, also bear the KUBOTA trademark on the hour meter.

(iii) L Series KBT tractors made for Zen-Noh in the "02" series, namely, those tractors where the last two numbers of the model number are "02", such as model numbers ZL1802 and ZL2002, bear the KUBOTA trademark at several locations: hood (right, left and front), key, hour meter, level grip and control box.

(CEX 3, ¶ 8). A comparison of Kashihara's testimony and the accused "L" series tractors, set forth in Table 2 supra, shows that all of the accused "L" series tractors bear the KUBOTA trademark.

In contrast to said "L" series tractors the complainants have stated that "the B series tractors may not have borne the KUBOTA trademark on the tractors at the time of importation into the United States." (CBr. at 22). Also, the complainants' stipulated that "[n]one of the tractors identified with a 'ZB' prefix [B series] on Gamut Trading Co., Inc. Price Lists, bearing production numbers GE0003-55 or Gamut Trading Co., Inc. invoices bearing production numbers GE00056-152 have an hour meter."¹⁵ (JSF at ¶ 30).

Based on the foregoing, and because complainants have the burden to demonstrate that the Gamut respondents violated the Cease and Desist Orders in issue, of the two series of accused tractors imported by the Gamut respondents, the administrative law judge finds that while all of the "L" series tractors bear the KUBOTA trademark at the time of importation, none of the accused "B" series tractors bear the KUBOTA trademark at the time of importation.

¹⁵ The hour meter is the primary location of the KUBOTA trademark. (CEX 3).

B. The "L" Series Accused Tractors Violate The Cease and Desist Orders

The Cease and Desist Orders in issue prohibit Gamut Trading and Gamut Imports from the importation, sale, marketing, distribution, offer for sale or transfer of "covered product" which infringes federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330). See Section II, supra. As stated in Section III supra, in the underlying proceeding, the Commission held that in order to establish infringement, in addition to bearing the U.S. registered KUBOTA trademark, the accused tractors must be materially different from the KTC tractors of the same model number authorized for sale in the United States. Thus, in order to determine if the accused tractors are "covered product" it must be found that the accused tractors (1) bear the KUBOTA trademark and (2) are materially different from the KTC tractors of the same model number authorized for sale in the United States. If either (1) or (2) is lacking in an accused tractor there can be no direct infringement and accordingly the accused tractor is not a "covered product" as recited in the Cease and Desist Orders in issue.

Complainants argued that the "L" series accused tractors bear the KUBOTA trademark in several locations. It is also argued that it is irrelevant that the "L" series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark. (CBr at 20, 21).

The staff argued that the importation and sale of Zen-Noh model "ZL" tractors manufactured by Kubota Corporation and that bear the KUBOTA trademark meet the first element for infringement under the Lanham Act, citing 15 U.S.C. § 1114(1)(a). (SBr at 22-23). The staff further argued that the evidence shows said "ZL" tractors are "materially different" from the U.S. authorized KTC tractors, and therefore Gamut's use of the KUBOTA trademark in connection with those tractors is "likely to cause confusion, or to cause mistake,

or to deceive," citing 15 U.S.C. § 1114(1) (a) (SBr at 26-28).

The Gamut respondents argued that the "L" series Zen-Noh tractors are not included in the Cease and Desist Orders in issue.

As seen in Section IV, A, supra, the evidence establishes that the accused "L" series tractors imported by the Gamut respondents bear the KUBOTA trademark. The administrative law judge agrees with complainants that it is irrelevant to a determination of infringement that said L series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark. The presence of more than one trademark on a product does not exempt a party who sells that product from liability for infringement if the party has not obtained permission to affix any one of those marks to the product. See Carter-Wallace, Inc. v. Procter & Gamble Co., 434 F.2d 794,800 (9th Cir. 1970) (Carter) and Old Dutch Foods, Inc. v. Dan Dee Pretzel & Potato Chip Co., 477 F.2d 150, 154-56 16th Cir. 1973) (Old Dutch). Moreover the position of a symbol or a word is not controlling as to whether or not it performs a trademark function. The relevant issue is whether, when the mark is noticed, it will be understood as indicating the source of the goods. See, Chum King Corp. v. Genii Plant Line, Inc., 403 F.2d 274, 276 (C.C.P.A. 1968) (Genii), Safe-T Pacific Company v Nabisco Inc., 204 USPQ 307, 315 (T.T.A.B. 1979) (Safe-T), and Education Development Corp. v. Educational Corp., 183 USPQ 492 (T.T.A.B. 1974) (Education). See also McCarthy On Trademarks and Unfair Competition §§§ 7.1, 7.3, 7.8 (1996).

With respect to any material differences between the accused "L" series tractors bearing the KUBOTA trademark and the KTC tractors which Kubota corporation designs for the United States market, certain KBT tractors, including those "L" series tractors, are sold in

Japan by Kubota Corporation to Zen-Noh, which is the acronym for an agricultural organization in Japan known as the Japan National Federation of Agricultural Cooperative Associations (KBT tractors sold to Zen-Noh). (FF 6). Kashihara in his declaration (CEX 3) stated that:

A KBT tractor sold to Zen-Noh is identical in all respects to a KBT tractor sold to the Japanese market of the same model number, with two exceptions. First, KBT tractors sold to Zen-Noh have the word "Zen-Noh" on the hood, whereas KBT tractors sold for the Japanese market have the word KUBOTA on the hood. Second, KBT tractors sold to Zen-Noh include a "Z" designation as a prefix to the tractor model number, whereas KBT tractors sold to the Japanese market do not include such a designation. Apart from those two differences, KBT tractors sold to Zen-Noh are identical in all respects to tractors KBT sells to the Japanese market.

(CEX 3, ¶ 6, Emphasis added). In the underlying proceeding, as seen from the following Table 4, the Commission found that the certain KBT "L" series models infringe because they bear the "KUBOTA" trademark and are materially different from the KTC tractors designed by Kubota Corporation for the United States and bearing the same model number:

Table 4

KBT "L" Series Models Found to Infringe In Underlying Investigation (from SX-1)
L240
L1500
L1501(DT)
L2000

L1801(DT)
L2201(DT)
L2601(DT)
L1802(DT)
L2002(DT)
L2202(DT)
L2402(DT)

Because a KBT tractor sold to Zen-Noh is identical to a KBT tractor of the same model number sold to the Japanese market, except that the KBT tractors sold to Zen-Noh have the words "Zen-Noh" on their hoods and have the "Z" designation as a prefix to the tractor model number both of which the administrative law judge finds do not affect the materiality issue, complainants have established that the accused "L" series tractors bearing the KUBOTA trademark in the following Table 5 are materially different from the KTC tractors of the same model number (except the "Z" prefix):

Table 5

Accused "L" Series Tractors (from Gamut Invoices and Promotional Materials)
ZL240*
ZL1500, ZL1500(DT) ¹⁶

¹⁶ The designation (DT) indicates that a tractor is four wheel drive. (FF 7-9). As explained in the declaration of Kashihara (CEX 3), the DT version of a particular tractor is identical in all respects to a non-DT version of the same model, except that the DT version is four wheel drive and the

ZL1501, ZL1501(DT)
ZL2000, ZL2000(DT)
ZL1801(DT)
ZL2201*, ZL2201(DT)
ZL2601(DT)
ZL1802(DT)
ZL2002*, ZL2002(DT)
ZL2202*, ZL2202(DT)
ZL2402(DT)**

Based on the foregoing, the administrative law judge finds that complainants have established that the accused "L" series tractors are "covered" product as defined in the Cease and Desist Orders in issue and accordingly violated not only Part III (A) of the Cease and Desist Orders in issue, viz., "import or sell for importation into the United States covered product" but also Part III (B) of said orders, viz., "sell, market, distribute, offer for sale, or otherwise transfer ... in the United States imported covered product."¹⁷

The administrative law judge rejects the Gamut respondents' argument that the issue involving the accused "L" series tractors centers itself on the enforcement by Customs as to Zen-Noh tractors only with hour meters labeled KUBOTA. (RBr at 6). As seen in the

non-DT version is two wheel drive. (FF 7-9). Therefore, as Kashihara further explained in his declaration, any finding of material differences for a particular model number marked as SX-1 will apply to both the DT and non-DT versions of a particular model. (FF 7-9).

¹⁷ There is ample support for violation by the Gamut respondents of Part II (B) of said orders. See FF 23, 24.

Kashihara declaration, CEX 3, certain of the accused "L" series tractors are not limited to bearing the KUBOTA trademark on the hour meter. Thus, the issue in this enforcement proceeding is not limited to those "Zen-Noh" tractors with hour meters labeled KUBOTA, but in fact encompasses all the accused "L" series tractors that bear a KUBOTA trademark anywhere.

The administrative law judge also rejects the Gamut respondents' arguments that the accused "L" series tractors with hour meters bearing the KUBOTA trademark do not violate the Cease and Desist Orders in issue, because Customs cleared those tractors for importation; that since the Zen-Noh tractors with KUBOTA trademarked hour meters were imported, the complaint is with Customs not with Gamut or any other American business; and that the Federal Circuit decision in Hyundai Electronics Industries Co. Ltd. v. U.S. International Trade Commission, 14 USPQ2d 1396 (Fed. Cir. 1990) (Hyundai Electronics) supports the proposition that "if U.S. Customs enforces the Exclusion Order in a manner with which Kubota does not agree, then a separate legal action must be taken in a separate Federal District Court to cause Customs to change its enforcement," citing Id. at 1401. (RBr at 6-7).

While Customs allowed the importation of the accused "L" series tractors, Customs blocked the importation of "L" series tractors by letters dated July 31, 1997 and September 23, 1997 on the grounds that they violated the KUBOTA trademark. (CEX 82 and 83).¹⁸ Thus,

¹⁸ Significantly, as indicated by a Customs letter dated January 22, 1999, a copy of which was submitted to this administrative law judge by complainants on February 23, 1999 and which complainants represented was a letter sent to the Gamut respondents' counsel, it was Customs' position that a tractor which does not bear the KUBOTA trademark is not subject to the orders in issue. Said letter, in part, reads:

the Gamut respondents were put on notice at least by the letter of Customs dated July 31, 1997 (CEX 82) that Customs considered "L" series tractors, which bear the KUBOTA trademark, in violation of the Cease and Desist Orders in issue.¹⁹ Hyundai Electronics, relied on by the Gamut respondents, is inapposite to this enforcement proceeding. In Hyundai Electronics appellant Hyundai contended that the Court should set aside the Commission remedy determination, viz. a limited exclusion order, on the grounds that such a remedy was unsupported by substantial evidence. In addressing Hyundai's argument, the Federal Circuit nowhere in its opinion held that a "separate legal action must be taken in a separate Federal District Court to cause Customs to change its enforcement," as the Gamut respondents argued citing Hyundai Electronics at 1401. At 1401, the Court did state:

Hyundai's challenge strikes us as a thinly veiled and vaguely expressed dissatisfaction with the Customs Service certification procedure it expects the Customs Service to devise when it implements the Commission's order. But that procedure is not

Please be advised that tractors bearing a KUBOTA trademark are subject to exclusion where the tractor is under 50 power take-off horsepower and is materially different from the U.S. model. Accordingly, a KUBOTA trademark appearing anywhere on a tractor, including the hour meter, which is under 50 power take-off horsepower and is materially different from the U.S. model would fall under the order. [Emphasis added]

Zen-Noh tractors which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order and may be imported. [Emphasis added].

(REX A).

¹⁹ Neither complainants nor the staff has taken a position as to the specific dates when each of the accused "L" series tractors was imported into the United States. The administrative law judge finds no evidence that Customs permitted entry of the accused "L" series tractors after July 31, 1997. Hence the imports of the accused "L" series tractors must have taken place prior to July 31, 1997.

before us and cannot be contested in a proceeding seeking review of the Commission's underlying remedy determination.

Id. (Emphasis added). Thus in Hyundai Electronics the Court only held that a certification procedure implemented by Customs was not before the Court, and the only issues involved dealt with the Commission's underlying remedy determination.

The administrative law judge further rejects the Gamut respondents' arguments that the accused "L" series tractors do not violate the Commission Cease and Desist Orders because the Cease and Desist Orders do not list specific Kubota model numbers which are materially different and thus infringe the KUBOTA trademark; that there has never been a model by model comparison of the KTC tractors to the KBT tractors to determine whether there are in fact material differences; and that there was no finding in the underlying investigation that 45 models of KBT tractors were infringing tractors. (RRBr at 3).

While the Cease and Desist Orders in issue did not include specific model numbers, those Orders prohibit the import of tractors that infringe the KUBOTA trademark. As stated supra, if a KBT tractor that bears the KUBOTA trademark is materially different from the corresponding KTC tractor of the same model number it infringes the KUBOTA trademark. Thus, the administrative law judge finds that it is not necessary to have a specific model number to comply with the Cease and Desist Orders in issue but rather the Gamut respondents need only know whether or not the accused imported "L" series tractor bearing the KUBOTA trademark is materially different from the corresponding KTC model number tractor. Furthermore, there has been a model by model comparison of KBT and KTC tractors of the same model number in order to determine if they are materially different. As stated supra, in

the underlying investigation the Commission explicitly found 45 different models of KTC tractors materially different from their corresponding KBT model tractors. Moreover, as stated supra, the accused "L" series tractors in this enforcement proceeding have the same model numbers as the "L" series tractors found to be infringing in the underlying investigation. Therefore, the administrative law judge finds that the lack of specifying model numbers in the Cease and Desist Orders in issue does not render the Orders ineffectual.

The administrative law judge, in addition, rejects the argument of the Gamut respondents that while "some of the ZL series tractors may have been sold with hour meters labeled KUBOTA. The hour meter does not comprise a secondary, conflicting tractor label. It is a parts label" (RRBr at 6). As legal precedent shows, it is irrelevant to a determination of infringement that the accused L series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark and the position of a trademark is not controlling as to whether it performs a trademark function. See Genii, Education, Carter, Old Dutch and Safe-T, supra. The Gamut respondents have cited no legal precedent to the contrary.

C. The "B" Series Accused Tractors Do Not Violate The Cease And Desist Orders

Complainants argued that while the accused B series tractors may not have borne the KUBOTA trademark on the tractors at the time of importation into the United States, the Gamut respondents used the KUBOTA trademark extensively in connection with offering those tractors for sale in marketing efforts, in promotional materials and in representations made to customers (CBr at 22); and that since February 1997 the Gamut respondents used the KUBOTA trademark in their promotional materials to advertise the "B" series accused tractors and encouraged dealers to inform their customers that those tractors were manufactured by

Kubota Corporation. (CRBr at 23). Complainants also argued, under a heading titled "F. Contributory Infringement," that the Gamut respondents induced others to infringe the KUBOTA trademark. (CBr at 25).

The staff argued that the Gamut respondents "used" the KUBOTA trademark in connection with the sale, offer for sale, and advertising of the accused Zen-Noh model "ZB" tractors ("B" series tractors) in violation of the Cease and Desist Orders in issue. (SBr at 24). However the staff later eliminated the sales of the accused "B" series tractors in its determination of a penalty amount stating that while between February 25, 1997 and March 10, 1998 there were sales of the accused "B" series tractors, there was "no evidence that they bore the KUBOTA trademark or that Gamut advertised them as 'Kubotas'." (SBr at 42).

The Gamut respondents argued that the "B" series Zen-Noh tractors are not included in the Cease and Desist Orders in issue.

As seen in Section IV A, supra, complainants have not established that the accused "B" series tractors, as received by Customs, bear the KUBOTA trademark. The Cease and Desist Orders in issue specifically refer to tractors "that infringe federally-registered U.S. trademark KUBOTA (Reg. No. 922,330)". See Section III supra.²⁰ Since said "B" series tractors lack the KUBOTA trademark, as those tractors are received by Customs, the administrative law judge finds no direct infringement. Accordingly he finds that complainants have not established the accused "B" series tractors are "covered product" as defined in the

²⁰ Customs has interpreted the relief granted by the Commission as requiring that imported tractors bear a KUBOTA trademark on the tractor. See fn.18 supra.

Commission's Cease and Desist Orders in issue and thus complainants have not established that the Gamut respondents have violated either (A) or (B) of Part III of said orders.

Complainants have argued that there is contributory infringement involving the accused "B" series tractors, in that the Gamut respondents induced others to infringe. (CBr at 25). Complainants' argument appears to be an attempt to circumvent (B) of Part III of the Cease and Desist Orders in issue. Part III (B) does prohibit the selling, marketing, distributing, offering for sale in the United States certain imported goods. However it specifically limits said imported goods to "imported covered product." The Gamut respondents in selling marketing, distributing and/or offering accused "B" series tractor are not marketing an "imported covered product." Hence the administrative law judge has found no violation of Part III (B) of the Cease and Desist Orders in issue.

In addition it is well settled that there can be neither inducement of infringement or contributory infringement in the absence of direct infringement. Thus, the Supreme Court in Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., 128 USPQ 354 (1961) stated that it is a fundamental precept "that there can be no contributory infringement in the absence of direct infringement." Id. at 357. Moreover, the Federal Circuit in Met-Coil Sys. Corp. v. Korners Unlimited, Inc., 231 USPQ 474 (1986) stated:

Because of our affirmance of the district court's holding that Met-Coil's customers enjoyed an implied license to practice the invention claimed in Met-Coil's patent, there can be no direct infringement under the facts of this case. Absent direct infringement of the patent claims, there can be neither contributory infringement, Porters v. Farmer Supply Service, Inc., 229 USPQ 814, 815 (Fed. Cir. 1986), nor inducement of infringement, Stuckenberg v. Teledyne, Inc., 169 USPQ 684, 586 (9th Cir. 1971).

Id. at 476-77. See also Micro Chemical Inc. v. Great Plains Chemical Co., 41 USPQ2d 1238, 1247 (Fed. Cir. 1997) and Preemption Devices v. Minnesota Mining & Manufacturing, 231 USPQ 297, 299 (Fed. Cir. 1986). Hence because the administrative law judge has found no direct infringement by the "B" series tractors, as received by Customs, he finds that complainants have not established any contributory infringement or inducement of infringement by the Gamut respondents with respect to those tractors.

Specifically, the administrative law judge rejects complainants' argument that even though the accused tractors may not have borne the Kubota trademark, the respondents are infringing because they use the Kubota trademark extensively in connection with the sale of the accused tractors, citing McCarthy On Trademarks § 25:26 (1997), and that respondents infringe because "there is no requirement that the product itself be used in commerce," citing Miller Brewing Company v. Carling O'Keefe Breweries of Canada, LTD, 452 F. Supp. 429, 442 (W.D.N.Y. 1978). (CBr at 22, CRBr at 3 and 9). In a section 337 investigation the infringement analysis is directed at the accused goods at the time of importation and is not directed at activities that occur wholly within the United States after importation. Thus, the Commission, in the underlying investigation, stated:

The unlawful act defined by section 337 is the "importation into the United States, the sale for importation into the United States, or the sale within the United States after importation" of an article that infringes a registered trademark. 19 U.S.C. §1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels. [which labels were in the English language and thus eliminated the material differences in the tractors]

Tractors, 44 USPQ2d at 1392 (Emphasis added). Therefore, because complainants have failed to establish that the "B" series tractors bear the KUBOTA trademark at the time of importation, there cannot be "importation into the United States, the sale for importation into the United States, or the sale within the United States after importation of an article that infringes a registered trademark" because there is no direct infringement in the importation.²¹

The administrative law judge also rejects arguments that the Gamut respondents have violated any Commission Cease and Desist Order because they have induced their dealers to infringe the KUBOTA trademark by encouraging the resale of tractors the Gamut respondents sell and by supplying their dealers with counterfeit KUBOTA labels with instructions to affix the labels on the accused tractors. (CBr at 28). Specifically, it is argued that in William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526 (1924) (Warner) the Supreme Court held that a manufacturer is liable if it enables or induces sellers to deceive their customers by palming off its product as the product of another; and that a party is liable for contributory infringement if it (i) intentionally induces another to infringe a mark, or (ii) continues to supply a product knowing or having reason to know that the recipient is using the product to engage in trademark infringement, citing Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 853-54 (1982) (Inwood). (CBr at 27-28).

In Warner the Supreme Court agreed with the court below that "the charge of infringement was not sustained." Id. at 528. The Supreme Court then made its liability analysis on principles of unfair competition regarding activities that occurred wholly within the

²¹ The administrative law judge makes no finding as to whether any action of the Gamut respondents in the United States does or does not constitute direct infringement.

United States. Id. Thus, the administrative law judge finds that the facts of Warner and the Supreme Court's holding in that case are inapposite to this enforcement proceeding.

Furthermore the Supreme Court in Inwood found direct infringement before it found contributory infringement. Thus the Court acknowledged that:

Ives did not allege that the petitioners themselves applied the Ives trademark to the drug products they produced and distributed, it did allege that the petitioners contributed to the infringing activities of the pharmacists who mislabeled their generic cyclandelate.

Id. at 850 (Emphasis added). The Court then stated "It is undisputed that those pharmacists who mislabeled generic drugs with Ives' registered trademark violated § 32." Id. at 854.

Thus the administrative law judge finds that Warner and Inwood do not support complainants' argument that the Gamut respondents are liable for contributory infringement with respect to the accused "B" series tractors that do not bear the KUBOTA trademark at the time of importation.

Moreover, the administrative law judge rejects complainants' argument that the Gamut respondents are liable for contributory infringement by the offer of sale of infringing KBT tractors. (CBr at 47). 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 28 (Aug. 1991) (EPROMS), aff'd. sub nom. Hyundai Electronics, cited by complainants, while the Commission did consider evidence that respondent Atmel Corporation (Atmel) offered infringing tractors for sale in assessing the maximum penalty allowed, the Commission first found that Atmel had violated the Commission's Cease and Desist Order which provided that

Atmel "shall not import into or sell for importation, erasable programmable read only memories, whether assembled or unassembled...that infringe claim 2 of U.S. Letters Patent 4, 223, 395..." *Id.* at 9. (Emphasis added) In contrast, in this enforcement proceeding, the accused "B" series tractors which the Gamut respondents imported, did not bear the KUBOTA trademark and thus were not infringing when imported by the Gamut respondents.

Based on the foregoing, the administrative law judge finds that complainants have not established that the accused "B" series tractors are "covered product" as defined in the Commission's Cease and Desist Orders in issue.

D. The Gamut Respondents Have Violated The Reporting and Record Keeping Requirements

Each of complainants and the staff argued that the Gamut respondents violated the reporting and record keeping requirements of the Cease and Desist Orders in issue. In support it is argued that on November 14, 1997, respondent Du Puy reported to the Commission on behalf of the Gamut respondents that four units of covered products were in inventory as of February 25, 1997²² (CEFF 207); and that Du Puy stated that "Gamut Trading Company has not imported any units of covered product since February, 1997 nor has it sold any Kubota tractors since February, 1997;" that all of the tractors on hand as of February 25, 1997" have been broken down into parts and sold or have been shipped to the scrap yard as metal." It was also argued that on August 10, 1998, counsel for the Gamut respondents submitted a letter to the Commission dated July 29, 1998 from Du Puy to said counsel, which stated "since the

²² Complainants noted that that letter listed the following covered products: 1 model B6000Dt, 1 model B7001DT, 2 model L1500s. (CEFF 207)

report submitted last year Gamut Trading has not imported or sold any 'Kubota' tractors"; and that when Du Puy submitted those letters, he knew that both submissions contained false statements and as such, the Gamut respondents intentionally violated the reporting requirements of the Cease and Desist Orders. (CBr at 32, 33).

The staff argued that the evidence shows that during the first reporting period between February 25, 1997 and August 31, 1997, the Gamut respondents imported and sold KBT-manufactured Zen-Noh tractors to U.S. customers on at least 24 different days; that during the second reporting period between September 1, 1997 and August 31, 1998 the Gamut respondents sold KBT-manufactured Zen-Noh tractors on at least 38 different days and after August 31, 1998, the Gamut respondents sold KBT-manufactured Zen-Noh tractors on at least 6 different days; that the evidence also shows, as reported in price lists issued during the period between March 12, 1997 and January 9, 1998, that the Gamut respondents either had in their U.S. inventory or received into their U.S. inventory a substantial number of KBT-manufactured Zen-Noh tractors that they advertised to their dealers as being "ZENNOH" tractors, but as reported in price lists issued during the period between March 10, 1998 and September 30, 1998, they either had in their U.S. inventory or received into their U.S. inventory KBT-manufactured Zen-Noh tractors that they advertised to their dealers as being "ZENNOH (Kubota)" tractors and that thus the Gamut respondents violated the reporting requirements of the cease and desist orders by failing to report their importation, sale and inventorying of those tractors; and that in November 1998, after the enforcement complaint was filed, the Gamut respondents threw out all of their importation records and many sales records for KBT-manufactured Zen-Noh tractors sold in the United States after the Cease and

Desist Orders in issue issued on February 25, 1997. (SBr at 29-30).

As seen in Section III supra the Cease and Desist Orders in issue require that the Gamut respondents shall make reports to the Commission, and for the purpose of securing compliance with the Cease and Desist Orders in issue shall retain records concerning imported covered product. The administrative law judge finds that the Gamut respondents sold the accused "L" series tractors that bore the KUBOTA trademark on 56 separate days, in the period from Feb. 27, 1997 to October 13, 1998. See Table 1 supra. The administrative law judge finds further that the failure to report the sale of each of the accused "L" series tractors bearing the KUBOTA trademark was a violation of the reporting requirements of the Cease and Desist Orders in issue.

The administrative law judge also finds that the statements made by the Gamut respondents on November 14, 1997 and August 10, 1998 violated the reporting requirements of the Orders in issue because the evidence does show that the Gamut respondents did import and sell the accused "L" series tractors bearing the KUBOTA trademark. While the position of the Gamut respondents is that such "L" series tractors were not covered product because "the hour meter does not comprise a secondary conflicting tractor label. It is a parts label" (RBr at 6), Customs, on July 31, 1997, put the Gamut respondents on notice that it was denying entry to a shipment of "L" series tractors because they infringed the KUBOTA trademark. Thus, as of July 31, 1997, the Gamut respondents ought to have been aware that Customs considered "L" series tractors bearing the KUBOTA trademark in violation of the Cease and Desist Orders. Therefore, the Gamut respondents ought to have been aware that any sales of the accused "L" series tractors after July 31, 1997 would be subject to the

reporting requirement. Based on the foregoing, the administrative law judge finds that the Gamut respondents knowingly violated the reporting requirements of the Cease and Desist Orders in issue when they stated on November 14, 1997 and again on August 10, 1998 that they had not imported or sold any of the accused "L" series Kubota tractors since February 1997.

The administrative law judge also finds that the Gamut respondents violated the Cease and Desist Orders in issue because they destroyed "records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product made and received in the usual and ordinary course of business" as required by the Cease and Desist Orders in issue. Thus the evidence establishes that the Gamut respondents on November 1, 1998, after the July 31, 1997 Customs letter and after the filing on July 16, 1998 of the complaint in this enforcement proceeding, destroyed three types of documents, viz, records relating to importation, records relating to offer for sales and marketing, and records relating to sales distribution and transfer.²³ With respect to records relating to importation, the Gamut respondents had numerous importation documents, including bills of lading, invoices reflecting the Gamut respondents' purchases of tractors and

²³ The administrative law judge further finds that although DePue testified that he discarded only a "[c]ouple file drawers, probably" of documents (FF 18), his brother Darrel Du Puy testified that Gamut Trading once had something of the order of three to four file cabinets of documents, or approximately nine drawers of documents, in its offices, (FF 18); that Du Puy's testimony is supported by that of Gamut Trading's former bookkeeper, Ms. Ernestine Cadwallader in that Ms. Cadwallader testified that approximately four filing cabinets of documents, each cabinet having four drawers, remained at Gamut Trading when she left the company on or about November 5, 1998 (FF 19-20); and that some of the drawers were full, she explained, and some were only half full. (FF 19-20).

parts from their suppliers, documents showing Customs clearance of the tractors, bills of lading, accounts payable information, faxes from their trading companies and other importation documents that accompanied the tractor shipments. (FF 11, 14). Those importation documents would have shown, inter alia, from whom the Gamut respondents purchased the accused "L" series tractors and for how much. (FF 12). With respect to records relating to offer for sales and marketing and to sales, distribution, and transfer, the Gamut respondents had customer lists and files, which would have shown to whom offers to sell "L" series tractors were sent, letters to and from Gamut Trading's dealers, and other documents relating to Gamut Trading's marketing efforts. (FF 15 and 17).

In addition, respondent De Pue, when asked about the information used to generate the 1996 and 1997 financial statements of the Gamut respondents, testified that the underlying information was contained on computer files, including receivables, payables, payroll and invoices, and that the computer containing these files was sold in January of 1999. (FF 29). The date of sale of the computer was after the date on which the Gamut respondents were put on notice by Customs that "L" series tractors were infringing and was also after the date on which the enforcement complaint was filed. The administrative law judge finds that the sale of the computer containing those files, and thus the effective destruction of those files, a further violation of the record keeping requirements of the Commission Orders in issue because the Gamut respondents ought to have been aware that the records on the computer should have been maintained pursuant to the Commission Orders in issue.

E. Conclusion (Violation)

Based on the foregoing, the administrative law judge has found that the Gamut

respondents have violated Part III (A) of the Cease and Desist Orders in issue by the importation of 172 accused "L" series tractors. Specifically, the administrative law judge has found that the Gamut respondents imported said tractors and they sold said tractors, for a total of 56 separate days,²⁴ as follows:

- one "L" series tractor on each of 14 separate days;
- two "L" series tractors on each of 12 separate days;
- three "L" series tractors on each of 9 separate days;
- four "L" series tractors on each of 14 separate days;
- five "L" series tractors on each of 2 separate days;
- six "L" series tractors on 1 day;
- eight "L" series tractors on each of 2 separate days;
- nine "L" series tractors on 1 day; and
- ten "L" series tractors on 1 day.

In addition, based on the foregoing, the administrative law judge has found that the Gamut respondents have violated Part III (B) of the Cease and Desist Orders in issue in their selling, marketing, distributing and offering for sale in the United States said "L" series

²⁴ Complainants argued that, based on the Gamut respondents' invoices, there are 69 violation days with respect to the "B" and "L" series tractors; and that even though one of the invoices is undated, it should be treated as a separate violation day due to the fact that the Gamut respondents have destroyed pertinent records. (CRBr at 22). The staff argued that when counting violation days the undated invoice should not be treated as a separate day and thus there are a total of 68 violation days. (SBr at 32 fn. 9). In light of the complainants' burden in establishing violation, the administrative law judge agrees with the staff that the undated invoice should not be treated as a separate day. Thus, when calculating the number of days on which the "L" series tractors were sold, the administrative law judge has not included the undated invoice.

tractors; and that the Gamut respondents have violated the Commission's Cease and Desist Orders in issue by failure to report the importation and sale of the accused "L" series tractors and the failure to maintain adequate records concerning the importation and sale of the 172 accused "L" series tractor bearing the KUBOTA trademark.

V. ENFORCEMENT MEASURES

As indicated Section I, supra, the Commission Order directed that, if the administrative law judge finds a violation of the Cease and Desist Orders in issue, he should recommend what enforcement measures, if any, are appropriate, in light of the nature and significance of any violations found.

Subsection (f)(2) of section 337 provides that

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

19 U.S.C. § 1337(f)(2). Congress has made it clear 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." See H.R. Rep. No. 96-317 at 191 and S. Rep. No. 96-249 at 262 (1979).

In assessing the civil penalty and the amount of said penalty, the Commission considers the following factors:

- (1) the good or bad faith of the respondent,
- (2) the injury to the public,
- (3) the extent to which respondent has benefitted from the violations,

- (4) respondent's ability to pay, and
- (5) the need to vindicate the authority of the Commission.

EPROMs and Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, Inv. No. 337-TA-372, Enforcement Proceeding, Commission Opinion (Nov. 1997) (Magnets), affd sub nom San Huan New Materials High Tech, Inc. v. International Trade Commission, 161 F.3d 1347, 1362 (1998) (San Huan). In addition to the above factors, the Commission also considers the public interest as required by the legislative history of subsection (f)(2) of section 337.

A. The Good Or Bad Faith Of The Gamut Respondents

In assessing, and determining the amount of, any civil penalty, as indicated supra, the good or bad faith of the Gamut respondents should be considered. The complainants argued that the Gamut respondents acted in bad faith and such bad faith weighs in favor of imposing the maximum penalty allowable. (CBr at 38-42). The staff argued that the Gamut respondents have demonstrated "significant bad faith" in their failure to comply with the Commission's remedial orders and this bad faith weighs in favor of imposing the maximum penalty allowable. However, the staff, after balancing all the factors in the assessment of a civil penalty, did not seek the maximum penalty. (SBr at 46-47).

The Commission has held that respondents that are subject to a Commission remedial order have "an affirmative duty to take 'energetic steps' to do 'everything in their power' to assure compliance with that order," Magnets, Commission Enforcement Opinion at 24. This duty not only means "not to cross the line of infringement, 'but to stay several healthy steps away,'" Id; and that "[t]he 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." Id. Furthermore a failure on a respondent's part to act in good faith in complying with a Commission remedial order militates in favor of a substantial penalty "in order to ensure the continuing deterrent effect of the Commission's order ..., 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." Id.

In EPROMs the Commission determined "to assess the maximum penalty of \$2,600,000 ..., particularly in light of Atmel's other violations of the Commission's order (failure to report infringing EPROMs for sale) for which penalties are not specifically authorized by statute." Id. at 28. In that regard, the Commission particularly noted this administrative law judge's conclusion that "[i]n view of the entirety of Atmel's conduct regarding the infringing 27C010 and 27H641 EPROMs and the Commission's order the administrative law judge finds that Atmel failed to make a good faith effort to comply with the order." Id. at 28. Based on this administrative law judge's conclusion that the respondent had not acted in good faith with respect to its efforts to comply with the Commission order, the Commission stated:

We believe the failure of Atmel to act in good faith in attempting to comply with the Commissions 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.

Id. at 29.

In determining that Atmel's conduct evidenced a lack of good faith, the Commission,

in EPROMs, pointed out that Atmel had: (1) an unreasonable belief that its product was not within the scope of the Commission's orders; (2) failed to request any advisory opinion or clarification from the Commission; (3) refused to provide any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation; (4) and decided which parts were subject to the order based on the decisions of management and technical personnel, without legal advice. Id. at 28-29. In addition, the Commission found bad faith because Atmel failed to report to the Commission the offering for sale of infringing product. Id. at 28. Thus, an analysis of the Gamut respondents' conduct to determine if they made good faith efforts to comply with the Cease and Desist Orders in issue includes determining: (A) if the Gamut respondents had a reasonable belief that the accused "L" series tractors are not within the scope of the Commission Cease and Desist orders in issue; (B) whether or not the Gamut respondents requested an advisory opinion or clarification from the Commission; (C) whether the Gamut respondents have provided any opinion of counsel that they had received legal advice before importing the accused "L" series tractors; (D) whether the decision of the Gamut respondents to import the accused "L" series tractors was based on a decision by management or based on legal advice; and (E) whether the Gamut respondents failed to report the importation and offering for sale and sale of the accused "L" series tractors.

As to the first factor, the administrative law judge finds that the Gamut respondents should have had a reasonable belief at least by July 31, 1997, the date of the letter of Customs (CEX 82), that "L" series tractors were within the Cease and Desist Orders in issue. Despite the July 31, 1997 letter of Customs, the evidence conclusively shows that the Gamut

respondents sold 125 accused "L" series tractors after July 31, 1997 in violation of the Cease and Desist Orders in issue. See Table 1 supra. This total disregard of the Customs letter is evidence of bad faith.

The second factor in the bad faith analysis is whether or not the Gamut respondents requested an advisory opinion, pursuant to Commission sale 210.79, or clarification from the Commission as to whether or not the accused tractors would be within the scope of the Cease and Desist Orders in issue. The administrative law judge finds no evidence in the record to show that the Gamut respondents sought an advisory opinion or clarification from the Commission after the July 31, 1997 Customs letter. (FF 21).

The third factor in the bad faith analysis is whether or not the Gamut respondents have provided any opinion of counsel that they had received legal advice before importing the accused tractors. As stated supra, counsel for has Gamut respondents has maintained that the importation of the accused "L" series tractors is not a violation of the Cease and Desist Orders in issue because the KUBOTA mark on the hour meter is a "parts label." See section IV B supra. Moreover, DePue testified that he consulted with his counsel as to whether or not the Zen-Noh tractors infringed the KUBOTA trademark. (FF 22). Thus, the administrative law judge finds the third factor of bad faith lacking in this proceeding.

The fourth factor in the analysis of the Gamut respondents' bad faith is whether their decision to import the accused tractors was based on a decision by management or based on legal advice. As stated supra, it is the opinion of the Gamut respondents' counsel that the importation and sale of all the accused "L" series tractors do not violate the Cease and Desist Orders in issue. The administrative law judge finds that there is no evidence that the Gamut

respondents' based their decision to sell certain accused "L" series tractors after July 31, 1997 on only a management decision, and as stated supra, DePue testified that he consulted with his counsel, as to whether or not the Zen-Noh tractors infringed the KUBOTA trademark. (FF 22). Thus, the administrative law judge finds the fourth factor of bad faith lacking in this proceeding.

The administrative law judge rejects complainants' argument that counsel for the Gamut respondents admitted that "if a tractor imported by the Gamut respondents bore the KUBOTA trademark in addition to another trademark then that tractor would infringe the KUBOTA mark," (CEFF121A, citing CEX 88). While in a filing on December 29, 1998 entitled Issues and Admissions, counsel for the Gamut respondents stated that "[i]f there are double labels placed on the tractors by Gamut, then of course, that is in violation of the Cease and Desist Order" (CEX 88 at 2), it has been the position of said counsel that accused "L" series tractors bearing a KUBOTA trademark on the hour meter is only a "parts label" and hence the accused "L" series tractor is not a covered product as required by the Cease and Desist Orders in issue. See RRB at 6.

The administrative law judge also rejects complainants' further argument that the Gamut respondents admitted infringement. DuPuy, who is not a lawyer, at his deposition on January 19, 1999 did testify:

Q. And what's your understanding of what a covered product is?

A. A tractor with a KUBOTA trademarked label, or such.

Q. So if the name KUBOTA appears on the tractor, it's a covered product, correct?

A. If we imported or sold it as such. Yes... [CEX 37 at 266]

In light of the position taken by counsel for Du Puy that an accused "L" series tractor which bears the KUBOTA trademark only on the hour meter is considered excluded from "[a] tractor with a KUBOTA trademarked label, or such," the administrative law judge finds no indication in the record to support Du Puy taking a position inconsistent with his counsel.

The final step in the analysis set out by the Commission in EPROMs of any bad faith of the Gamut respondents is to determine if they failed to report the importation and offer for sale of the accused tractors. Section IV D supra details the Gamut respondents' failure to report after July 31, 1997 the sale of accused "L" series tractors bearing the KUBOTA trademark, in addition to the destruction of documents relating to their sale. The administrative law judge finds the lack of reporting and the destruction of documents evidence of bad faith.

Based on the foregoing, the administrative law judge finds that while there is evidence of bad faith in the compliance of the Gamut respondents with the Cease and Desist Orders in issue such evidence does not weigh in favor of imposing the maximum penalty allowable under subsection (f)(2), of section 337 as argued by the complainants.

B. Injury To The Public

As indicated supra, the injury to the public should be considered in connection with any penalty.

Complainants argued that there is no evidence that the public will be injured by the Commission's issuance of a "significant" civil penalty because authorized Kubota tractors (KTC tractors) are available to the public from complainants and the public will not be denied access to the subject products. (CBr at 42). The complainants also argued that the Gamut

respondents have traded on the good will of the KUBOTA trademark, and that such use is damaging to complainants' reputation in the United States market and thus warrants the maximum civil penalty allowable. (CRBr at 19).

The staff argued that the evidence suggests that although the Gamut respondents' sales of gray-market Zen-Noh tractors do detract from complainants' reputation in the U.S. market, said sales do not necessarily diminish the authorized sales of the domestic industry and consequently the "injury to the public" factor does not favor imposing the maximum allowable penalty on the Gamut respondents. (SBr at 37, 38).

The complainants, in their rebuttal submission, argued that the staff's argument that a sale of an accused tractor is "not necessarily a lost sale" to complainants is insignificant to the inquiry of injury to the public and that the loss of reputation and goodwill is paramount. (CRBr at 19).

In considering whether a respondent's violation of a Commission remedial order has harmed the public, the Commission's focus is not on harm to the public at large, but on harm to the domestic industry, San Huan 161 F.3d at 1362. Thus the inquiry is whether the Gamut respondents' infringing activities caused sufficient injury to the public, viz., harm to the domestic industry, in order to warrant the imposition of the maximum penalty.

The Commission, in Magnets, found that harm to the domestic industry can generally be measured in terms of the respondents' unlicensed sales. Magnets, at 25. The administrative law judge finds that the evidence shows that the Gamut respondents represented to their customers that the accused "L" series tractors were in fact "Kubotas" (FF 23) and in doing so, the Gamut respondents traded on the goodwill of the KUBOTA trademark in the

United States market, and sold their tractors to customers who wanted to purchase Kubota tractors. The evidence already of record in the underlying investigation demonstrates that such sales are potentially damaging to complainants' reputation in the U.S. market. See Tractors, ID at 160-61 (FF 317) and Trial Transcript at 978-980 (Testimony of Robert F. Killian) (September 3, 1996). However, every sale of Gamut's used gray-market KBT-manufactured tractors in the U.S. market is not necessarily a lost sale to complainants and in the underlying investigation complainants asserted that they do not consider new KTC tractors to be in competition with used gray market KBT tractors. See Tractors, ID at 160-61 (FF 317); and Trial Transcript at 978-980 (Testimony of Robert F. Killian). Complainants, in the underlying investigation also stated that they have no policy about their own U.S.-authorized dealers selling gray market KBT tractors, and leave that decision to the discretion of each dealer. See Tractors, Trial Exhibit CX 600 (Witness Statement of Robert F. Killian, ¶ 82, at p. 26).

Based on the foregoing, the administrative law judge finds that, while the Gamut respondents' infringing activities with respect to the accused "L" series tractors may damage the reputation of the complainants, which the administrative law judge finds warrants a civil penalty, the fact that not every gray market sale by the Gamut respondents is a loss to the authorized KTC dealer mitigates the harm to the domestic industry and thus does not warrant the imposition of the maximum civil penalty allowable.

C. Public Interest Factor

Complainants argued that the public interest factor favors the imposition of the maximum civil penalty in this proceeding and that consideration of the public interest includes any potential harm to the public at large that has or may result from violations of the Cease

and Desist Orders and references the fact that two of the complainants have been named as defendants in products liability lawsuits wherein plaintiffs' injuries were allegedly caused by the design of gray market KBT tractors.²⁵ (CRBr at 20).

The staff argued that the public interest weighs in favor of the protection of U.S. intellectual property rights and respect for Commission orders and that assessing a civil penalty is in the public interest by assuring that the Commission's orders will be obeyed, and that the reporting and recordkeeping requirements of such orders will be strictly observed. (SBr at 46).

The complainants provided no Federal Circuit or Commission precedent to support their argument that "potential harm" to the public should be considered. The Federal Circuit, in San Huan, did state:

Finally, addressing the "public interest" factor, the Commission determined that the public interest favors the protection of intellectual property rights and weighs in favor of a "significant" penalty.

San Huan 161 F.3d at 1363 (Emphasis added). While the Commission assessed a significant penalty in Magnets a maximum penalty was not found to be warranted. Magnets at 25.

The administrative law judge finds, in this enforcement proceeding, that the public interest weighs in favor of the protection of the complainants' intellectual property rights in the United States, and that assessing a significant civil penalty is some assurance that the Commission orders will be obeyed and that the reporting and recordkeeping requirements of

²⁵ Complainants however also represented that in George Dunger v Kubota Corp. et. al. when Kubota Corporation filed a motion to dismiss, plaintiff withdrew the complaint against Kubota. (CBr at 45, 46).

said orders will be observed. However he finds that in this proceeding the public interest does not warrant the maximum penalty.

D. Ability Of Gamut Respondents To Pay

In issue as to any assessment of penalty is the Gamut respondents' ability to pay a civil penalty. Eproms, Comm. Op. at 23-24.

Complainants argued that given the Gamut respondents' destruction of documents and the evidence of record, the Commission should ignore any of the unsupported assertions of the Gamut respondents that they do not have any ability to pay a civil penalty. (CBr at 44).²⁶

The staff argued that the fact that there is an absence of any "reliable" evidence to support or refute certain assertions of Messrs. DePue and DuPuy that they are unable to pay a civil penalty should only partially mitigate the amount of civil penalty that the Gamut respondents should be assessed. (SBr at 41).

The Gamut respondents argued that although the possibility of collecting a fine was always "rare" as this proceeding commenced, it was completely ended with the submissions of the affidavits of DePue and DuPuy stating that both were financially broke, had no money, and probably technically are bankrupt since there were debts that could not be paid, and each had as assets, the equity in a home which was protected by "Homestead filings;" and that a

²⁶ On January 29, 1999 in response to complainants' Motion No. 380-76 and the staff's Motion No. 380-77 for production of documents relating to respondents DePue and DuPuy, each of respondents DePue and DuPuy filed affidavits in which they swore that they had no liquid assets themselves and that both Gamut Imports and Gamut Trading were out of business because neither entity had assets. Based on the affidavits submitted by DePue and DuPuy and the record that was then before the administrative law judge, the administrative law judge issued Order No. 70 on February 4, 1999 denying each of Motion Nos. 380-76 and 380-77 to compel.

"mandatory injunction" requiring compliance with the Commission's Cease and Desist Orders in issue is also moot²⁷ because Gamut Imports, Gamut Trading, DePue and DuPuy are no longer in any kind or form of tractor business and have no ability of going back into the tractor business or used tractor business including the sales of Zen-Noh tractors, and will so stipulate. (RBr at 9, 10).

While respondents DePue and DuPuy have submitted affidavits with reference to the Gamut respondents' inability to pay any civil penalty, the affidavit of Du Puy makes no reference to a checking account, savings account, equities or other assets that may have a bearing on his ability to pay. With respect to the Gamut respondents' financial statements showing losses in 1996 and 1997, there is no indication in the record that those statements were audited. Moreover DePue testified that the information used to generate those financial statements was no longer in his possession because they were contained on a file in a computer which was sold in January, 1999 (FF 29). Based on DePue's testimony and the lack of any audit, the administrative law judge finds the Gamut respondents' financial statements concerning losses in 1997 and 1997 questionable. Furthermore, there is evidence in the record, since the issuance of Order No. 70, which demonstrates that the Gamut respondents have assets. Thus, the administrative law judge finds that DePue has financial interests in other businesses and is the owner of Homestead Tractor and Feed (Homestead) (FF 25); that sometime in late 1998 Homestead purchased 5 KBT tractors sold to Zen-Noh from Gamut Trading and that DePue testified that two of those KBT tractors sold to Zen-Noh were being

²⁷ In issue in this proceeding are only whether the Gamut respondents violated certain Cease and Desist Orders and if so the penalty to be recommended. A "mandatory injunction" is not in issue.

offered for sale by Homestead (FF 27 and 28); and that DePue received \$65,000 from the sale of another company, Apple Implement (FF 26). Moreover, the administrative law judge has inferred that the Gamut respondents have sold accused "L" series tractors during 1997 and 1998 and that they obtained a profit of 135 percent over their cost from their sale.²⁸ In addition, the administrative law judge finds that the Gamut respondents had sales of both "L" and "B" series tractors that totaled nearly one million dollars between February of 1997 and October of 1998. See Table 1 supra.

Accordingly, the administrative law judge finds that the Gamut respondents' ability to pay a civil penalty is not a mitigating factor in assessing any penalty.

E. Need to Vindicate Commission Authority

In issue is a need to vindicate the Commission's authority when one of its orders is violated. See Magnets, Commission Enforcement Opinion at 32-33.

Complainants argued that the Commission has a compelling need to vindicate its authority to issue Cease and Desist Orders; that vindication of the Commission's authority involves the assessment of a penalty that provides a "meaningful deterrent" to violation; that in the underlying investigation, the Commission conducted a hearing and determined that "Gamut" had violated section 337; that the Commission issued Cease and Desist Orders to Gamut prohibiting conduct found to be in violation of Section 337; and that the Gamut respondents ignored the Orders. Hence it is argued that, in such circumstances, a significant civil penalty is necessary to provide a meaningful deterrent to future violations. (CBr at 45).

²⁸ See Order No. 76 which issued on April 28, 1999.

The staff argued that the need to vindicate the Commission's authority is influenced in this investigation by the fact that the Gamut respondents misrepresented their sales of infringing KBT tractors on their reports to the Commission, and the fact that they threw out records that were supposed to be kept as required by the Cease and Desist Orders in issue (SBr. at 45-46).

In San Huan the Federal Circuit stated that:

With respect to the factor of the Commission's authority , the Commission determined that a "significant penalty" was necessary in light of San Huan's actions in this proceeding, first unilaterally proposing to enter into the Consent Order, obtaining a termination of the investigation without the issuance of further orders, and continuing the importation substantially unabated. The Commission stated: "[San Huan] here actively induced the Commission to permit them to avoid significant further litigation costs and to import free from interference from the Customs Service. 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."

San Huan, 161 F.3d at 1363, (Emphasis added).

The administrative law judge finds that there is an interest in vindicating the Commission's authority in this proceeding and payment of a civil penalty is warranted since he has found that the Gamut respondents have violated the Commission Orders, although there is no indication that the Gamut respondents actively induced the Commission to permit them to "avoid significant further litigation costs and to import free from interference from the Customs Service," as was done by San Huan in San Huan.

F. Extent Of Benefit To Gamut Respondents

In any penalty assessment, the extent to which the violator has benefitted from the

violation should be considered. See EPROMs and Magnets, *supra*.

Complainants argued that since the Gamut respondents destroyed many of its financial documents it is impossible for complainants to establish the amount of benefit that the Gamut respondents it received from their conduct in violation of the Cease and Desist Orders in issue. (CEFF154-155, 157, 158).

The staff argued that there is evidence that shows , in certain instances, the Gamut respondents benefitted from a mark-up of 118 percent over its cost on the sales of accused tractors. (SBr at 43).

The Federal Circuit in San Huan, in holding that the Commission's approach to determining the extent of the respondent's benefit from violation of the Commission Order was reasonable, stated:

The Commission devoted much attention to factor (4), *i.e.*, the extent to which San Huan benefitted from its violations, "with a view to determining the general order of magnitude of the infringing conduct." San Huan argued before the Commission that the appropriate measure of the benefit was the import value of the products that San Huan admitted were sold in violation of the Consent Order. The Commission, however, determined that the import value "greatly understate[d] the extent of [San Huan's] sales in violation of the Consent Order," and that the sales value of the imported goods better reflected the effect of the infringing sales on the market.

161 F.3d at 1362, (Emphasis in original). The Commission, in EPROMs, in addressing the extent of the respondent's benefit from its violation of the Commission Order stated "[the administrative law judge] also found that substantial competitive advantages accrued to Atmel as a result of its sales of the infringing 27C010 and 27HC641 EPROMs." EPROMs at 25.

The administrative law judge finds that no substantial competitive advantages have

accrued to the Gamut respondents as a result of their violation of the Commission Orders. As stated supra, the sale of the accused "L" series tractors is not necessarily a loss to the authorized KTC dealers. Thus, the absence of a substantial competitive advantage weighs against the imposition of the maximum civil penalty, which the Commission imposed in EPROMs where it found that the respondent had accrued substantial competitive advantages.

However, the administrative law judge finds that the Gamut respondents did benefit from their violation of the Commission Orders. As seen in section IV B and E supra, the administrative law judge has found that the Gamut respondents have sold 172 different "L" series tractors in violation of the Commission Orders. Based on Table 1 supra, the administrative law judge finds, as the staff argued, that the total sales value of the accused "L" series tractors was \$741, 211 (See Attachment "A" to SBr). The administrative law judge has also inferred that the profit made by the Gamut respondents on the sale of the 172 accused "L" series tractors was 135 percent over their costs. See Order No. 76. Thus the administrative law judge finds that the extent of the Gamut respondents' benefit equals the profit made on the sale of the accused "L" series tractors which totals \$425,803.

G. Conclusion (Amount Of Penalty)

Complainants argued that the Gamut respondents willfully and intentionally violated the Cease and Desist Orders in issue in bad faith; and that a maximum penalty of \$6,900,000 be imposed based on a penalty of \$100,000 for "each of the 69 days" for which documents exist showing a violation involving the accused tractors. In support complainants argued that besides selling KBT tractors in violation of Cease and Desist Orders in issue, there is "significant and uncontroverted" evidence that the Gamut respondents marketed and offered to

sell KBT tractors allegedly sold to Zen-Noh and used the KUBOTA trademark extensively in their sales efforts and that although penalties for offers to sell infringing tractors are not specifically authorized by the statute, the Commission, in EPROMs at 28, considered such evidence in assessing the maximum penalty allowed. (CBr at 46-48).

The staff argued that a civil penalty totaling at least \$1 million is the appropriate amount to assess against the Gamut respondents, jointly and severally, referring in particular to the Gamut respondents' alleged lack of good faith in complying with the Cease and Desist Orders in issue, their uncooperativeness in corroborating their professed inability to pay a civil penalty, the "significant" benefit to the Gamut respondents of their violations, the Commission's need to vindicate its authority, and the public interest, and countered by the relative lack of injury to the domestic industry. It is argued that in view of the fact that the total reported infringing sales of the Gamut respondents over the two-year violation period approximated \$741,000, and the approximate gross profit margin on those sales (exclusive of transportation and overhead costs) approximated \$340,000, a civil penalty of at least \$1 million would wipe out KBT tractor sales volume of the Gamut respondents and equal approximately six times the roughly-estimated yearly gross profit margin of the Gamut respondents on such sales; and that in view of the "low likelihood" that all sales in violation of the Cease and Desist Orders in issue have been detected as a result of the Gamut respondents' document destruction and the failure to report sales to the Commission, the assessment of a penalty that is below the allowable maximum but by the same token a multiple of Gamut's approximate profit margin is appropriate. (SBr at 46, 47).

The Federal Circuit has made clear that in determining the amount of penalty to assess

for a violation of a Commission Order the Commission must balance all the factors in the civil penalty assessment. Thus the Court in San Huan, in approving the Commission's penalty assessment, stated:

The Commission concluded: "Based on a balancing of the foregoing factors, particularly the fact that [San Huan] made some, albeit belated, efforts to comply with the Commission's order, we have concluded that the maximum penalty is not warranted in this case. However, we believe that all of the factors discussed above support the recommended penalty of \$50,000 per violation day."

161 F.3d at 1363. Accordingly, the administrative law judge has balanced all of the factors set forth supra in recommending an amount of penalty.

The Commission, in EPROMs at 28, did reject this administrative law judges' assessment of a penalty of twice the domestic value of the infringing product, stating:

In addition it is unclear from the RD why the ALJ chose to recommend a penalty based on the domestic value of infringing EPROMs sold, rather than the daily penalty, which the language of the statute and the legislative history suggests is appropriate unless the domestic value of the articles sold on a given day makes the daily maximum insufficient to serve as a deterrent to a violation.

Id. at 26 (Emphasis in original). The Commission then assessed the maximum penalty in light of this administrative law judge's findings that the factors in the penalty assessment analysis weighed against the respondent, and particularly in light of the respondent's bad faith. Id. at 27-29. In this enforcement proceeding, comparing the level of bad faith demonstrated by the Gamut respondents with that shown by the respondent Atmel in EPROMs, the administrative law judge finds that the bad faith of the Gamut respondents does not rise to the level of bad faith of the respondent Atmel in EPROMs. Specifically the Commission in EPROMs found

that the respondent had an unreasonable belief that the accused product was within the scope of the Commission's Order during the period in issue whereas in this enforcement proceeding not all of the accused tractors violated the Commission Orders in issue and the administrative law judge has found an unreasonable belief for only a portion of the period in issue. Thus, while complainants had put in issue 265 accused tractors, the administrative law judge found a violation involving only the 172 accused "L" series tractors. Moreover, of the 172 accused "L" series tractors, only 125²⁹ were sold by the Gamut respondents after they were put on notice by Customs on July 31, 1997 that the "L" series tractors were infringing. See Table 1 supra. In addition the Commission in EPROMs also found that the respondent Atmel had failed to request an advisory opinion or clarification from the Commission. By contrast, in this enforcement proceeding the administrative law judge has found that the need to request an advisory opinion only arose after the Gamut respondents were put on notice that the accused tractors were infringing. In EPROMs the Commission further found that the respondent refused to provide any opinion of counsel indicating that it obtained competent legal counsel before engaging in the acts underlying the charge of infringement. In this enforcement proceeding the administrative law judge has found that the Gamut respondents did consult their counsel prior to importation and sale of the accused tractors, and that counsel has consistently maintained non-violation of the Cease and Desist Orders in issue. The Commission in

²⁹ For purposes of determining the number of accused "L" series tractors sold after July 31, 1997, the administrative law judge has not included the accused "L" series tractor reflected on the undated invoice in Table 1 supra. In view of the fact that complainants have the burden in establishing violation, the administrative law judge has considered the accused "L" series tractor reflected in the undated invoice as being sold prior to July 31, 1997. See fn. 23 supra.

EPROMs also found that the respondent made its importation decision based on the decisions of management and not legal counsel. In this enforcement proceeding the administrative law judge has found that the Gamut respondents consulted counsel.

The Commission in EPROMs, in addition to finding that the respondent had acted in bad faith, also found that substantial competitive advantages accrued to the respondent as a result of its infringing sales. Id. at 25. In this enforcement proceeding, the administrative law judge has found that substantial competitive advantages have not accrued to the Gamut respondents. The Commission in EPROMs also found that the respondent's violations harmed complainant by the loss of unlicensed sales and that this harmed the public. Id. at 25. By contrast, in this enforcement proceeding, the administrative law judge has found that, while the damage to the complainants' reputation and goodwill warrants a civil penalty, the fact that the sales of the accused "L" series tractors do not represent a loss to the sales of the authorized dealers makes the harm to the domestic industry insufficient to recommend the maximum penalty.

Based on the balancing of the factors in EPROMs, the Commission assessed the maximum penalty against the respondent due to the extent of the respondent's bad faith and due to the fact that many of the other civil penalty factors weighed in favor of the maximum penalty. Because the administrative law judge has found that the Gamut respondents' bad faith does not rise to the same level as the respondent in EPROMs and since he has concluded that certain of the civil penalty factors do not weigh against the Gamut respondents as they did in EPROMs, the administrative law judge finds that a maximum penalty, as assessed in EPROMs, is not warranted in this proceeding.

A maximum penalty moreover is not warranted in every enforcement proceeding. Thus while the Commission in EPROMs did assess the maximum penalty, the Federal Circuit in San Huan let stand the Commission's conclusion that a maximum penalty was not warranted based on the facts of that case. San Huan, 161 F.3d at 1363-4. In San Huan the Commission however did assess a penalty three times the sales value of the infringing goods, and characterized it as a significant penalty. Id. at 1363. The Court noted that the Commission found, inter alia, that the harm to the domestic injury supported the significant penalty recommended by the administrative law judge because "the significant importations and sales of infringing magnets by the enforcement respondents have harmed complainant, and by extension the public," Magnets at 25. In this enforcement proceeding, the administrative law judge has found that not all of the accused tractors violated the Cease and Desist Orders in issue. Also, while the complainants' reputation may have been harmed, the administrative law judge has found that the sale of the accused "L" series tractors does not represent a loss to the authorized KTC dealers. The Commission, in San Huan, further found that the Commission's need to vindicate its authority was "particularly strong" because San Huan, through a consent order, had actively induced the Commission to "permit them to avoid significant further litigation costs and to import free of interference from the Customs Service." San Huan at 1363. In this enforcement proceeding, there is no prior history of a consent order and the administrative law judge finds that the Gamut respondents did not actively induce the Commission to "permit them to avoid significant further litigation costs and to import free of interference from the Customs service." San Huan, 161 F.3d at 1363.

Based on a balancing of the factors in San Huan, the Commission approved a penalty

of three times the sales value where several of the factors weighed in favor of a significant penalty and where the Commission's need to vindicate its authority was "particularly strong." In view of the fact that the administrative law judge has found that the balancing of factors in this enforcement proceeding does not rise to the same level as that in San Huan, the administrative law judge finds that in this proceeding, while there should be a significant penalty, a civil penalty of three times the profit margin on the accused tractors is not warranted.

The administrative law judge does find, as the staff argued, that in order to have a deterrent effect the appropriate penalty must be a multiple of the profit gained by the Gamut respondents. Accordingly, the administrative law judge finds that the appropriate civil penalty is two times the profit made on the sale of the infringing "L" series tractors after July 31, 1997, the date on which the Gamut respondents were put on notice by Customs that "L" series tractors were in violation of the Cease and Desist Orders in issue. The administrative law judge has inferred that the profit made on the sale of the "L" series tractors was 135 percent over the cost to the Gamut respondents. See Order No. 76. The sales value of the accused "L" series tractors sold after July 31, 1997 was \$567,895. See Table 1 supra. Therefore the profit on the sales of those accused "L" series tractors was \$326,238. Accordingly, the administrative law judge recommends a civil penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476 which is twice the profit.

VI. ADDITIONAL FINDINGS

1. The accused tractors are identified on the Gamut invoices and promotional materials as “Zen-Noh” or “Zen-Noh(Kubota)” followed by a model number with a “ZL” or “ZB” prefix, such as “ZL1500” or “ZB5000.” (CEX 42; CEX 50).

2. The Gamut respondents have represented to their customers that Kubota and KBT tractors sold to Zen-Noh are the same thing (CEX 2 at 3, 6-7; CEX 11; CEX 15; CEPX1; CEPX4; Wilks, Tr. CEX 34 at 24; 25). The Gamut respondents also have identified KBT tractors sold to Zen-Noh as Kubota tractors in their sales literature (CEX 51) and have even provided their customers with sticker labels bearing the “Kubota” name for placement on the KBT tractors sold to Zen-Noh that were sold to Gamut Trading’s dealers. (CEX 1 at 4, 6, 10; CEX 2 at 16-17; CEX 12; CEX 15; CEX 17-18; CEX 20; CEX 26; CEX 40; CEPX2; CEPX4; CEPX6; Wilks, Tr. CEX 34 at 31-32, 35-36, 41-42, 42-44, 64-65; DePue, 1/14/99 Tr. CEX 35 at 130).

3. The following is a summary of accused tractors, taken from the Gamut invoices and promotional materials:

L Series Accused Tractors	B Series Accused Tractors
ZL240* ³⁰	ZB5000, ZB5000(DT)
ZL1500, ZL1500(DT)	ZB6000, ZB6000(DT)
ZL2000(DT)	ZB7000, ZB7000(DT)
ZL1501, ZL1501(DT)	ZB5001, ZB50001(DT)
ZL1801(DT)	ZB6001(DT)
ZL2201*, ZL2201(DT)	ZB7001(DT)

³⁰ Accused tractors identified with an asterisk are included on Gamut promotional materials (CEX 42), but not on Gamut invoices.

ZL2601(DT)	ZB1200(DT)*
ZL1802(DT)	ZB1400(DT)
ZL2002*, ZL2002(DT)	ZB1500*, ZB1500(DT)
ZL2202*, ZL2202(DT)	ZB1600** ³¹ , ZB1600(DT)
ZL2402*, ZL2402(DT)**	

(CEX 42; CEX 50).

4. There is no finding No. 4.
5. There is no finding No. 5.
6. Zen-Noh is the acronym for the Japan National Federal of Agricultural

Cooperative Association. (CEX 1 at 2; CEX 3 at 3).

7. The designation (DT) refers to dual traction or four wheel drive. (CEX 3 at 4-5).

The parties have stipulated that the DT version of a particular tractor is identical in all respects to a non-DT version of the same model, except that the DT version is four wheel drive and the non-DT version is two wheel drive. (JSF20-21; CEX 3 at 4-5; CEX 42; CEX 50).

8. Mr. Kashihara reviewed SX-1 which was referenced in the ID. (CEX 3 at 5; CEX 30). The following is a list of KBT tractors listed on SX-1. (CEX 3 at 5; CEX 30). The specific tractors listed in **BOLD** are as listed in SX-1. (CEX 3 at 5; CEX 30). All of the KBT tractors in the left hand column are identical to the corresponding KBT tractor in the right hand column except for the two wheel drive/ four wheel drive distinction. (CEX 3 at 5-6; CEX 30). Since all the KBT tractors listed in **BOLD** are listed on SX-1 and were found to have had material

³¹ Accused tractors identified with a double asterisk are included on Gamut invoices (CEX 50), but not on Gamut promotional materials.

differences from KTC tractors (See ID at 20-37), the corresponding two wheel drive or four wheel drive version which is in unbolded type also is materially different from corresponding KTC tractors. (CEX 3 at 5; CEX 30).

KBT Tractor - Two Wheel Drive	KBT Tractor - Four Wheel Drive
B5000E	B5000
B6000E	B6000
B7000E	B7000
B5001E	B5001
B6001E	B6001
B7001E	B7001
B1200	B1200DT
B1400	B1400DT
B1500	B1500DT
B1600	B1600DT
L200	No four wheel drive version
No two wheel drive version	L240
L1500	L1500DT
L2000	L2000DT
L2200	L2000DT
L2600	L2600DT
L1501	L1501DT
L1801	L1801DT
L2201	L2201DT
L2601	L2601DT
L3001	L3001DT

KBT Tractor - Two Wheel Drive	KBT Tractor - Four Wheel Drive
L1802	L1802DT
L2002	L2002DT
L2202	L2202DT
L2402	L2402DT

(CEX 3 at 5-6; CEX 30).

9. Based upon Mr Kashihara's review of the ID and the Commission Opinion (Tractors) he concluded that the material differences that were found between KBT tractors and KTC tractors ID are the same when the unbolded KBT tractors identified above are compared with KTC tractors. (CEX 3 at 6-7).

10. The Cease and Desist Orders issued to the Gamut respondents includes the following:

Within (30) days of the last day of the reporting period, respondent shall report to the Commission the following: the quantity in units and the value in dollars of the foreign-produced covered product that Respondent has imported or sold in the United States during the reporting period of that remains in inventory at the end of the period.

Any failure to make the required report shall constitute a violation of this Order.

(CEX 31 and 32 at 4).

This paragraph further requires that such reporting be made within thirty (30) days of August 31, of each year until expiration or abandonment of the KUBOTA trademark, starting with 1997. (CEX 31 and 32 at 4).

11. The complaint in this proceeding, which was served on the Gamut respondents on or about October 5, 1998, put the Gamut respondents on notice that documents relating to the

importation, offer for sale, and sale of KBT tractors sold to Zen-Noh are relevant to this proceeding. (Enforcement Compl. at ¶¶ 26-45). Nonetheless, only a month after the complaint was served on them, the Gamut respondents proceeded to destroy those documents. (DePue, 1/15/99 Tr. CEX 36 at 2003-203).

12. The importation documents would have shown what kinds of tractors the Gamut respondents imported; whether the tractors had the Zen-Noh name on them when they were imported; when the Gamut respondents imported the tractors; whether the accused tractors were imported as whole tractors or in parts; and from whom the Gamut respondents purchased the tractors and for how much. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 78, 80, 82-83, 183-185; DePue, 1/15/99 Tr. CEX 36 at 208, 209; Du Puy, 1/19/99 Tr. CEX 37 at 97, 215-216; Du Puy, 1/20/99 Tr. CEX 38 at 298-299).

13. The Gamut respondents discarded those importation documents when Gamut Trading closed in November 1998. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 24, 80-81, 183-185; Du Puy, 1/19/99 Tr. CEX 37 at 97).

14. The Gamut respondents also routinely discarded faxes from their trading companies, which helped clear the imported tractors through Customs, as well as communications from their suppliers. (CEX 70-71; DePue, 1/15/99 Tr. CEX 36 at 186-187; Du Puy, 1/19/99 Tr. CEX 37 at 69-71).

15. The Gamut respondents once had customer lists and files, which would have shown to whom offers to sell tractors were sent; letters to and from Gamut Trading's dealers; and other documents relating to Gamut Trading's marketing efforts. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 101-103; Du Puy, 1/19/99 Tr. CEX 37 at 90-91). The Gamut respondents

destroyed those documents in November 1998. (DePue, 1/14/99 Tr. CEX 35 at 101-103; Du Puy, 1/19/99 Tr. CEX 37 at 90-91).

16. The Gamut respondents discarded, on a routine basis, inventory lists, which reflected unsold tractors. (Du Puy, 1/19/99 Tr. CEX 37 at 134-135, 195-196, 197).

17. The Gamut respondents once had customer files, documents, and computer files, including invoices that showed to whom the tractors were sold and for how much, accounts receivable information, and other normal business records. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 23-24; DePue, 1/15/99 Tr. CEX 36 at 177, 183-184; Cadwallader, Tr. CEX 39 at 18-19). Those files and documents were destroyed in November 1998. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 23-24; DePue, 1/15/99 Tr. CEX 36 at 183-185).

18. Although DePue testified that he discarded only a “[c]ouple file drawers, probably” of documents (DePue, 1/15/99 Tr. CEX 36 at 177), Du Puy testified that Gamut Trading once had something of the order of three to four file cabinets of documents, or approximately nine drawers of documents, in its offices. (Du Puy, 1/19/99 CEX 37 at 71, 72).

19. Ernestine Cadwallader, is a bookkeeper for Homestead Tractor, a retailer of tractors and tractor parts, owned by Mr. DePue. (Cadwallader, Tr. CEX 39 at 10-11, 12). Prior to working for Homestead, Ms. Cadwallader worked for Gamut Trading as an office clerk from May 1996 through November 1998. (Cadwallader, Tr. CEX 39 at 12-14). Ms. Cadwallader’s activities included answering the phone, handling the payroll, mailing accounts payable checks, and creating advertising brochures, and sending boxes to storage. (Cadwallader, Tr. CEX 39 at 12-14, 17).

20. Ms. Cadwallader testified that during the period between February 1997 and

November 1998, invoices, customer files, accounts payable files, and payroll files were kept in four four-drawer file cabinets. (Cadwallader, Tr. CEX 39 at 14-15, 16). Some of the drawers were full, and some of the drawers were half full. (Cadwallader, Tr. CEX 39 at 15). In addition, DePue had one two-drawer file in his office, and Mr. Du Puy had one four-drawer filing cabinet in his office. (Cadwallader, Tr. CEX 39 at 27).

21. There is no evidence in the record that shows that the Gamut respondents requested an advisory opinion or clarification from the Commission as to whether or not the accused tractors would be within the scope of the Commission Orders in issue.

22. In his deposition of January 14, 1999, DePue testified that:

Q. At that time, did you consult with your counsel about whether Zen-Noh tractors infringed the KUBOTA trademark? And in asking that question, I want you to know that I only want a yes or know answer.

A. Yes.

Q. And when did you consult with your counsel about that?

A. I don't recall.

Q. And was your counsel Mr. Walker who you consulted with?

A. Yes.

(CEX 36 at 202).

23. The Gamut respondents encouraged its dealers who purchased the KBT tractors sold to Zen-Noh to inform their customers that those tractors were actually manufactured by KBT. (Du Puy, 1/19/99 Tr. CEX 37 at 237, 238).

24. The Gamut respondents provided KUBOTA labels to its dealers with instructions

to affix those labels to the accused tractors it sold them. (CEX 1 at 4, 6, 10; CEX 2 at 16-17; CEX 12; CEX 15; CEX 17-18; CEX 20; CEX 26; CEX 40; CEPX 2; CEPX 4; CEPX 6; Wilks, Tr. CEX 34 at 31, 32, 35, 36, 41, 42-44, 64, 65; DePue, 1/14/99 Tr. CEX 35 at 130).

Recognizing that its dealers would not purchase tractors bearing the "Zen-Noh" name, the Gamut respondents represented to their dealers that the "Zen-Noh" tractors they were selling were in fact KUBOTA tractors. (CEX 2 at 3, 6-7; CEX 11; CEX 15; CEPX 1; CEPX 4; Wilks, Tr. CEX 34 at 24, 26, 47, 48; Du Puy, 1/19/99 Tr. CEX 37 at 234, 235, 236, 248-249).

25. DePue testified that Homestead, another company that he owned and that is in the retail tractor business, paid Gamut at least \$10,000 for five KBT tractors that were originally sold to Zen-Noh, or approximately \$2,000 per tractor in November of 1998. (DePue, 1/14/99 Tr. CEX 35 at 56, 57).

26. DePue recently received \$65,000 from the sale of another company, Apple Implement Manufacturing. (DePue, 1/14/99 Tr. CEX 35 at 45, 48).

27. Sometime in late 1998, Homestead Tractor purchased five KBT tractors sold to Zen-Noh from Gamut Trading. (DePue Tr. CEX 35 at 52-57).

28. As of the time of his deposition on January 14, 1999, DePue testified that two of the KBT tractors sold to Zen-Noh purchased from Gamut Trading were being offered for sale by Homestead. (DePue Tr. CEX 35 at 57).

29. Information used to generate the 1996 and 1997 financial statements were contained on computer files, and included receivables, payables, payroll and invoices. The computer containing those files was sold in January 1999. (DePue Tr. CEX 36 at 170 -173).

VII. CONCLUSIONS OF LAW

1. The Gamut respondents have violated the Cease and Desist Orders in issue.
2. The Gamut respondents have violated each of Part III (A) and Part III (B) of the Cease and Desist Orders in issue by the importation, and in the selling, marketing, distributing and offering for sale, of each of the accused "L" series tractors.
3. The Gamut respondents have not violated Part III (A) and Part III (B) of the Cease and Desist Orders in issue by the importation, and in the selling, marketing, distributing and offering for sale, of each of the accused "B" series tractors.
4. The Gamut respondents have violated each of the Cease and Desist Orders in issue by failure to report the importation and sale of the accused "L" series tractors and failure to maintain adequate records concerning said importation and sale.
5. The Gamut respondents have not violated each of the Cease and Desist Orders in issue by any failure to report the importation and sale of the accused "B" series tractors and any failure to maintain adequate records concerning said importation and sale.
6. In light of the nature and significance of the violation by the Gamut respondents of each of the Cease and Desist Orders in issue it is recommended that a penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476 as an enforcement measure.

VIII. ORDER

Pursuant to the Commission Order dated October 28, 1998 and based on the foregoing, and having considered all of the submissions in this enforcement proceeding, the administrative law judge finds a violation of the Cease and Desist Orders in issue by the

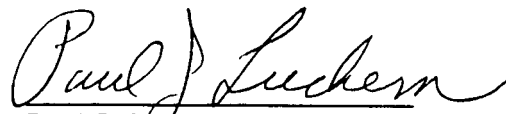
Gamut respondents and further recommends that the Commission assess against the respondents, jointly and severally, as a penalty, a total aggregate amount of \$652,476.

The administrative law judge hereby CERTIFIES to the Commission the final initial and recommended determinations. The submissions of the parties filed with the Secretary on the matter are not certified, since they are already in the Commission's possession.

Further it is ordered that:

1. In accordance with Commission rule 210.39, all material heretofore marked in camera because of business, financial and marketing data found by the administrative law judge to be cognizable as confidential business information under Commission rule 201.6(a) is to be given in camera treatment continuing after the date this proceeding is terminated.

2. Counsel for the parties shall have in the hands of the administrative law judge a copy of the final initial and recommended determinations with those portions containing confidential business information designated in brackets, no later than Friday May 21, 1999. Any such bracketed version shall not be served by telecopy on the administrative law judge. If no such version is received from a party, it will mean that the party has no objection to removing the confidential status, in its entirety, from this recommended determination.


Paul J. Luckern
Administrative Law Judge

Issued: April 28, 1999

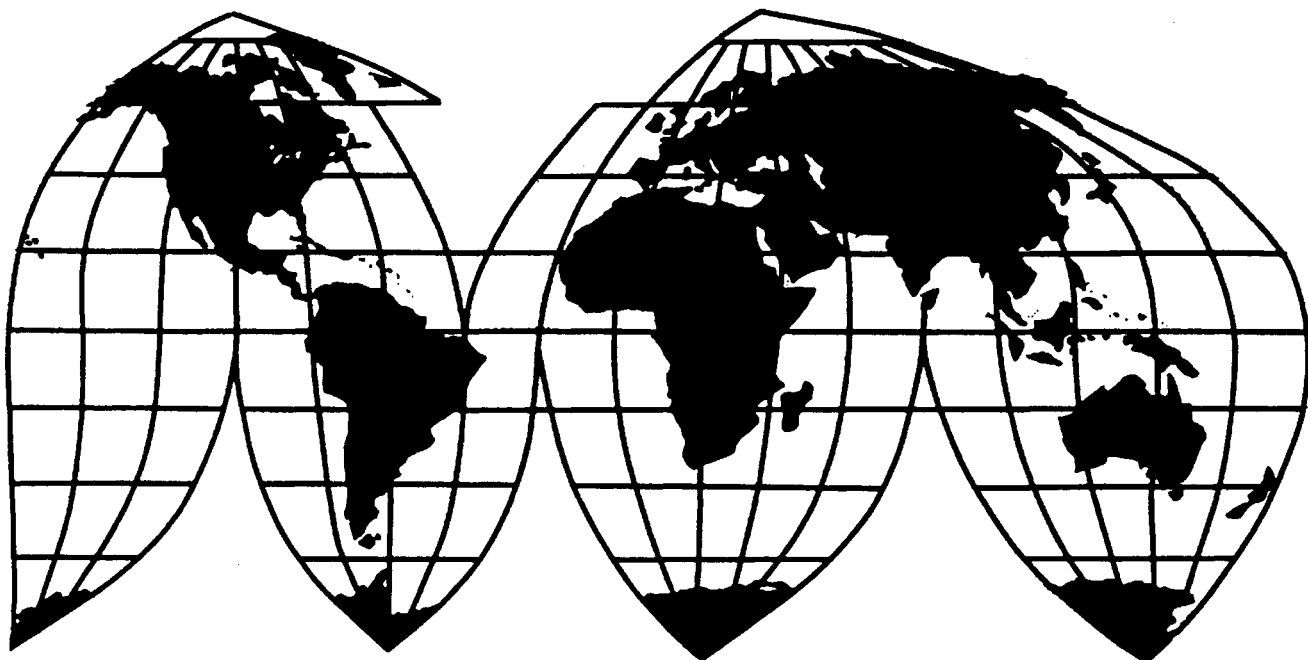
In the Matter of
**Certain Agricultural Tractors Under 50
Power Take-Off Horsepower**

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

Publication 3227

August 1999

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

COMMISSIONERS

Lynn M. Bragg, Chairman

Marcia E. Miller, Vice Chairman

Carol T. Crawford

Jennifer A. Hillman

Stephen Koplan

Thelma J. Askey

**Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436**

U.S. International Trade Commission

Washington, DC 20436

In the Matter of
**Certain Agricultural Tractors Under 50
Power Take-Off Horsepower**



Publication 3227

August 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of)

CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

NOTICE OF COMMISSION DETERMINATION CONCERNING VIOLATION
OF CEASE AND DESIST ORDERS AND CIVIL PENALTY

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission determined that the respondents in the above-captioned formal enforcement proceeding have violated the Commission cease and desist orders issued to them on February 25, 1997, and determined to impose a civil penalty for the amount of \$2,320,000.

FOR FURTHER INFORMATION CONTACT: Shara L. Aranoff, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3090.

SUPPLEMENTARY INFORMATION: The trademark-based section 337 investigation that preceded this enforcement proceeding was instituted on February 14, 1996, based on a complaint filed by Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America, Inc. (collectively "Kubota"). On February 25, 1997, at the conclusion of the original investigation, the Commission issued cease and desist orders directed, *inter alia*, to Gamut Trading Co., Inc. ("Gamut Trading") and Gamut Imports. The cease and desist orders provide that Gamut Trading and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," shall not "import or sell for importation into the United States" or "sell market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States" covered product, defined as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders further provide that Gamut Trading and Gamut Imports "shall report to the Commission" on an annual basis "the quantity in units and the value in dollars of foreign-produced covered product" that they have "imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." Finally, the orders provide that they "shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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."

On July 16, 1998, Kubota filed a complaint seeking institution of a formal enforcement proceeding against Gamut Trading, Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading), and Darrell J. DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading) (collectively "the Gamut respondents"), alleging that they are violating the cease and desist orders directed to them. Kubota supplemented its complaint on August 26, 1998. On September 28, 1998, the Commission issued an order instituting a formal enforcement proceeding and instructing the Secretary to transmit the enforcement proceeding complaint to the Gamut respondents and their counsel for a response. The following were named as parties to the formal enforcement proceeding: (1) Kubota Corporation, 2-47 Shikitsu Higashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan; Kubota Tractor Corporation, 3401 Del Amo Boulevard, Torrance, California 90503; and Kubota Manufacturing of America Corporation, Industrial Park North, 2715 Ramsey Road, Gainesville, Georgia 30501; (2) Gamut Trading Co., Inc., 13450 Nomwaket Road, Apple Valley, California 92308; (3) Gamut Imports, 14354 Cronese Road, Apple Valley, California, 92037; (4) Ronald A. DePue, Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading Co., Inc.; (5) Darrell J. DuPuy, Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading Co., Inc.; and (6) a Commission investigative attorney to be designated by the Director of the Commission's Office of Unfair Import Investigations. On October 19, 1998, the Gamut respondents filed a joint response to the enforcement complaint denying violation of any of the Commission's remedial orders and infringement of the "KUBOTA" trademark, and asserting that the Commission lacks jurisdiction to address the enforcement complaint.

On October 28, 1998, the Commission issued an order referring the formal enforcement proceeding to an administrative law judge (ALJ) for issuance of an initial determination (ID) regarding whether respondents violated the cease and desist orders and for a recommended determination (RD) regarding what enforcement measures, if any, are appropriate in light of the nature and significance of such violations.

On November 13, 1998, the Gamut respondents filed a motion to dismiss the enforcement complaint contending that the Commission lacked jurisdiction over the subject matter. On November 18, 1998, the Gamut respondents filed a further motion seeking sanctions against complainants under Commission rule 210.4(d)(1) for filing an allegedly frivolous enforcement complaint over which the Commission has no jurisdiction. The ALJ denied both motions by orders dated December 8, 1998 (Orders Nos. 62 and 63). On December 11, 1998, complainants moved for sanctions against the Gamut respondents for filing the two foregoing motions. On January 21, 1999, the ALJ issued Order No. 69, granting complainants' motion for monetary sanctions against the Gamut respondents and their attorney, Lloyd J. Walker, on the grounds that respondents' two motions were "not objectively reasonable under the circumstances when they were filed." Order No. 73, issued March 2, 1999, denied the Gamut respondents' motion for interlocutory appeal of Order No. 69.

Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents. Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of certain accused tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted.

By agreement of the parties, no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page "Final Initial and Recommended Determinations" (ID and RD), finding that the Gamut respondents violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to final disposition of this enforcement proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy. Petitions for review of the ID, comments on remedy, and replies thereto were filed by all parties. The Commission received no public comments.

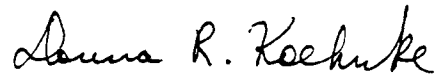
Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determined that the Gamut respondents had violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. The Commission adopted the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. The Commission also determined to adopt ALJ Orders Nos. 62, 63, and 69.

The Commission declined to adopt the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. The Commission determined that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. The Commission further determined to impose a civil penalty in the amount of \$2,320,000 on the Gamut respondents and determined that respondents should have joint and several liability for the payment of this civil penalty.¹ A Commission opinion concerning the Commission's violation and remedy determinations will be issued shortly.

¹ Commissioner Crawford determined to impose a civil penalty in a different amount.

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: July 28, 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

In the Matter of)
)
CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

99 JUL 28 P5:06

OFFICE OF THE SECRETARY
US INTL TRADE COMMISSION

ORDER

The trademark-based section 337 investigation that preceded this enforcement proceeding was instituted on February 14, 1996, based on a complaint filed by Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America, Inc. (collectively "Kubota"). On February 25, 1997, at the conclusion of the original investigation, the Commission issued cease and desist orders directed, *inter alia*, to Gamut Trading Co., Inc. ("Gamut Trading") and Gamut Imports. The cease and desist orders provide that Gamut Trading and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," shall not "import or sell for importation into the United States" or "sell market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States" covered product, defined as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders further provide that Gamut Trading and Gamut Imports "shall report to the Commission" on an annual basis "the quantity in units and the value in dollars of foreign-produced covered product" that they have "imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." Finally, the orders provide that they "shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product made and received in the usual and

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respondents violated the cease and desist orders and for a recommended determination (RD) regarding what enforcement measures, if any, are appropriate in light of the nature and significance of such violations.

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Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents. Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of certain accused tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted.

By agreement of the parties, no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page "Final Initial and Recommended Determinations" (ID and RD), finding that the Gamut

respondents violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to final disposition of this enforcement proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy. Petitions for review of the ID, comments on remedy, and replies thereto were filed by all parties. The Commission received no public comments.

Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determines that the Gamut respondents have violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. The Commission adopts the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. The Commission also determines to adopt ALJ Orders Nos. 62, 63, and 69.

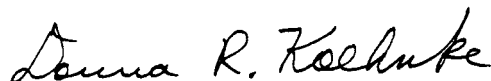
The Commission declines to adopt the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. The Commission determines that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. The Commission

further determined to impose a civil penalty of \$40,000 per violation day, for a total amount of \$2,320,000, on the Gamut respondents and determined that respondents should have joint and several liability for the payment of this civil penalty.

Accordingly, the Commission hereby ORDERS that :

1. Respondents Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue and Darrell J. DuPuy shall forfeit and pay to the United States a civil penalty in the amount of \$ 40,000 for each of the 58 days between February 27, 1997, and October 13, 1998, inclusive, on which a sale of articles occurred in violation of the cease and desist orders issued by the Commission on February 25, 1997, for a total amount of \$ 2,320,000. Respondents shall have joint and several liability for the payment of this civil penalty.
2. 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.
3. Notice of this Order shall be published in the *Federal Register*.

By Order of the Commission.



Donna R. Koehnke
Secretary

Issued: July 28, 1999

**CERTAIN AGRICULTURAL TRACTORS
UNDER 50 PTO HORSEPOWER**

337-TA-380

PUBLIC CERTIFICATE OF SERVICE

I, Donna R. Koehnke, hereby certify that the attached NOTICE OF COMMISSION DETERMINATION CONCERNING VIOLATION OF CEASE AND DESIST ORDERS AND CIVIL PENALTY, was served upon Shara Aranoff, Attorney-Advisor, and the following parties via first class mail and air mail, where necessary on July 29, 1999.



Donna R. Koehnke, Secretary
U.S. International Trade Commission
500 E Street, S.W., Rm. 112
Washington, D.C. 20436

**On Behalf of COMPLAINANTS: Kubota
Tractor Corporation, Kubota
Manufacturing of America Corporation
and Kubota Corporation:**

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On Behalf of MGA INC.

John D. Speciale, Esq.
Speciale & Burton
21300 Victory Boulevard
Suite 1170
Woodland Hills, California 91367

**On behalf of: GAMUT TRADING CO.,
GAMUT IMPORTS, WALLACE
INTERNATIONAL TRADING COMPANY,
WALLACE IMPORT MARKETING CO. INC.,
BAY IMPLEMENT COMPANY, SUMA
SANGYO, EISHO WORLD LTD., AND
SANKO INDUSTRIES CO. LTD., CASTEEL
FARM IMPLEMENT CO. (Monticello,
Arkansas), CASTEEL FARM IMPLEMENT
CO., (Pine Bluff, Arkansas), CASTEEL
WORLD GROUP, INC., AND THE
TRACTOR GROUP AND FUJISAWA
TRADING AGENCY:**

Lloyd J. Walker, Esq.
Attorney at Law
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Lloyd W. Walker, II, Esq.
116 Peachtree Ct.
Fayetteville, Georgia 30214

**CERTAIN AGRICULTURAL TRACTORS
UNDER 50 PTO HORSEPOWER**

337-TA-380

PUBLIC CERTIFICATE OF SERVICE

Page Two

On Behalf of COMMISSION:

Shara Aranoff, Esq.
International Trade Commission
Office of the General Counsel
500 E Street, S.W., Rm. 707-E
Washington, D.C. 20436

PROPOSED RESPONDENTS:

Lost Creek Tractor Sales
1050 S. Nutmeg
Bennett, Colorado 80102

Nitto Trading Co. Ltd.
1-9-5 Shinmoji Moji-ku
Kita-Kyushu-shi, 800-01 Japan

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Antitrust Division
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**Ronnita Green
West Services, Inc.
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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

_____))
CERTAIN AGRICULTURAL TRACTORS)
UNDER 50 POWER TAKE-OFF)
HORSEPOWER)
_____)

Inv. No. 337-TA-380
ENFORCEMENT PROCEEDING

COMMISSION OPINION

I. INTRODUCTION

On April 28, 1999, the administrative law judge (ALJ) issued his Final Initial and Recommended Determinations (ID and RD) in this enforcement proceeding, finding that respondents Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue, and Darrell J. DuPuy (collectively, the "Gamut respondents") violated Commission cease and desist orders dated February 25, 1997, and recommending that the Commission impose a civil penalty in the amount of \$652,476.

Having considered the ID and RD, the submissions of the parties, as well as the entire record in this proceeding, the Commission determines that the Gamut respondents have violated the Commission's cease and desist orders by importing and selling infringing tractors on fifty-eight (58) days between February 27, 1997, and October 13, 1998. We adopt the ID with respect to the ALJ's determinations that (1) the Commission has jurisdiction over the subject matter of this enforcement proceeding; (2) respondents violated the cease and desist orders by selling in the United States 172 accused "L" series tractors on 56 days; and (3) respondents violated the reporting and record keeping provisions of the cease and desist orders by making false reports to the Commission and destroying certain records. We also determine to adopt ALJ Orders Nos. 62, 63, and 69.

We determine to review and reverse the ID with respect to the ALJ's determinations that (1) respondents did not violate the cease and desist orders by selling in the United States accused "B" series tractors because those tractors are not "covered product" within the meaning of the orders; and (2) consequently, respondents did not violate the reporting and record keeping requirements of the cease and desist orders with respect to accused "B" series tractors. We determine that respondents violated the cease and desist orders by (1) selling in the United States 16 accused "B" series tractors on seven days, for a combined total of 58 violation days; and (2) failing to comply with the reporting and record keeping requirements of the cease and desist orders with respect to such sales. We further determine to impose a civil penalty on the Gamut respondents in the amount of \$40,000 per violation day, for a total penalty amount of \$2,320,000, and determine that respondents shall have joint and several liability for the payment of this civil penalty.¹

¹ Commissioner Crawford determines to impose a civil penalty in a different amount. See notes 114 and 161, *infra*.

II. BACKGROUND

A. Procedural History

On February 25, 1997, at the conclusion of investigation 337-TA-380, *Certain Tractors Under 50 Power Take-Off Horsepower* (the "original investigation"), the Commission issued, *inter alia*, cease and desist orders directed to respondents Gamut Trading Co., Inc. and Gamut Imports.² The cease and desist orders prohibit Gamut Trading Co., Inc. and Gamut Imports, as well as their "principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns," from importing or selling for importation into the United States, or selling, marketing, distributing, offering for sale, or otherwise transferring (except for exportation) in the United States "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark 'KUBOTA' (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." The orders also include certain reporting and record-keeping requirements.³

On July 16, 1998, Kubota Corporation, Kubota Tractor Corporation, and Kubota Manufacturing of America Inc. (collectively "Kubota"), complainants in the original investigation, filed a complaint seeking institution of a formal enforcement proceeding against Gamut Trading Co., Inc., Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading), and Darrell J. DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading), alleging that they are violating the cease and desist orders directed to them. Kubota supplemented its complaint on August 26, 1998. On September 28, 1998, the Commission issued an order instituting a formal enforcement proceeding and instructing the Secretary to transmit the enforcement proceeding complaint to the Gamut respondents and their counsel for a response.⁴ On October 19, 1998, the Gamut respondents filed a joint response to the enforcement complaint denying violation of any of the Commission's remedial orders and infringement of the KUBOTA trademark, and asserting that the Commission lacks jurisdiction to address the enforcement complaint.

On October 28, 1998, the Commission issued an order referring the formal enforcement proceeding to the presiding ALJ in the original investigation for issuance of an ID on violation and an RD on remedy. The Commission order referring the enforcement proceeding to the ALJ stated in pertinent part:

* * * * *

2. The initial determination, which is to be consistent with the Commission's findings in the original investigation, shall rule on the question of whether the Gamut respondents have violated one or more of the Cease and Desist Orders issued on February 25, 1997.

² The cease and desist orders are reprinted in *Certain Tractors Under 50 Power Take-Off Horsepower*, Inv. No. 337-TA-380, USITC Pub. 3026 (Mar. 1997).

³ See Cease and Desist Orders directed to Gamut Trading Co. and Gamut Imports (Feb. 25, 1997), reprinted in USITC Pub. 3026.

⁴ Notice of Institution of Formal Enforcement Proceeding (Sept. 28, 1998), 63 Fed. Reg. 53,925 (Oct. 7, 1998).

4. In the course of the enforcement proceeding, it shall be the burden of Kubota to demonstrate that the Gamut respondents have violated one or more of the Cease and Desist Orders.
5. If the presiding administrative law judge finds a violation of one or more of the Cease and Desist Orders in his initial determination, 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.⁵

On November 13, 1998, the Gamut respondents filed a motion to dismiss the enforcement complaint contending that the Commission lacked jurisdiction over the subject matter because only the U.S. Customs Service ("Customs") could interpret and enforce the Commission's orders. On November 18, 1998, the Gamut respondents filed a further motion seeking sanctions against complainants under Commission rule 210.4(d)(1) for filing an allegedly frivolous enforcement complaint over which the Commission has no jurisdiction. The ALJ denied both motions by orders dated December 8, 1998 (Orders Nos. 62 and 63). On December 11, 1998, complainants moved for sanctions against the Gamut respondents for filing the two foregoing motions. On January 21, 1999, the ALJ issued Order No. 69, granting complainants' motion for monetary sanctions against the Gamut respondents and their attorney, Lloyd J. Walker, on the grounds that respondents' two motions were "not objectively reasonable under the circumstances when they were filed." Commission rule 210.25(d) provides that, unless the ALJ grants leave for an interlocutory appeal to the Commission of an order for sanctions, such orders are reviewable by the Commission at the time it reviews the final ID on the merits. Order No. 73, issued March 2, 1999, denied the Gamut respondents' motion for interlocutory appeal of Order No. 69. Accordingly, Order No. 69 is ripe for Commission review at this time.⁶

Order No. 72, issued March 2, 1999, denied the Gamut respondents' motion to suppress the use of certain information acquired by recording telephone conversations between agents of complainants and certain employees of the Gamut respondents.

Order No. 76, issued April 28, 1999, granted in part complainants' motion for adverse inferences based on the Gamut respondents' destruction of certain documents. Specifically, the ALJ found that respondents had destroyed all records showing the profits they made on sales of accused "L" series tractors and that an adverse inference as to their margin of profit on such sales was therefore warranted. From the limited information of record on the Gamut respondents' tractor purchase costs and sales prices, the ALJ inferred that the Gamut respondents' sales prices reflected a mark up over their purchase price of 135 percent on those accused tractors subject to his violation finding.⁷

By agreement of Kubota, the Gamut respondents, and the Commission investigative attorney ("the

⁵ Notice of Referral of Formal Enforcement Proceeding to an Administrative Law Judge for Issuance of an Initial Determination (Oct. 28, 1998), 63 Fed. Reg. 60,020 (Nov. 6, 1998).

⁶ Because we now decline to review Order No. 69, complainants must submit to the ALJ affidavits concerning the appropriate amount of sanctions once the Commission's final disposition of this matter is complete.

⁷ See Order No. 76 (Apr. 28, 1999) at 7-8.

staff”), no evidentiary hearing was held before the ALJ. The parties did submit position statements, proposed findings of fact, documentary exhibits, and certain joint stipulated facts, as well as rebuttal statements, findings of fact, and exhibits. On April 28, 1999, the ALJ issued his 72-page “Final Initial and Recommended Determinations,” finding that the Gamut respondents have violated the cease and desist orders directed to them and recommending that the Commission assess a civil penalty against them in the amount of \$652,476.

In order to allow the parties to express their views to the Commission prior to disposition of this proceeding, the Commission provided the parties with the opportunity to file petitions for review of the ID and/or comments on the appropriate remedy, if any. The Commission also provided an opportunity for public comment on the appropriate remedy.⁸ Petitions for review of the ID, comments on remedy, and replies thereto were filed by complainants, respondents, and the staff. The Commission received no public comments.

This opinion explains the Commission’s final disposition of this enforcement proceeding, including our decisions: (1) to adopt the ID’s findings with respect to jurisdiction; (2) to adopt the ID’s findings on violation with respect to accused “L” series tractors; (3) to adopt ALJ Orders Nos. 62, 63, and 69; (4) to review and reverse the ALJ’s finding of no violation with respect to accused “B” series tractors and to find that respondents’ conduct with respect to such tractors violated the cease and desist orders; and (5) to impose a civil penalty on respondents jointly and severally in the amount of \$2,320,000.

B. The Products at Issue

The products at issue are certain agricultural tractors under 50 power take-off (PTO) horsepower that are manufactured by complainant Kubota Corporation (KBT) in Japan and have been used in Japan prior to exportation to the United States. They are medium-sized tractors used for various agricultural and landscaping applications.

The accused products in the Commission’s original investigation were tractors under 50 PTO horsepower bearing the “KUBOTA” trademark, which is owned by KBT and registered in Japan. These tractors were manufactured in Japan and offered for sale to Japanese consumers through KBT’s Japanese dealer network (“KBT tractors”). The Commission found that various trading companies, including the named foreign respondents in the original investigation, purchased used KBT tractors from Japanese consumers for export to the United States. It also found that the domestic respondents in the original investigation imported the used KBT tractors into the United States or purchased them from other importers for reconditioning and resale to U.S. consumers. At the time of their importation into the United States, these KBT tractors ranged in age from more than 20 years old to as little as three years old.⁹

In the original investigation, the Commission further found that KBT also manufactures agricultural tractors under 50 PTO horsepower specifically for the United States market. These tractors (“KTC tractors”) are manufactured by KBT in Japan, partially assembled in the United States by Kubota Tractor Corporation (KTC), its U.S. affiliate, and sold new to U.S. consumers by KTC through its network

⁸ Notice of Schedule for the Submission of Petitions for Review and Comments on Remedy (Apr. 26, 1999), 64 Fed. Reg. 23,098 (Apr. 29, 1999).

⁹ USITC Pub. 3026, Commission Opinion at 2 n.1 (“Commission Opinion”).

of over 1100 authorized dealers. The KTC tractors bear the U.S.-registered “KUBOTA” trademark.¹⁰ Because the accused tractors in the original investigation were KBT products intended by the manufacturer KBT for sale in Japan and imported into the United States without its consent, the Commission concluded that the accused KBT tractors were “gray market” or “parallel” imports.¹¹

The products at issue in this enforcement proceeding are tractors under 50 PTO horsepower manufactured by KBT in Japan and sold by KBT to “Zen-Noh,” the Japan Federation of Agricultural Cooperative Associations (“accused tractors” or “KBT/Zen-Noh tractors”).¹² It is undisputed that the accused KBT/Zen-Noh tractors differ from the KBT tractors at issue in the original investigation in two respects: they have the word “Zen-Noh” on the hood, whereas the KBT tractors at issue in the original investigation had the word “KUBOTA” on the hood; and their model numbers (typically “L” or “B” plus a number) are the same as those of KBT tractors except that they have a “Z” prefix added (*i.e.*, “ZL” or “ZB” plus a number).¹³ It is also undisputed, based on Gamut records obtained through discovery in the enforcement proceeding, that the Gamut respondents have sold 172 “L” series and 93 “B” series KBT/Zen-Noh tractors in the United States since February 25, 1997.¹⁴

C. The Commission’s Original Determination

Section 337 prohibits the importation, sale for importation, or sale within the United States after importation of articles which infringe a federally-registered U.S. trademark, so long as there exists a domestic industry relating to the articles bearing the trademark. 19 U.S.C. § 1337(a)(1)(C). In the original investigation, the Commission found that the respondents therein, including Gamut Trading and Gamut Imports, violated section 337 because they infringed the registered trademark “KUBOTA” under Section 32 of the Lanham Act, 15 U.S.C. § 1114, and unlawfully imported goods bearing the “KUBOTA” trademark under Section 42 of the Lanham Act, 15 U.S.C. § 1124.

Relying on federal court precedent, the Commission concluded that, in cases involving gray market goods, trademark infringement is established by proof that there are “material differences” between the accused imported products and the products authorized for sale in the United States. The existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder’s goodwill.¹⁵ Applying this standard, the Commission found 45 models of imported KBT tractors to be materially different from the closest comparable KTC models in one or more respects. Based on the identified material differences, the Commission found that the accused KBT tractors infringed the federally-registered U.S. trademark “KUBOTA” in violation of section 337.

¹⁰ *Id.*

¹¹ *Id.*, citing *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988).

¹² *ID* at 22-23.

¹³ *ID* at 23.

¹⁴ *ID* at 13-18; CEX 52 (Revised Version, Apr. 1, 1999).

¹⁵ Original Determination at 4-5.

At the conclusion of the original proceeding, on February 25, 1997, the Commission issued a general exclusion order, prohibiting the importation of tractors under 50 PTO horsepower manufactured by Kubota Corporation of Japan that infringe the federally-registered U.S. trademark "KUBOTA." The Commission also issued 11 cease and desist orders to the named domestic respondents, including Gamut Trading and Gamut Imports, containing the terms described above. The Commission's remedial orders were not disapproved by the President.¹⁶

III. VIOLATION OF THE COMMISSION'S CEASE AND DESIST ORDERS

A. The ALJ's Findings on Jurisdiction

Throughout the enforcement proceeding, the Gamut respondents have taken the position that the Commission does not have jurisdiction to adjudicate the enforcement complaint. They have argued that Customs has sole authority to interpret the general exclusion order; that Customs permitted the importation of the accused KBT/Zen-Noh tractors and must therefore have made a determination that they were not covered by the exclusion order; and that Kubota's complaint should therefore be directed to Customs. Having already addressed these issues in Orders 62, 63, 69, and 73, the ALJ summarily rejected the Gamut respondents' jurisdictional argument in the ID.¹⁷

As noted above, Order No. 69 (Jan. 21, 1999), granted complainants' motion for sanctions against the Gamut respondents on the grounds that they had filed groundless motions to dismiss and for sanctions against complainants, both based, in part, on the theory that the Commission lacks jurisdiction to address the enforcement complaint in this matter. The ALJ's Orders Nos. 62, 63 and 69 are all subject to Commission review at this time.

Although they do not refer specifically to Orders Nos. 62, 63, and 69, the Gamut respondents continue to insist, in their petition for review and to a greater extent in their response, that they have properly relied on Customs' purported determination that the tractors they imported are not infringing and that the Commission has no jurisdiction to decide otherwise.¹⁸ Complainants contend that the Gamut respondents' objections to the Commission's jurisdiction have already been ruled meritless by the ALJ; that the Gamut respondents have been sanctioned by the ALJ for raising such groundless arguments; and that the Gamut respondents have not petitioned for review of the order sanctioning them.¹⁹

The Gamut respondents' argument fails to recognize the difference between exclusion orders, which are interpreted and enforced by Customs pursuant to 19 U.S.C. § 1337(d), and cease and desist

¹⁶ The appeal of the Commission's original determination, *Gamut Trading Co. v. United States*, No. 97-1414, is still pending before the Federal Circuit. Oral argument took place March 6, 1998.

¹⁷ ID at 12 n.12.

¹⁸ Respondents' Response to the Final Initial [sic] and Recommended Determinations Dated April 28, 1999 (May 10, 1999) ("Respondents' Petition" or "RP") at 2, 6; Respondents' Response to Complainants and Staff Petition for Review Pursuant to 210-43(c) (May 19, 1999) ("RR") at 2-3, 5-6.

¹⁹ Complainants' Reply to the Petition for Review and Comments on Remedy of Respondents and the Staff (May 19, 1999) ("CR") at 8-10.

orders, which are interpreted and enforced by the Commission pursuant to 19 U.S.C. § 1337(f). This is evident from the fact that their petition for review and response refer exclusively to § 1337(d) and never mention § 1337(f). The Commission's authority to issue and enforce cease and desist orders derives from § 1337(f) and the Commission's authority to determine what constitutes a violation of its own cease and desist orders is not circumscribed in any way by Customs' interpretation or enforcement of Commission exclusion orders (even when "covered product" is defined identically in both orders).²⁰ We therefore see no error in the ALJ's conclusion and determine not to review this aspect of the ID.²¹

B. The ALJ's Finding of Violation With Respect to "L" Series Tractors

1. Violation of Paragraphs III(A) and III(B) of the Cease and Desist Orders: Importation and Sale in the United States of Covered Product

a. The ID

The ID concludes that the 172 "L" series KBT/Zen-Noh tractors sold by the Gamut respondents since February 25, 1997, are covered by the cease and desist orders because they (1) bear the "KUBOTA" trademark, and (2) are materially different from the closest corresponding KTC models authorized for sale in the United States.²²

The ALJ's conclusion that all 172 accused "L" series KBT/Zen-Noh tractors at issue bore the "KUBOTA" trademark at the time of their importation is based on the written statement of Mr. Kashihara, a Kubota Corporation engineer. Kashihara stated that "L" series KBT/Zen-Noh tractors with model

²⁰ Moreover, as discussed *infra*, the Gamut respondents' reliance on the fact that Customs inadvertently permitted them to import certain infringing tractors as a justification for their actions is misplaced.

²¹ Similarly, we see no error in the ALJ's Order No. 69, sanctioning respondents for filing a frivolous motion to dismiss and a frivolous motion for sanctions against complainants, and determine, particularly in light of respondents' failure to petition for review of that order, not to review Order No. 69.

²² ID at 21, 24-25. Throughout the ID, the ALJ mischaracterizes the Commission's original determination in one respect. He states that, in order to be covered by the cease and desist orders, the accused tractors must be "materially different from the KTC tractors *of the same model number* authorized for sale in the United States." *See, e.g.*, ID at 21, 24, 28 (emphasis added). In fact, the ALJ himself found, in the original investigation, that the most closely comparable KTC models to the KBT models at issue sometimes had different model numbers. 1996 ID at 76-77. What the Commission actually said was that an infringing KBT tractor was one that was "materially different from *the closest corresponding KTC model*." *See, e.g.*, Commission Opinion at 14. We conclude that the ALJ's mischaracterization of the original determination is not material to his ultimate conclusions on violation of the cease and desist orders. Because Commission silence on this subject might be construed as a modification of the original determination, however, we find that the correct characterization of the Commission's original determination is that an infringing KBT tractor is one that is "materially different from the closest corresponding KTC model."

numbers ending in "00" and "01" all bear the "KUBOTA" trademark on the hour meter,²³ while such tractors with model numbers ending in "02" bear the "KUBOTA" trademark on the hood (right, left, and front), key, hour meter, level grip, and control box.²⁴ The ALJ concluded that because all of the accused KBT/Zen-Noh tractors at issue have model numbers ending in "00", "01", or "02," they all bear the "KUBOTA" trademark at the time of importation. ID at 19-20 and Table 2.²⁵

The ALJ's conclusion that the 172 accused "L" series KBT/Zen-Noh tractors are materially different from the most closely comparable KTC models is based on further testimony from Kashiwara. He stated that a KBT/Zen-Noh tractor is identical in all respects to a KBT tractor of the same model number, with two exceptions: the tractors sold to Zen-Noh have the word "Zen-Noh" on the hood rather than "KUBOTA," and the "L" series model numbers on the KBT tractors sold to Zen-Noh have a "Z" prefix. ID at 23. The ALJ found that all of the accused "L" series KBT/Zen-Noh tractors bear model numbers identical to "L" series models that were expressly found to be materially different from the closest comparable KTC models in the underlying proceeding. ID at 23-24. The ALJ further concluded that the two acknowledged differences between the KBT models at issue in the original investigation and the KBT/Zen-Noh tractors at issue here -- *i.e.*, the additional "Z" prefix to the model number and the "Zen-Noh" name on the hood -- do not affect the materiality of the differences between the KBT and KBT/Zen-Noh tractors, on the one hand, and the closest comparable KTC models on the other. ID at 24.

Based on these findings, the ALJ concluded that complainants have met their burden of demonstrating that the accused "L" series KBT/Zen-Noh tractors are "covered" product as defined in the cease and desist orders. In particular, he concluded that the Gamut respondents imported the 172 accused "L" series KBT/Zen-Noh tractors on 56 separate days and sold them all in the United States. ID at 40. He therefore found that the Gamut respondents have violated both the prohibition on importation contained in paragraph III(A) of the cease and desist orders and the prohibition in paragraph III(B) of the orders on sales, marketing, distribution, offers for sale, or other transfer of imported covered merchandise. ID at 25.²⁶

²³ The hour meter is a large gauge prominently located on the dashboard. *See* CEX 29 (photo).

²⁴ ID at 19-20, *citing* CEX 3, ¶8.

²⁵ One of the models at issue is the ZL240. Technically, the number 240 does not end in "00" and is therefore not covered by Kashiwara's testimony. However, none of the parties disputed the ALJ's conclusion that *all* of the accused "L" series tractors bear the "KUBOTA" trademark at least on the hour meter. *Compare* Joint Stipulated Facts (Mar. 23, 1999) at ¶¶ 26-29 (stating that "nearly all" the accused "L" series tractors bear the "KUBOTA" trademark on the hour meter). Accordingly, we do not review this finding.

²⁶ The ID/RD rejects complainants' argument that either counsel for the Gamut respondents or Mr. DuPuy admitted that importation of the accused "L" series tractors constituted infringement of the "KUBOTA" trademark. It concludes that counsel's statement that "if a tractor imported by the Gamut respondents bore the KUBOTA trademark in addition to another trademark then that tractor would infringe the KUBOTA mark" is not inconsistent with counsel's argument that placing the "KUBOTA" trademark on a "part," such as the hour meter of a tractor, is not tantamount to placing the mark on the tractor itself. The ID/RD similarly finds that Mr. DuPuy's deposition testimony that if the name Kubota appears on a
(continued...)

Although the Gamut respondents did not challenge the factual testimony of Kashihara on which the ALJ's conclusions are based, they did raise a number of legal challenges, all of which were rejected by the ALJ. First, the Gamut respondents argued that the accused tractors are not covered by the cease and desist orders because "ZEN-NOH" tractors are not legally equivalent to "KUBOTA" tractors. Although their argument took several forms, their basic point seems to be that a tractor that bears the name "ZEN-NOH" on the hood where KBT tractors bear a large "KUBOTA" trademark cannot be considered a KBT tractor merely because the "KUBOTA" mark appears on certain parts of the tractor. ID at 22, 29. The ALJ rejected the idea that a "parts label" is inherently different from a "tractor label" for purposes of infringement analysis. In so concluding, he relied on two lines of case law. The first stands for the proposition that the presence of more than one trademark on a product does not exempt a party who sells that product from liability for infringement if the party has not obtained permission to affix any one of those marks to the product. The second holds that the position of a symbol or word on a product is not controlling as to whether it performs a trademark function; rather, the relevant issue is whether, when the mark is noticed, it will be understood as indicating the source of the goods. ID at 22, 29. The ALJ further noted that the Gamut respondents did not cite any legal authority to the contrary. *Id.*

The ALJ also rejected the Gamut respondents' argument that the accused "L" series KBT/Zen-Noh tractors with hour meters bearing the "KUBOTA" trademark do not violate the cease and desist orders because Customs cleared those tractors for importation.²⁷ He noted that, while Customs evidently did permit the importation of the accused "L" series tractors, it blocked the importation of "L" series tractors by letters dated July 31, 1997, and September 23, 1997, on the grounds that they bore the "KUBOTA" trademark. ID at 26. Moreover, in a letter dated January 22, 1999, directed to counsel for the Gamut respondents, Customs stated as follows:

Please be advised that tractors bearing a KUBOTA trademark are subject to exclusion where the tractor is under 50 power take-off horsepower and is materially different from the U.S. model. Accordingly, a KUBOTA trademark appearing anywhere on a tractor, including the hour meter, which is under 50 power take-off horsepower and is materially different from the U.S. model would fall under the order.

Zen-Noh tractors which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order and may be imported.

²⁶ (...continued)

tractor it is a covered product "[i]f we imported or sold it as such" is not inconsistent with counsel's position with respect to the difference between "tractor labels" and "parts labels." ID/RD at 46-47. Although the ALJ addressed this issue in the context of his remedy discussion rather than in the context of discussing violation, we treat it as part of the ID rather than as part of the RD. Complainants do not challenge the ALJ's treatment of this issue in their petition for review, and we do not review it.

²⁷ Again, the Gamut respondents made this argument several ways, arguing alternately that (1) because the general exclusion order and the cease and desist orders define covered product the same way, the Commission cannot view as covered a product that Customs, by virtue of allowing its importation, has determined not to be covered; or (2) such contrary positions by the Commission and Customs subject the Gamut respondents to an unfair sort of double jeopardy; or (3) Kubota must bring its complaint against Customs, not the Gamut respondents, since it is Customs that permitted the importation of the accused tractors. *See, e.g.,* Respondents' Brief [Position Statement] (Mar. 23, 1999) at 6-8; ID at 26.

ID at 26-27 n.18, *citing* REX A. Thus, the ALJ concluded that the Gamut respondents were put on notice at least by the Customs letter dated July 31, 1997, that Customs considered “L” series tractors that bear the “KUBOTA” trademark to be covered by the cease and desist orders. ID at 27.²⁸ He also reasoned that a separate action against Customs is required only when an importer wishes to challenge Customs’ manner of enforcing an exclusion order with respect to particular imports, not when a trademark owner suspects a violation of a cease and desist order. ID at 27-28, *citing Hyundai Electronics Indus. Co. v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204 (Fed. Cir. 1990).

Finally, the ALJ rejected the Gamut respondents’ contention that the accused “L” series KBT/Zen-Noh tractors are not covered by the cease and desist orders because the orders do not specify the model numbers to which they apply and the Commission has never specifically adjudicated the question whether these particular KBT/Zen-Noh models are materially different from the most closely comparable KTC models. The ALJ reasoned that it is not necessary for the cease and desist orders to identify infringing tractors by model number, since all the Gamut respondents needed to know was whether the accused “L” series tractors bear the “KUBOTA” trademark and are materially different from the most closely comparable KTC models. Moreover, the ALJ noted that such a model-by-model comparison has already been performed, since, in its original determination, the Commission specifically identified as infringing 45 models of KBT tractors that (with the exception of the “Z”) prefix, include all the model numbers represented by the accused tractors. ID at 28-29. Therefore, the ALJ concluded that the cease and desist orders’ failure to identify specific infringing model numbers does not render the orders ineffectual. ID at 29.

b. Arguments of the Parties

i. Respondents’ Arguments

The Gamut respondents argue that the Commission should review the ALJ’s finding that their importation and sale of “L” series tractors violated the cease and desist orders. They argue that “[t]here is no distinction . . . between ZB and ZL tractors,” and that the ALJ’s finding of no infringement with respect to “B” series tractors (discussed below) should apply equally to “L” series tractors.²⁹ They challenge the ALJ’s finding that “L” series tractors may bear the “KUBOTA” trademark in locations other than the hour

²⁸ There is no evidence in the record indicating the dates of importation of the 172 accused “L” series tractors. The record indicates only the invoice date for Gamut’s sale of the relevant tractors. Based on Customs’ letter of July 31, 1997, the ALJ concluded that all 172 accused “L” series tractors must have been imported prior to July 31, 1997. We agree that there was nothing in the record before the ALJ to support a different conclusion. In respondents’ Petition for Review to the Commission, however, counsel for the Gamut respondents admits that the tractors sold after July 31, 1997, were imported at about the same time they were sold and therefore were largely imported after July 31, 1997. RP at 7-8. We do not find this fact material to our violation determination since, as we discuss *infra*, we do not believe that the fact that Customs may have erroneously permitted the accused tractors to be imported contrary to its own interpretation of the *general exclusion order* has any bearing on the Commission’s violation determination with respect to the *cease and desist orders* issued pursuant to separate statutory authority. Nor do we believe that the date of entry is critical, so long as there is unquestioned evidence of sale within the United States after July 31, 1997.

²⁹ RP at 2.

meter, stating that it is based on discredited testimony by Kashihara and is inconsistent with the parties' stipulation that "L" series tractors bear the "KUBOTA" mark on the hour meter.³⁰ With respect to the "KUBOTA" trademark on the hour meter, they reiterate that it is a "parts label" rather than a "tractor label."³¹ They also contend that the record in this proceeding contains no evidence of material differences between the accused "L" series tractors and KTC tractors.³²

The Gamut respondents dispute the significance that the ALJ attached to the Customs letter of July 31, 1997. They contend that the ALJ's inference that, because Customs blocked the importation of certain "L" series tractors on July 31, 1997, all of the accused tractors must have been imported prior to that date, is simply untrue. While Customs has stopped several shipments of "L" series tractors, they assert that Customs has not stopped other shipments of "L" series tractors since that date.³³ They also contend that they cannot be accused of intentionally violating the cease and desist orders, since their counsel tried repeatedly to get Customs to define for him what tractor models are infringing by way of telephone calls, letters, and a FOIA request.³⁴ Overall, what the Gamut respondents appear to be arguing is that they relied in good faith on the actions of Customs and that because Customs continued to admit the accused "L" series tractors, they reasonably concluded that they could continue to sell them.³⁵

ii. Complainants' Arguments

Complainants argue that the ALJ erred by finding a violation of the cease and desist orders only with respect to "L" series tractors sold after July 31, 1997. Because Commission cease and desist orders are effective upon issuance, or in this case as of February 25, 1997, they argue that the ALJ should have included all days on which sales of accused "L" series tractors were made, rather than only those after July 31, 1997, in calculating the number of violation days for purposes of assessing the penalty. They contend that there is no rule whereby Commission cease and desist orders are only enforceable after interpretation by Customs.³⁶ Complainants also argue that the ALJ erred in not treating one undated invoice for sale of an accused "L" series tractor as an additional violation day, noting that such an adverse inference is appropriate in light of the Gamut respondents' destruction of the documents that could have indicated that

³⁰ RP at 3-4.

³¹ RP at 5.

³² RP at 5-6.

³³ RP at 6-7. The Gamut respondents offer no proof of their assertion that Customs permitted the importation of "L" series tractors after July 31, 1997. They appear to be reasoning that later imports must have occurred based on the invoice dates of Gamut's sales. RP at 7.

³⁴ RP at 8.

³⁵ RP at 9.

³⁶ Complainants' Petition for Review and Comments on Remedy (May 13, 1999) ("Complainants' Petition" or "CP") at 29-30.

actual date of sale.³⁷

In response to respondents' petition for review, complainants argue that respondents never objected to the admission into evidence of the Kashihara statement and that the parties' stipulation that the "L" series tractors bear the "KUBOTA" mark on the hour meter was never meant to exclude the appearance of that mark elsewhere on the tractor. They argue that, because the Gamut respondents have never introduced any evidence to rebut the substance of Kashihara's testimony, there is no reason for the Commission to review the ID on this point.³⁸ Complainants also argue that respondents' claim that the Commission has never identified what tractor models are infringing is without merit, noting that in the Commission Opinion and the 1997 ID, 46 specific infringing models are identified.³⁹ Since the evidence shows that the accused "L" series tractors at issue in this enforcement proceeding are identical in all relevant respects to the "L" series tractors found infringing by the Commission in the original investigation, there is no need for the Commission to review the ALJ's finding of infringement with respect to "L" series tractors.⁴⁰

Finally, complainants dispute respondents' contention that they were entitled to rely on Customs' failure to exclude the accused "L" series tractors as a binding determination that sale of such tractors is permitted under the cease and desist orders. Complainants argue that only the Commission has jurisdiction to adjudicate violations of its cease and desist orders and that the Gamut respondents never sought any clarification or an advisory opinion from the Commission on whether the accused "L" series tractors violated the orders. They also contend that Gamut's violations of the cease and desist orders cannot be excused because they were intentional, occurring even after Customs informed respondents on several occasions that importation of "L" series KBT/Zen-Noh tractors violates the general exclusion order. In light of their intentional conduct, complainants assert that the Gamut respondents should not be allowed to "hide behind" the fact that Customs inadvertently admitted tractors which should have been excluded under Customs' own interpretation of the exclusion order.⁴¹

iii. Arguments of the Staff

Like complainants, the staff argue that the ALJ erred in excluding infringing sales of "L" series tractors made before July 31, 1997, from his penalty calculation. The staff argue that the ALJ is mistaken both in concluding that the Gamut respondents were not made aware of the infringing nature of their sales until Customs notified them on July 31, 1997, and in concluding that, up to that time, the Gamut respondents reasonably relied on the advice of their counsel that their sales activities were legal. The staff contend that there is no evidence in the record that the legal advice on which the Gamut respondents purportedly relied ever dealt with the cease and desist orders, as opposed to the general exclusion order. In particular, staff note that there is no evidence that Mr. Walker, counsel for the Gamut respondents, ever

³⁷ CP at 30-31.

³⁸ CR at 5-7.

³⁹ CR at 7-8. The actual number of models which the Commission specifically found to infringe in the original opinion and the 1996 ID is 45, not 46.

⁴⁰ CR at 7-8.

⁴¹ CR at 8-10.

advised his clients that Customs' failure to exclude all KBT/Zen-Noh "L" series tractors did not control whether Gamut was prohibited under the cease and desist orders from importing or selling them. Moreover, the fact that Mr. DePue admitted that he did not seek legal advice before discarding company records is, in the staff's view, evidence that the Gamut respondents did not seek adequate advice from counsel about their responsibilities under the cease and desist orders. Even if respondents did seek some advice, staff conclude, reliance on that advice with respect to the cease and desist orders was not reasonable. Thus, staff contend that the Commission should consider Gamut's 47 infringing sales of accused "L" series tractors that occurred prior to July 31, 1997, in assessing the appropriate civil penalty.⁴²

In response to the Gamut respondents' petition for review, the staff argue that it does not follow from the ALJ's finding of no infringement with respect to accused "B" series tractors that there is also no infringement by accused "L" series tractors, since the latter bear the "KUBOTA" trademark at least on the hour meter; that the material differences between the accused "L" series tractors and the closest comparable KTC tractors are clear on the face of the record; and that Customs' failure to detect the Gamut respondents' violations of the general exclusion order is not equivalent to a decision by Customs that such importations were permissible and does not excuse respondents' violations of the cease and desist orders, particularly in light of the intentional nature of respondents' conduct.⁴³

c. Analysis and Conclusion

We agree with complainants and the staff that the ALJ's finding that the 172 accused "L" series tractors at issue in this enforcement proceeding are materially different from the closest comparable KTC models and therefore infringe the "KUBOTA" trademark is supported by the record and should not be reviewed. Respondents' objections that the Commission has never identified what models of KBT tractors are infringing and that the record is devoid of proof that the accused tractors are materially different from the closest comparable KTC models are without merit. In the original investigation, the Commission specifically identified 45 infringing models.⁴⁴ Moreover, Kashihara's undisputed testimony establishes that all of the accused "L" series tractors at issue in this enforcement proceeding are identical in all relevant respects to "L" series models specifically identified as infringing in the original investigation.⁴⁵

We also agree with the ALJ that trademark law recognizes no distinction between a "parts label" and a "tractor label" in this context. The Gamut respondents have cited no authority to support their position in this regard. In fact, even if there were case law to support this argument, it would arguably not apply in this case, because the evidence indicates that the Gamut respondents routinely represented to their customers that the accused KBT/Zen-Noh tractors are "KUBOTA" tractors. Having expressly fostered consumer confusion, we do not believe that the Gamut respondents should be given the benefit of the doubt that the assertedly secondary placement of the "KUBOTA" trademark on the accused "L" series tractors

⁴² Petition of the Office of Unfair Import Investigations for Review of Final Initial and Recommended Determinations and Comments on the Appropriate Remedy (May 12, 1999) ("Staff Petition" or "SP") at 30-32.

⁴³ SR at 11-20.

⁴⁴ Commission Opinion at 13; 1996 ID at 93-95, FF 153.

⁴⁵ ID at 23.

will not confuse consumers as to the sponsorship of the tractors themselves.

Similarly, we find no merit in respondents' assertion that they reasonably relied on Customs' failure to exclude the accused "L" series tractors. First, the Commission Opinion and the 1996 ID specifically identify as infringing every accused "L" series model at issue here. Thus, respondents cannot legitimately claim that any confusion they may have experienced in ascertaining whether particular unadjudicated models might be infringing is applicable here. Second, the evidence is clear that Customs' official policy has at all times been to exclude every one of the 45 models of KBT tractors identified in the Commission Opinion and 1996 ID so long as the "KUBOTA" trademark appears anywhere on the tractor.⁴⁶ Third, Customs notified the Gamut respondents of its decision to exclude accused "L" series tractors on several occasions.⁴⁷ Fourth, the Commission issued a seizure and forfeiture order with respect to Gamut Trading on January 26, 1998.⁴⁸ Under these circumstances, the only reasonable conclusion that the Gamut respondents could have reached was that Customs' failures to detect and exclude particular shipments of accused "L" series tractors were inadvertent. In any event, it is the Commission, not Customs, that interprets and enforces cease and desist orders. 19 U.S.C. § 1337(f). The Gamut respondents never sought clarification from the Commission via an advisory opinion or otherwise concerning whether the accused "L" series tractors could be imported and sold consistent with the cease and desist orders.⁴⁹ Accordingly, we adopt the ALJ's findings with respect to infringement by the accused "L" series tractors.

Despite his finding that all 172 accused "L" series tractors bear the "KUBOTA" trademark and are materially different from the closest comparable KTC models, the ALJ included in his count of "violation days" for purposes of establishing the appropriate civil penalty only those sales of accused "L" series tractors that occurred after July 31, 1997. He reasoned that, after receiving a letter from Customs noting the exclusion of a shipment of such tractors on that date, respondents should have had a reasonable belief that such tractors were infringing, whereas they might reasonably have believed otherwise prior to that date.⁵⁰

We disagree with this reasoning on both legal and policy grounds. Commission remedial orders, including cease and desist orders, are effective upon receipt of notice thereof by the affected party.⁵¹ After that date, respondents who have already been found to infringe trademark rights bear the burden of

⁴⁶ See Customs letter dated Jan. 22, 1999, CEX 59.

⁴⁷ See Customs letters dated July 31 and Sept. 23, 1997, CEX 82 and 83.

⁴⁸ CEX 86.

⁴⁹ ID at 69, FF 21.

⁵⁰ ID at 44-45.

⁵¹ 19 U.S.C. §§ 1337(f) and (j)(3); 19 C.F.R. § 210.49(c); *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 (Aug. 1991) at 16-22.

demonstrating that their actions are consistent with the orders,⁵² and may, if in doubt, seek clarification or an advisory opinion from the Commission.⁵³ Therefore, we do not believe that a respondent's subjective belief, be it reasonable or otherwise, that a particular product is or is not infringing is relevant to the objective question of violation of a cease and desist order.⁵⁴ Nor do we believe, as a matter of policy, that it is appropriate for the Commission to, in effect, cede its authority to interpret cease and desist orders to Customs. In this case, the objective criteria for finding a violation of the cease and desist orders were satisfied both before and after July 31, 1997. Accordingly, we do not adopt the ALJ's finding that sales by the Gamut respondents prior to July 31, 1997, should not count toward the calculation of violation days, and find that the Gamut respondents sold infringing "L" series tractors on 56 separate violation days.⁵⁵

2. Violation of Paragraphs V and VI of the Cease and Desist Orders: Reporting and Record Keeping Requirements

a. The ID

Paragraph V of the cease and desist orders requires the Gamut respondents to report annually to the Commission, within 30 days of August 31 of each year, "the quantity in units and the value in dollars of foreign-produced covered product that Respondent has imported or sold in the United States during the reporting period or that remains in inventory at the end of the period." The ALJ found that on November 14, 1997, enforcement respondent DuPuy reported to the Commission on behalf of the Gamut respondents that four units of covered products were in inventory as of February 25, 1997, the date on which the cease and desist orders went into effect, that "Gamut trading Company has not imported any units of covered product since February, 1997 nor has it sold any Kubota tractors since February, 1997," and that all of the tractors on hand as of February 25, 1997 "have been broken down into parts and sold or have been shipped to the scrap yard as metal." ID at 35. The ALJ also found that on August 10, 1998, counsel for the Gamut respondents submitted to the Commission a letter dated July 29, 1998, from Mr. DuPuy to counsel, which stated that "since the report submitted last year Gamut Trading has not imported or sold any 'Kubota' tractors." ID at 35-36.

⁵² Commission Opinion at 31; *Canadian Tarpoly Co. v. U.S. Int'l Trade Comm'n*, 649 F.2d 855 (C.C.P.A. 1981).

⁵³ 19 C.F.R. § 210.79(a).

⁵⁴ As discussed *infra*, respondents' subjective intent, while not relevant to the issue of violation, is relevant to consideration of the appropriate civil penalty.

⁵⁵ We agree with the staff and do not review the ID to find a 57th violation day, as advocated by complainants. Complainants ask the Commission to infer that one sale of an accused "L" series tractor made by the Gamut respondents, for which the invoice is undated, occurred on a separate, 57th, violation day. They contend that such an inference is appropriate, since it was respondents who destroyed the documents necessary to ascertain the actual date of the sale in question. Although there is some merit to complainants' contention, we do not believe that the ALJ's treatment of the undated invoice is wrong as a matter of law or policy, and therefore determine not to review the ALJ's conclusion with respect to the proposed 57th violation day. Rather, we treat respondents' destruction of documents that might have demonstrated additional violation days as an exacerbating factor in our consideration of the appropriate civil penalty.

In light of his finding that the Gamut respondents did indeed import and sell “L” series KBT/Zen-Noh tractors after February 25, 1997, during both of the relevant reporting periods, and his finding that the Gamut respondents were put on notice that Customs considered such tractors to be “covered product” based on Customs’ letter of July 31, 1997, the ALJ concluded that the Gamut respondents “ought to have been aware that any sales of the accused ‘L’ series tractors after July 31, 1997 would be subject to the reporting requirement.” ID at 37-38 (emphasis in original). Accordingly, the ALJ concluded that the Gamut respondents knowingly violated the reporting requirements of the cease and desist orders in issue when they stated on November 14, 1997, and August 10, 1998, that they had neither imported nor sold any covered products since February 25, 1997. ID at 38.

The ALJ further found that on November 1, 1998, after the July 31, 1997, Customs letter and after the July 16, 1998, filing of the complaint in this enforcement proceeding, the Gamut respondents destroyed three types of documents: (1) records relating to importation, (2) records relating to offers for sales and marketing, and (3) records relating to sales, distribution, and transfer. The destroyed material amounted to 3 to 4 four-drawer filing cabinets worth of documents. Those documents included bills of lading, purchase invoices, documents reflecting Customs clearance of imported tractors, accounts payable information, faxes from the trading companies that supplied the tractors, and other importation documents that would have shown from whom the Gamut respondents purchased the accused “L” series tractors and for how much. The documents also included customer lists and files, which would have shown to whom offers for sale were made, letters to and from Gamut Trading’s dealers, and other documents relating to Gamut’s marketing efforts. ID at 38. The ALJ found that the destruction of these documents violated the requirement in paragraph VI(A) of the cease and desist orders that respondents “shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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.” ID at 39. In addition, the ALJ found that, in January of 1999, the Gamut respondents sold the computer containing files on receivables, payables, payroll, and invoice information that had been used to generate the Gamut respondents’ 1997 and 1998 financial statements. He concluded that the sale of the computer, which effectively destroyed those files, is a further violation of the record keeping requirements of the cease and desist orders, because the Gamut respondents ought to have been aware of their obligation to maintain the records contained in the computer files. ID at 39.

b. Arguments of the Parties

The Gamut respondents argue that, since Customs permitted the importation of the accused “L” series tractors, those tractors cannot be infringing and, therefore, the sales in question were not subject to the record keeping and reporting requirements of the cease and desist orders.⁵⁶

c. Analysis and Conclusion

The substance of the Gamut respondents’ reports to the Commission as well as the fact of their destruction of most company records during the pendency of this enforcement proceeding are well documented and have never been denied. The Gamut respondents have given only two justifications for their actions: (1) the documents were destroyed because Gamut Trading supposedly went out of business,

⁵⁶ RP at 9.

ceased all operations, and therefore did not need the documents anymore,⁵⁷ and (2) there is no violation of the reporting and record keeping requirements because the tractors at issues are not infringing. With respect to the first justification, the ALJ found that Gamut Trading is still a legal business entity in California.⁵⁸ Even if it were not, however, the fact that a business shuts down is not a justification for destroying records that are otherwise required by law to be maintained (e.g., tax records). Given our prior determination not to review the ALJ's conclusion that the accused "L" series tractors are infringing and violate the cease and desist orders, we further determine not to review the ALJ's conclusion that the failure to report such sales and the destruction of company records concerning such sales constituted additional violations of the cease and desist orders.

C. The ALJ's Finding of No Violation With Respect to "B" Series Tractors

1. The ID

The ALJ found that, in contrast to the "L" series accused tractors, none of the "B" series accused tractors bear the "KUBOTA" trademark anywhere on them at the time of their importation. This conclusion is based on (1) complainants' stipulation that "[n]one of the tractors identified with a 'ZB' prefix on Gamut Trading Co., Inc., Price Lists, bearing production numbers GE0003-55 or Gamut Trading Co., Inc. invoices bearing production numbers GE00056-152 have an hour meter," ID at 20, *citing* Joint Stipulation of Facts at ¶ 30; and (2) the Commission's instruction that complainants have the burden of demonstrating any violation of the cease and desist orders. ID at 20.

The cease and desist orders define "covered product" as "agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark 'KUBOTA' (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner." Cease and Desist Orders at ¶ I(H). The ALJ reasoned that because complainants have not shown that the accused "B" series tractors bear the "KUBOTA" trademark at the time of importation, and in light of Customs' finding that tractors that do not bear the "KUBOTA" trademark at the time of importation are not infringing, complainants have not established that the accused "B" series tractors are "covered product" within the meaning of the cease and desist orders. ID at 30. Accordingly, he found no violation of paragraph III(A) of the orders.

The ALJ also rejected complainants' argument that there is contributory infringement involving the accused "B" series tractors in that the Gamut respondents induced others to infringe. He reasoned that, although the orders prohibit sale, marketing, distribution or transfer of tractors within the United States, those prohibitions apply only to "imported covered product." Based on his finding that the accused "B" series tractors are not "imported covered product" because they did not infringe the "KUBOTA" trademark at the time of importation, the ALJ found that there was no act of direct infringement. Citing court decisions, he further found that there can be neither inducement of infringement nor contributory infringement in the absence of direct infringement. ID at 31-32.

The ALJ noted that, in its opinion in the original investigation, the Commission stated:

⁵⁷ See, e.g., CEX 35 at 23-27 and CEX 36 at 184-187 (DePue Deposition Transcript); CEX 37 at 97-98 (DuPuy Deposition Transcript).

⁵⁸ ID at 5-6.

The unlawful act defined by section 337 is the “importation into the United States, the sale for importation in to the United States, or the sale within the United States after importation” of an article that infringes a registered trademark. 19 U.S.C. § 1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels [and thereby eliminate the material difference that formed the basis for the finding of infringement].⁵⁹

The ALJ interpreted this passage to mean that the only relevant point in time for determining infringement for purposes of identifying “imported covered product” within the meaning of the cease and desist orders is at the time of importation.

He therefore rejected complainants’ argument that, even though the accused “B” series tractors may not have borne the “KUBOTA” trademark at the time of importation, the Gamut respondents infringed because they used the Kubota trademark extensively in connection with the advertising and sale of those tractors, which, complainants contend, is sufficient to establish infringement under general trademark law. ID at 32. The ALJ also rejected complainants’ argument that the Gamut respondents have violated the cease and desist orders by inducing their dealers to infringe the “KUBOTA” trademark by encouraging the resale of tractors the Gamut respondents sell and by supplying their dealers with counterfeit “KUBOTA” labels with instruction to affix the labels to the accused tractors. ID at 33-34. Finally, the ALJ rejected complainants’ argument that the Gamut respondents are liable for contributory infringement by the offer for sale of infringing KBT/Zen-Noh tractors. ID at 34-35.

In the ALJ’s view, these general principles of trademark law do not apply in the context of section 337, unless there has been a prior showing that the accused products are “imported covered product” within the meaning of the Commission’s cease and desist orders. As previously noted, the ALJ found that there must be an act of direct infringement with respect to the accused goods *at the time of importation* in order for the accused products to be covered by the Commission’s analysis. ID at 35. Accordingly, he expressly stated that he was *not rejecting* complainants’ arguments that the actions taken by the Gamut respondents after importation of the accused “B” series tractors constituted infringement under general trademark law. Rather, he was simply making no finding on those issues because he found that they are irrelevant in the context of this enforcement proceeding absent a showing that the accused “B” series tractors are “imported covered product.” ID at 33 n.21.

2. Arguments of the Parties

a. Complainants’ Arguments

Complainants argue that the ALJ erred in concluding that only tractors that are infringing at the time of importation are “covered product” within the meaning of the cease and desist orders. They contend that section 337 is intended to reach a broad range of unfair activities related to trade and that, consistent with this intent, the Commission has not limited its jurisdiction to find a violation of section 337 in the first instance to articles that infringe an intellectual property right at the time of importation. In particular, complainants cite several cases for the proposition that the Commission has found violations of section 337

⁵⁹ USITC Pub. 3026, Commission Opinion at 9.

based on conduct that occurs after a non-infringing importation.⁶⁰ In addition, complainants argue that there is no reason why the scope of the Commission's remedial authority under a cease and desist order must be limited by Customs' interpretation of an exclusion order, since the Commission can address cease and desist orders to purely domestic activities.⁶¹

Complainants contend that the ALJ erred in reading the Commission Opinion in the original investigation to require that a tractor be infringing at the time of importation in order to violate section 337. They note that, contrary to the ALJ's conclusion, in the opinion in the original investigation the Commission used the term "or" in referring to infringement at the time of importation *or* at the time of sale. Moreover, they contend that the ALJ has taken the Commission's statement out of context. Consequently, complainants assert that any reliance on the quoted language to support the finding that the "B" series tractors are not covered product is legally erroneous.⁶²

Complainants further argue that, after reversing the ALJ's finding that the "B" series tractors are not covered products, the Commission should proceed, based on the record developed by the ALJ, to rule on complainants' claims of infringement, contributory infringement, and induced infringement with respect to the "B" series tractors which the ALJ declined to reach. In this regard, complainants contend that a finding of violation with respect to "B" series tractors is warranted because the Gamut respondents are adjudicated infringers and are therefore under a heightened duty to avoid infringement. Under this "safe distance rule," complainants contend that the Gamut respondents were required to avoid all infringing activities, even if that meant somewhat handicapping their business operations. Rather than staying "several healthy steps" away from infringement, complainants argue that the Gamut respondents deliberately violated the cease and desist orders by importing "B" series KBT/Zen-Noh tractors, using the "KUBOTA" trademark in connection with sales of those tractors, and encouraging their customers to affix counterfeit "KUBOTA" labels to the tractors. They assert that the ALJ's failure to apply the "safe distance rule" warrants reversal of the ID on legal and policy grounds.⁶³

While complainants agree with the ALJ's conclusion that there can be no contributory infringement without direct infringement, they argue that the ALJ erred in requiring that such direct infringement occur at the time of importation and thereby erroneously failed to find that the Gamut respondents violated the cease and desist order by contributorily infringing the "KUBOTA" trademark through their activities with respect to the accused "B" series tractors.⁶⁴ Complainants argue that contributory infringement exists where one party intentionally induces another to directly infringe a trademark or continues to supply a product to one whom it knows or has reason to know uses the product to engage in trademark infringement. They assert that the ID, together with the record from the original investigation, contains sufficient findings

⁶⁰ CP at 17-19.

⁶¹ CP at 20-21.

⁶² CP at 24-25.

⁶³ CP at 21-24.

⁶⁴ CP at 25.

of fact to support a Commission finding that the Gamut respondents' acts satisfy both prongs of this test.⁶⁵

In particular, they contend that the record demonstrates that: (1) the Gamut respondents knew their dealers would not purchase tractors bearing the Zen-Noh name and therefore told their dealers that Zen-Noh tractors are "KUBOTA" tractors and encouraged them to tell their customers the same; (2) respondents identified the accused "B" (and "L") series tractors on their promotional materials and invoices as "Zen-Noh (Kubota)"; (3) respondents sold the accused "B" series tractors to dealers without any brand identifying labels on the hoods of the tractors and later provided the dealers with counterfeit labels bearing the "KUBOTA" trademark and instructed them where to affix the labels on those tractors; and (4) respondents' dealers followed their instructions by affixing the labels to the accused "B" series tractors and selling those tractors to their own customers as "KUBOTA" tractors. In complainants' view, these facts support a finding of direct infringement by respondents' dealers and contributory infringement by respondents themselves. Moreover, complainants contend, because the Gamut respondents encouraged their dealers to infringe the "KUBOTA" trademark, they are liable for any injury caused by virtue of their contribution to the confusion and deception of the ultimate consumers.⁶⁶

b. Arguments of the Staff

Like complainants, the staff argue that the Commission should review and reverse the ALJ's finding of no infringement with respect to the accused "B" series tractors on both legal and policy grounds.⁶⁷ As a policy matter, they argue that if the Commission were to let stand the ID, respondents that have violated section 337 by infringing a trademark could easily circumvent Commission remedial orders by simply applying the trademark to the goods after importation. Such conduct, they contend, is exactly what cease and desist orders are designed to stop. Put differently, it is because the Commission sometimes needs to address post-importation conduct in order to fully remedy a violation of section 337 that it has the authority to issue cease and desist orders in addition to exclusion orders.⁶⁸ They cite to several previous Commission cease and desist orders that have specifically addressed conduct that occurs only after importation.⁶⁹

The staff also argue that the ALJ's restrictive interpretation of the term "covered product" is contrary to law. Staff assert that trademark infringement is not committed by a product, but rather by a person who uses the mark without authority in connection with some act of commerce (*i.e.*, a sale, offer for sale, distribution or advertising of goods or services) in a manner that is likely to cause confusion. As a

⁶⁵ CP at 26.

⁶⁶ CP at 26-29.

⁶⁷ The staff argue that the ALJ's finding of no violation with respect to "B" series tractors may have been based, in part, on a misunderstanding of the position of the staff. While staff took the position that there was no violation with respect to sales of "B" series tractors prior to March 10, 1998, they supported a finding of violation thereafter. The ID, however, states that the staff did not support a finding of violation with respect to any "B" series tractors. SP at 11; ID at 30.

⁶⁸ SP at 17-18, 22, 26.

⁶⁹ SP at 23-25.

consequence, merely advertising an infringing mark is an act of infringement under the Lanham Act.⁷⁰ Thus, although both section 337 and the cease and desist orders at issue refer to products “that infringe” a trademark, the staff contend that this word choice was not intended to limit the scope of protection from trademark infringement that the Lanham Act affords to owners of federally-registered trademarks.⁷¹ In addition, staff argue that the ALJ’s reliance on the Commission statement concerning infringement at the time of importation is misplaced, because the statement refers to both the time of importation or the time of sale. The Commission’s original determination dealt with a situation where goods that were infringing at the time of importation could be rendered non-infringing by certain actions taken later (*viz*, the replacement of Japanese-language labels with English-language labels), and found that actions taken after importation could not support a finding of no infringement where the goods were infringing at one of the relevant times (the time of importation). Similarly here, the staff contend, the fact that the accused “B” series tractors were not infringing at the time of importation cannot support a finding of no infringement if the goods were infringing at the time of sale within the United States.⁷²

Staff also argue that the ALJ’s reliance on Customs’ advice to the Gamut respondents that tractors “which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order . . . may be imported” was legally incorrect. As noted above, the staff contend that infringement at the time of importation is not a controlling factor with respect to violation of the cease and desist orders.

The staff further argue that the Commission should find that the Gamut respondents’ sales of accused “B” series tractors were in violation of the cease and desist orders as of the date when they started using the “KUBOTA” trademark in their sales literature. In staff’s view, the evidence shows that the Gamut respondents began using the “KUBOTA” trademark on advertising materials on or about March 10, 1998, and used the mark in connection with the sale of 15 accused “B” series tractors on or after that date.⁷³ Staff further argue that, inasmuch as the Gamut respondents’ sale of “B” series tractors after March 10, 1998, violated the cease and desist orders, the Commission should also review and reverse the ALJ’s failure to find that the Gamut respondents violated the reporting and record keeping requirements with respect to the “B” series tractors.⁷⁴ The staff do not seek reversal of the ALJ’s finding with respect to accused “B” series tractors sold before March 10, 1998, contending that there is no evidence in the record to suggest that the Gamut respondents used the “KUBOTA” trademark in connection with such sales.⁷⁵

c. Respondents’ Arguments

Respondents object to complainants’ characterizing them as “adjudicated infringers.” They

⁷⁰ SP at 18-19.

⁷¹ SP at 19-20.

⁷² SP at 20-22.

⁷³ SP at 27-28. Because staff’s list includes one accused sale later dropped by complainants, there were actually 14 sales of accused “L” series tractors after March 10, 1998. *See* CP at 29 n.13.

⁷⁴ SP at 29.

⁷⁵ SP at 30 n.15.

contend that until the Commission issued its remedial orders, it was legal to import “KUBOTA” tractors and that since that time they have not imported any “KUBOTA” tractors and therefore have not infringed.⁷⁶ They also argue that they took the required “energetic steps” to avoid infringement by pursuing a FOIA request to get Customs to identify the specific infringing tractor models covered by the Commission’s exclusion order.⁷⁷

3. Analysis and Conclusion

We agree with complainants and the staff and determine to review and reverse the ID’s finding that the accused “B” series tractors are not “covered product” because they were not infringing at the time of importation. We further determine that the Gamut respondents violated the cease and desist orders when they used the “KUBOTA” trademark in connection with their sales of 16 accused “B” series tractors on seven days on or after January 12, 1998, and, consequently, that they violated the reporting and record keeping requirements with respect to those tractors as well. Because the record of the enforcement proceeding contains sufficient evidence to support these conclusions and because the parties have already fully briefed these issues, we see no need either to remand this matter to the ALJ for further findings of fact or to seek further briefing from the parties prior to our resolution of these issues.

a. The Definition of “Covered Product”

We agree with complainants and the staff that the ALJ erred, as a matter of law, in concluding that the accused tractors had to bear the “KUBOTA” trademark at the time of importation in order for their subsequent sale to violate the cease and desist orders.⁷⁸

In reaching his erroneous conclusion, the ALJ appears to have relied on a statement from the Commission opinion in the original investigation. In the passage at issue, the Commission is discussing the KBT model L200, a tractor that is identical to the corresponding KTC L200 with only one exception: the KBT model has warning and instructional labels in Japanese rather than in English. The ALJ found that the KBT L200 was not infringing, because model-appropriate English-language labels could be obtained in the United States and used to eliminate the sole material difference between the KBT and KTC models. In reversing that conclusion, the Commission said:

In our view, the labels attached to a tractor at sale are not non-physical or aftermarket items like the availability of replacements parts, service, or operator’s manuals, but rather

⁷⁶ RR at 3-4.

⁷⁷ RR at 3.

⁷⁸ Vice Chairman Miller bases her decision to review Judge Luckern’s ID regarding the “B” series tractors on policy grounds. In the context of this enforcement proceeding, she finds that the respondents’ actions constitute a clear effort to circumvent the Commission’s cease and desist orders. She believes that Judge Luckern’s interpretation would permit circumvention by these respondents and could encourage similar behavior by respondents subject to other Commission orders. She does not consider Judge Luckern’s determination regarding the “B” series tractors to be legally erroneous. Thus, she does not join the following discussion finding legal error, including the discussion of prior Commission determinations that found violations of section 337 based on post-importation conduct.

an integral part of the tractor, *i.e.*, a physical difference. Accordingly, we agree with complainants and the IA that the fact that a KBT L200 could be rendered non-infringing by affixing English-language KTC L200 labels after importation does not preclude a finding of material differences. The unlawful act defined by section 337 is the “importation into the United States, the sale for importation into the United States, or the sale within the United States after importation” of an article that infringes a registered trademark. 19 U.S.C. § 1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of its importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels.⁷⁹

We do not believe that this passage supports the proposition for which the ALJ cites it, *i.e.*, that accused tractors must be infringing at the time of importation in order to violate the cease and desist orders in this case. As complainants and the staff point out, consistent with the language of section 337, the Commission stated that infringement should be determined at the time of importation *or at the time of sale*. In the case of the L200, the question was whether a KBT tractor that was materially different from the comparable KTC model at the time of importation could nevertheless be considered non-infringing because, at some time after importation, someone could replace its Japanese-language labels with English-language labels and thereby eliminate the material difference. The Commission found that infringement at the time of importation was sufficient to establish a violation of section 337, even if the material difference no longer existed at the time of sale.

This case, by contrast, presents the reverse situation: the accused “B” series tractors do not have any “KUBOTA” trademark on them at the time of importation and therefore are not infringing at the time of importation, but are alleged to become infringing when the “KUBOTA” trademark is used in connection with their domestic sale and/or when counterfeit “KUBOTA” labels are placed on them. Consistent with the Commission’s reasoning in the original investigation, we believe that the appropriate conclusion is that infringement at the time of sale is sufficient to render the accused “B” series tractors “covered product” within the meaning of the cease and desist orders.

This result is consistent with Commission practice. In previous cases, the Commission has found violations of section 337 based on post-importation conduct and has issued remedial orders addressed to wholly domestic conduct. One such case is *Certain Chemiluminescent Compositions and Components Thereof and Methods of Using, and Products Incorporating, the Same*.⁸⁰ In that case, respondent Prolufab manufactured glow necklaces in France and sold them to the domestic importer Crazy Light, which resold them to respondent Nite Lite for distribution to U.S. customers. Acting on the assurances of Prolufab, Nite Lite falsely advertised and promoted the necklaces as containing complainant’s glowing chemical “CYALUME.” The Commission found direct trademark infringement by Nite Lite by the use of the “CYALUME” trademark in connection with the sale, offering for sale, and advertising of the necklaces, and found contributory infringement by Prolufab by virtue of its false assurances which induced and

⁷⁹ Commission Opinion at 9.

⁸⁰ Inv. No. 337-TA-285, USITC Pub. 2370 (Mar. 1991).

foreseeably resulted in the direct trademark infringement.⁸¹ In so concluding, the Commission specifically found that the record did not establish that the Prolufab necklaces infringed complainant's trademark at the time of importation or sale for importation, but rather became infringing sometime after importation.⁸² It reasoned that:

a narrow focus exclusively on the infringing character of the articles at the time of importation would ignore the fact that the new §337 subsection in the alternative expressly applies not only to the moment of importation, but also to the sales for importation, and sales after importation within the United States; the alternative provision establishes that the directly infringing character of the sale of the articles under investigation may be established subsequent to their importation.⁸³

Similarly, in *Certain Hardware Logic Emulation Systems and Components Thereof*,⁸⁴ the Commission found that respondents' emulation system directly infringed complainant's patents and that respondents' software contributorily infringed the patents, because respondents' system was inoperable without the software. In addition to an exclusion order, the Commission issued a cease a desist order prohibiting a wide range of domestic conduct, including domestic sale, lease, loan, distribution, transfer (including electronic transfer), or advertising of imported covered product (defined to include infringing emulation systems, components, and software); aiding or abetting other entities in the importation, sale for importation, or sale after importation, lease, loan, duplication, transfer or distribution of covered product; use, duplication or transfer in the United States (including electronically) of software defined as covered

⁸¹ *Id.*, Initial Determination (March 22, 1989) at 31, 42-45.

⁸² *Id.* at 45.

⁸³ *Id.* at 46 n.13. See also *Sealed Air Corp. v. U.S. Int'l Trade Comm'n*, 645 F.2d 976, 986 (C.C.P.A. 1981) ("the sale in the United States of a foreign manufacturer's articles, by the 'owner,' 'importer,' or 'consignee' of those articles is clearly within the subject matter jurisdiction of the ITC under § 1337(a)"); *Certain Apparatus for Installing Electrical Lines and Components Therefor*, Inv. No. 337-TA-196, USITC Pub. 1858 (May 1986), Initial Determination at 12-13 and Commission Opinion at 5, 7 (finding violation of section 337 based on inducement of infringement where respondents encouraged purchasers to use together imported drill bits and domestically-produced coupling devices which, in combination, infringe complainants' patent for a drill with detachable coupling device); *Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation*, Inv. No. 337-TA-99, USITC Pub. 1246 (May 1982), Commission Opinion at 4-5, 7 (finding a violation of section 337 where respondents purchased sandwich panel inserts from the importer and, by reselling them domestically to purchasers who used them in accordance with the method covered by complainants' patent, contributorily infringed that patent; cease and desist orders prohibit importers, *inter alia*, from engaging in the wholly domestic acts of false advertising and passing off.); *Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-89, USITC Pub. 1132 (Apr. 1981), Commission Opinion at 7, 15-16 (Oct. 30, 1980) (finding a violation of section 337 where respondent's technical assistance enabled the purchaser of an imported rolling mill and domestic caster to infringe a patent covering a rolling mill and caster combination).

⁸⁴ Inv. No. 337-TA-383, USITC Pub. 3089 (Mar. 1998).

product; and furnishing technical support and other services to customers relating to covered product.⁸⁵ In adopting this wide-ranging cease and desist order, the Commission explained:

Our remedial authority extends to the prohibition of all acts reasonably related to the importation of infringing products and is not limited to articles that directly infringe a United States patent. As indicated above, it is not a requirement of section 337 that the unfair trade practice to which the remedial order applies originate outside of the United States. In addition, unfair trade practices can be reached by section 337 when such practices involve a “sale within the U.S. after importation” by an importer or an owner.⁸⁶

Based on this Commission practice, which was not altered by the Commission’s opinion in the original investigation, we determine to review and reverse the ALJ’s conclusion that the accused “B” series tractors are not “covered product” within the meaning of the cease and desist orders because they did not bear the “KUBOTA” trademark at the time of importation. We also note that this interpretation of the scope of the cease and desist orders prevents adjudicated infringers from circumventing Commission cease and desist orders by simply affixing the infringing trademark to the relevant goods after importation and then selling those goods with impunity.

b. Direct Infringement

The Lanham Act imposes liability for infringement of a registered trademark on “any person” who “uses” an infringing mark in interstate commerce “in connection with the sale, offering for sale, distribution or advertising of any goods or services” when such use is likely to cause confusion.⁸⁷ Consistent with this language, courts have held that merely advertising an infringing mark is itself an act of infringement, even if the mark does not appear on the alleged infringer’s goods.⁸⁸ Moreover, it does not matter whether the advertising at issue is written, as on a sign or in a newspaper, or oral, as in a sales presentation or television or radio advertising.⁸⁹

⁸⁵ *Id.*, Commission Opinion at 25-34. See also, e.g., *Certain Plastic Food Storage Containers*, Inv. No. 337-TA-152, USITC Pub. 1563 (Aug. 1984), Commission Opinion at 5 (cease and desist orders directed to domestic acts of false advertising and passing off); *Certain Nut Jewelry and Parts Thereof*, Inv. No. 337-TA-229, USITC Pub. 1929 (Nov. 1986), Commission Opinion at 21 (cease and desist orders directed to domestic activity including selling improperly marked jewelry and misrepresenting the jewelry’s origin).

⁸⁶ USITC Pub. 3089 at 27 (footnotes omitted).

⁸⁷ 15 U.S.C. § 1114(1) (emphasis added).

⁸⁸ See, e.g., *Miller Brewing Co. v. Carling O’Keefe Breweries of Canada, Ltd.*, 452 F. Supp. 429 (W.D.N.Y. 1978); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977), cert. dismissed, 434 U.S. 1052 (1978); see generally McCarthy §25:26 at 25-46 - 25-47.

⁸⁹ See 3A R. Callmann, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.08 (4th ed. 1994) (“There is no limitation on the manner in which the infringer uses the mark; it may be found on labels, signs, prints, packages, wrappers, receptacles or advertisements . . . or it may be referred to orally (continued...)”).

Because he found that only infringement at the time of importation was relevant in this enforcement proceeding, the ALJ did not reach the issue of whether the Gamut respondents' advertising and promotional activities with respect to the accused "B" series tractors after importation could constitute infringement of the "KUBOTA" trademark in violation of the cease and desist orders. Because we find that the accused "B" series tractors are "covered product," however, we have reached this issue.⁹⁰ Based on the statute and case law described, we concur with complainants and the staff that respondents' use of the "KUBOTA" trademark in advertising and promotional materials associated with the domestic sale of the accused "B" series tractors constitutes infringement of the "KUBOTA" trademark, and therefore a violation of the cease and desist orders.

As discussed above, the ALJ concluded that none of the accused "B" series tractors bears the "KUBOTA" trademark anywhere on them at the time of importation.⁹¹ He further found, however, that the Gamut respondents represented to their customers that "KUBOTA" and KBT/Zen-Noh tractors are the same thing and have identified KBT/Zen-Noh tractors as "KUBOTA" tractors in their sales literature. He also found that the reason the Gamut respondents represented to their dealers that the Zen-Noh tractors they were selling were in fact "KUBOTA" tractors was because they realized that their dealers would not purchase tractors bearing the unfamiliar Zen-Noh name.⁹² None of the parties disputes these factual findings in their petitions for review. We concur with complainants and the staff that these facts, by themselves, are sufficient to establish that the Gamut respondents directly infringed the "KUBOTA" trademark when they used the "KUBOTA" mark in connection with their sale of KBT/Zen-Noh tractors that did not bear the trademark at the time of sale.

There is a difference of opinion between complainants and the staff, however, as to the sufficiency of the evidence to establish infringement through advertising with respect to the sales of all 93 accused "B" series tractors or only some of those sales. Staff contend that the evidence shows that, for a period of about one year after the cease and desist orders were issued, the Gamut respondents terminated their previous practice of using the "KUBOTA" trademark in the invoices and sales literature for both "B" and "L" series tractors and identified such tractors only as "Zen-Noh" tractors in such documents. Staff contend that, on or about March 10, 1998, the Gamut respondents began referring to the accused "L" and "B" series tractors in their invoices and sales literature as "ZEN-NOH (Kubota)" tractors. Thus, staff assert that there is no evidence that the Gamut respondents used the "KUBOTA" trademark in sales or advertising materials for accused "B" series tractors prior to March 10, 1998, and that any finding of infringement

⁸⁹ (...continued)
in sales talks or radio advertisement."); *Lindy Pen Co. v. Bic Pen Corp.*, 796 F.2d 254, 256-57 (9th Cir. 1986) (finding infringement by use of similar mark on same product in telephone sales where purchasers could not see the actual product at the time they ordered).

⁹⁰ To be "covered product," an accused tractor must be materially different from the closest comparable KTC model. As in the case of "L" series accused tractors, the record establishes that the "B" series accused tractors at issue in this enforcement proceeding are identical in all relevant respects to "B" series KBT models found to be infringing in the original investigation. ID at 9-10. Accordingly, we find that the accused "B" series tractors are all materially different from the closest comparable KTC models.

⁹¹ ID at 20.

⁹² ID at 63, FF 2, and 69-70, FF 24.

should cover only sales on or after that date.⁹³ By the staff's count, the Commission should find 15 infringing sales of "B" series tractors on seven different days (only two of which are days on which no "L" series tractors were sold).⁹⁴

Complainants assert that staff has failed to consider evidence of respondents' use of the "KUBOTA" trademark in connection with the sale and marketing of accused "B" series (as well as "L" series) tractors prior to March 10, 1998. Complainants rely, first, on a list of "Unsold Tractors in Stock" dated January 12, 1998, that was forwarded to complainants' private investigator by respondents.⁹⁵ This document uses "ZEN-NOH (Kubota)" to identify both "B" and "L" series tractors being offered for sale.⁹⁶ Second, complainants point to additional sales and promotional literature not referenced by the staff, which they contend uses the "KUBOTA" trademark. The referenced documents are a package of information prepared for dealers concerning tractors, implements, parts service, and other services available from Gamut Trading.⁹⁷ The documents include price lists for tractors dated October 1 and October 23, 1997. Unlike the later price lists referenced by the staff, these lists do not identify the accused tractors as "ZEN-NOH (Kubota)," but only as "Zen-Noh." The information is, however, printed on Gamut Trading stationery, which lists, at the bottom, a number of brands of tractors, including "KUBOTA." Subsequent pages dealing with implements and parts refer specifically to "KUBOTA" implements and parts. Finally, complainants rely on the declaration of their private investigator, Mr. Callahan, who contacted respondents and posed as a potential purchaser of used tractors.⁹⁸ Mr. Callahan indicated that in telephone conversations with Mr. DuPuy on both December 30, 1997, and January 20, 1998, DuPuy orally assured him that "Zen-Noh" and "KUBOTA" tractors are the same thing; that there is no difference between the

⁹³ SR at 3-4; Commission Investigative Staff's Direct Position Statement (Mar. 26, 1999) at 17 (proposed FF 61-62). In taking this position, staff relied on three pieces of evidence. The first is an exhibit consisting of Gamut Trading price lists produced in discovery. CEX 42. These price lists bear various dates ranging from March 12, 1997, through September 30, 1998. They show the accused tractors were identified as "Zen-Noh" until March 10, 1998, after which they were identified as "ZEN-NOH (Kubota)." The second referenced exhibit is CEX 50, a collection of Gamut Trading sales invoices produced through discovery. Most of the invoices refer to "Zen-Noh" tractors. Two such invoices refer to "KUBOTA" tractors, but are dated prior to the issuance of the cease and desist orders (Jan. 23 and Jan. 30, 1997). Only three of the invoices refer to "ZEN-NOH(Kubota)" tractors (dated March 25, April 6, and June 1, 1998), and they reflect only sales of "L" series accused tractors. The third referenced item is the transcript of the DePue deposition, CEX 35 at 73-74. In his deposition, Mr. DePue testified that during 1997, when Gamut Trading was referring to the accused tractors as "Zen-Noh" tractors, consumers were confused and wanted to know who actually made the tractors, so respondents added the parenthetical reference to "Kubota" to clarify who was the original manufacturer of the tractors.

⁹⁴ Because complainants withdrew one of the sales at issue, *see* CP at 29 n.13, the correct count according to the staff's position would be 14 infringing sales on 6 days.

⁹⁵ CR at 13.

⁹⁶ CEX 16.

⁹⁷ CEX 51.

⁹⁸ CEX 2 at ¶¶ 7 and 10.

tractors; that the paperwork for sale of the Zen-Noh tractors would not say “KUBOTA” because “I got a stupid order from the court says I can’t”; and that “KUBOTA” labels would be sent separately and could be affixed to the tractors by the dealer. Complainants contend that this evidence, collectively, demonstrates that it has been respondents’ consistent practice, since issuance of the cease and desist orders, to represent to their customers, both orally and in writing, that the accused tractors they were selling were “KUBOTA” tractors, which constitutes infringement.⁹⁹ Thus, complainants would have the Commission find, in addition to the infringing sales identified by the staff, an additional 78 infringing sales on 23 days (including an additional 10 days on which no “L” series tractors were sold).

We find that respondents infringed the “KUBOTA” trademark by using the mark in written advertising and sales related materials beginning at least as early as January 12, 1998. While we believe that the evidence could support complainants’ theory that respondents have been using the “KUBOTA” mark in connection with their sales of accused tractors continuously since the cease and desist orders were issued, we have decided not to make such a finding because we believe the evidence relied on is not as strong as the evidence pertaining to the period beginning January 12, 1998. First, the October 1997 promotional materials, while they do use the “KUBOTA” trademark, use it principally on pages dealing solely with parts and implements, which are not covered by the cease and desist orders. The only use of the mark on pages discussing tractors is in the standard print of the stationery itself, in a list of brand names, and is not associated with the specific Zen-Noh models offered for sale. Thus, with respect to sales made before January 12, 1998, we would have to rely solely on evidence that the Gamut respondents have used the “KUBOTA” trademark orally in sales-related conversations, all of which evidence is derived from the activities of complainants’ private investigators.¹⁰⁰ Accordingly, we find that respondents violated the cease and desist orders by making 16 infringing sales of accused “B” series tractors on seven days (including two days on which no “L” series tractors were sold). We further find, for the same reasons given by the ALJ with respect to the accused “L” series tractors, that respondents have violated the reporting and record keeping requirements of the cease and desist orders with respect to such sales.

Thus, we find a combined total of 188 infringing sales of accused “L” and “B” series tractors on 58 violation days.

c. Contributory Infringement

Contributory infringement occurs when one party (i) intentionally induces another to directly infringe a trademark, or (ii) continues to supply a product to one whom it knows or has reason to know uses the product to engage in trademark infringement.¹⁰¹ Complainants argue that the ALJ erred in not

⁹⁹ CR at 13-14.

¹⁰⁰ This includes both the evidence obtained by complainants’ investigators when they posed as dealers interested in purchasing tractors from Gamut, and also evidence from Pro Truck, a dealer to which the investigators were referred by Gamut. As discussed *infra*, the latter, while probably more disinterested than the investigators’ testimony, is deficient in certain other respects.

¹⁰¹ *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 U.S. 844, 853-54 (1982); *Certain Chemiluminescent Compositions*, USITC Pub. 2370, Commission Opinion at 3.

reaching the issue of contributory infringement by both the “L” and “B” series accused tractors.¹⁰² They argue that by selling the accused tractors to their dealers without any brand identifying labels on the hoods of the tractors and later providing them with “KUBOTA” labels and instructions as to where to affix them, respondents induced their dealers to directly infringe the “KUBOTA” trademark.¹⁰³ Although the staff appear to believe that the evidence would support a finding of contributory infringement,¹⁰⁴ they do not expressly challenge the ALJ’s failure to reach this issue in their petition for review.¹⁰⁵

A finding of contributory infringement requires an initial showing of direct infringement.¹⁰⁶ Thus, in order to find that the Gamut respondents contributorily infringed the “KUBOTA” trademark, the Commission must first find that respondents’ customers directly infringed the mark.

The ALJ found that the Gamut respondents have provided their customers with sticker labels bearing the “KUBOTA” trademark and instructed those customers regarding how to place the labels on the KBT/Zen-Noh tractors they purchased.¹⁰⁷ He also found that the Gamut respondents encouraged their dealers who purchased KBT/Zen-Noh tractors to inform their own customers (the actual end users) that those tractors were actually manufactured by KBT.¹⁰⁸ He did not, however, make any findings of fact that would support a finding that respondents’ customers infringed the “KUBOTA” trademark, *i.e.*, by doing the things they were encouraged to do.

As evidence of direct infringement by respondents’ dealers, complainants refer to the experience of Pro Truck, a Florida truck parts dealer that purchased four tractors from respondents in late 1997. Mr. Wilks, the proprietor of Pro Truck, was told by his tractor salesman, Mr. Livingston, that Livingston had ordered four “KUBOTA” tractors from Gamut Trading. When the tractors arrived, Wilks noticed that they were freshly painted and had no “KUBOTA” emblems on them. He found the labels in a separate cardboard box and attached them to the tractors himself. He did not notice any instructions, but said it was clear to him where the labels belonged. When he asked Livingston why the paperwork referred only to Zen-Noh rather than “KUBOTA,” Livingston indicated that there was some legal reason why Gamut Trading could not sell the tractors if it wrote “KUBOTA” on the documents. Wilks sold these tractors to consumers as “KUBOTA” tractors.¹⁰⁹

There is considerable evidence of record to support the ALJ’s findings with respect to Gamut’s

¹⁰² CP at 25-26.

¹⁰³ CP at 27.

¹⁰⁴ See Commission Investigative Staff’s Direct Position Statement (Mar. 26, 1999) at 26, 28 (referring to “induced” infringement).

¹⁰⁵ SP at 27.

¹⁰⁶ ID at 31.

¹⁰⁷ ID at 63, FF 2, and at 69-70, FF 24.

¹⁰⁸ ID at 69, FF 23.

¹⁰⁹ CEX 34 (Wilks Deposition) at 24-26, 42-49, 57-58, 64.

sales practices and its use of “KUBOTA” labels, including the deposition testimony of Messrs. DePue and DuPuy and the statements of complainants’ private investigators, who posed as tractor dealers and prospective Gamut Trading customers. The experience of Pro Truck, however, is the only direct evidence on the record of trademark infringement by the dealers with whom the Gamut respondents do business. Thus, any conclusion about what Gamut’s other customers did with the labels they received and how they described the KBT/Zen-Noh tractors to their customers would be an inference based on Pro Truck’s experience and the Gamut respondents’ conduct.

Although we believe there is some evidence to support a finding of contributory infringement with respect to both the “B” series and “L” series accused tractors, we do not make such a finding for the following reasons. With respect to the accused “L” series tractors, since we have already found direct infringement with respect to all such sales, an additional finding of contributory infringement would not add to the number of infringing sales or the number of violation days. With respect to the accused “B” series tractors, a finding of contributory infringement would affect the number of infringing sales and the number of violation days, since such a finding would apply to all sales of accused “B” series tractors, including those sold before January 12, 1998. However, as in the case of direct infringement with respect to those sales, the record evidence is somewhat weak. In particular, Wilks did not deal with respondents directly, but only testified as to what Livingston told him. Livingston appears to have left the country and could not be deposed. Without Livingston’s testimony, the experience of the single dealer (Pro Truck) is lacking in the kind of detail about the interaction between Gamut and its dealers that would be desirable to support a finding of contributory infringement.¹¹⁰ Accordingly, we do not make a finding of contributory infringement.

IV. REMEDY: THE APPROPRIATE CIVIL PENALTY AMOUNT

A. Background and Legal Standard

Because we have found that the Gamut respondents violated the cease and desist orders, we must also determine the appropriate amount of the civil penalty to be imposed on the Gamut respondents. As the parties have already fully briefed the remedy issues, this matter is ripe for our consideration. Unlike violation issues, the Commission considers remedy issues *de novo*, and is not bound in any way by the findings of the RD.

Subsection (f)(2) of section 337, 19 U.S.C. § 1337(f)(2), provides that:

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

Thus, the statute sets two alternate ceilings on the magnitude of the civil penalty the Commission can impose for violations of its remedial orders. The legislative history confirms that the Commission has

¹¹⁰ In addition, Wilks apparently did not receive the written instructions on how to affix the “KUBOTA” labels that complainants contend the Gamut respondents were in the habit of providing.

discretion to impose a civil penalty up to the applicable maximum amount. It also provides guidance on the goals that the Commission's authority to impose such a penalty is meant to serve and the factors that the Commission should take into consideration in setting the penalty amount. In particular, the House Report on the Trade Agreements Act of 1979, which added the civil penalty provision to section 337, notes:

The provision for a civil penalty of up to the amount of the domestic value of the articles entered, or sold, on a day in violation of the order is directed to the situation in which the violation may involve a large shipment of an articles of sufficient value so as to make a \$10,000 penalty [the original maximum] not a deterrent to the violation of the order. The 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 unintentional violations and the public interest.¹¹¹

In the two prior cases in which the Commission levied civil penalties under section 337, the Commission adopted a six factor test for assessing whether to impose a civil penalty and determining the amount of such penalty. The six factors are: (1) the good or bad faith of the respondent; (2) the injury to the public; (3) the respondent's ability to pay; (4) the extent to which respondent has benefitted from its violations; (5) the need to vindicate the authority of the Commission; and (6) the public interest.¹¹² The Commission's reliance on these factors to support its determination of the appropriate civil penalty was approved as reasonable by the Federal Circuit in the appeal of the *Magnets* enforcement proceeding.¹¹³

In this enforcement proceeding, there is no real dispute that a civil penalty should be imposed, since there is no other remedy available to the Commission for the types of violations found. Thus, the following discussion addresses each of the six factors in terms of whether they support imposition of the maximum allowable civil penalty or a lesser penalty amount.

¹¹¹ H.R. Rep. 317, 96th Cong., 1st Sess. 191 (1979). See also S. Rep. 249, 96th Cong., 1st Sess. 262 (1979); Statement of Administrative Action, 1979 U.S.C.C.A.N. (93 Stat. 144-317) 542.

¹¹² See *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 23-24, 26 (Aug. 1991) ("EPROMs"); *Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, Inv. No. 337-TA-374 (Enforcement Proceeding), USITC Pub. 3073, Commission Opinion at 12-13 (Nov. 1997) ("Magnets"), *aff'd sub nom. San Huan New Material High Tech, Inc. v. Int'l Trade Comm'n*, 161 F.3d 1347, 1362 (Fed. Cir. 1998) ("San Huan").

¹¹³ See *San Huan*, 161 F.3d at 1364-65.

B. Analysis of the Six Factors¹¹⁴

1. The Good or Bad Faith of the Gamut Respondents

a. The RD

With respect to the first factor, the good or bad faith of the respondent, the ALJ observed that respondents subject to a Commission remedial order have “an affirmative duty to take ‘energetic steps’ to do ‘everything in their power’ to assure compliance,” and that this duty not only means “not to cross the line of infringement, ‘but to stay several healthy steps away.’” RD at 42-43, *citing Magnets* at 24. In making this assessment, the ALJ relied on five factors set forth in *EPROMs* at 28-29, including whether respondent: (1) had a reasonable belief that its product was not within the scope of the Commission’s order; (2) requested an advisory opinion or clarification from the Commission; (3) provided any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation; (4) decided which products were subject to the order based on the decisions of management and technical personnel, without legal advice; and (5) satisfied its reporting requirements under the relevant Commission order.

The ALJ found that the Gamut respondents should have had a reasonable belief, at least by July 31, 1997 (the date of the first Customs letter), that “L” series tractors were within the scope of the cease and desist orders at issue. He found that the evidence “conclusively shows” that respondents sold 125 accused “L” series tractors after July 31, 1997, and that this total disregard of the Customs letter is evidence of bad faith. RD at 44-45. He found no evidence that the Gamut respondents sought an advisory opinion or clarification from the Commission after the July 31, 1997, Customs letter. RD at 45. The ALJ found that the Gamut respondents did rely on advice of counsel, and that therefore this element of bad faith was lacking. He based his conclusion on (1) the fact that counsel for the Gamut respondents has maintained throughout the enforcement proceeding that importation of the accused “L” series tractors is not a violation of the orders because the “KUBOTA” trademark appears only on a part and not on the tractor itself, and (2) the testimony of Mr. DePue that he consulted with his counsel as to whether Zen-Noh tractors infringed the “KUBOTA” trademark. RD at 45. Based on the same facts, the ALJ also found no evidence that the decision to sell accused “L” series tractors after July 31, 1998, was a management decision made without advice of counsel. RD at 45-46. Finally, the ALJ found that the Gamut respondents’ failure to report their imports of accused “L” series tractors, as well as their destruction of relevant documents, is evidence of bad faith. RD at 47. Overall, he found that, while there is evidence of bad faith in the compliance of the Gamut respondents with the cease and desist orders in issue, such evidence does not weigh in favor of imposing the maximum penalty allowable under subsection (f)(2), as argued by the complainants. ID at 47.

¹¹⁴ Commissioner Crawford notes that the methodology by which the ALJ calculated his recommended civil penalty in this proceeding is consistent with her views in *Magnets*. See USITC Pub. 3073, Dissenting Views of Commissioner Carol T. Crawford at 1-3. Because she defers to the ALJ in this regard, she does not find it necessary to join this analysis of the six factors.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred in not finding that the Gamut respondents' bad faith warrants imposition of the maximum allowable civil penalty. In particular, complainants argue that the ALJ should have (1) considered additional evidence of bad faith, and (2) found that all, rather than just some, of the five *EPROMs* factors support a finding of bad faith.

The additional evidence of respondents' bad faith which complainants contend that the ALJ ignored includes: (1) respondents' inducement of their dealers to infringe the "KUBOTA" trademark by supplying counterfeit labels and instructions on how to affix them to the accused tractors; (2) respondents' destruction of documents relevant to their importation, sale, marketing, and profits on accused tractors, which occurred one month after the enforcement complaint was served on them; and (3) respondents' filing with the Commission of false statements relating to their inventory and sales of accused tractors.¹¹⁵

With respect to inducement, they argue that respondents' practice of removing the "KUBOTA" mark from paperwork associated with sales of accused tractors and then supplying separate labels for dealers to affix was a deliberate attempt to circumvent the orders and place the risk of liability for infringement on the dealers. In particular, they rely on Mr. DuPuy's statement to complainants' investigator Mr. Callahan that "I got a stupid order from the court says I can't" use the word "KUBOTA" on any paperwork, "[b]ut I keep selling them" as evidence of deliberate conduct.¹¹⁶ They also point to respondents' testimony that they knew that the name Zen-Noh is not recognized by their customers and that the customers would purchase the accused tractors only if they knew they were "KUBOTAs."¹¹⁷

With respect to destruction of documents, complainants observe that the enforcement complaint put the Gamut respondents on notice that documents relevant to importation, offer for sale, sale and marketing of accused tractors are directly relevant to this proceeding, and that, despite such notice, and in violation of the record keeping requirement of the cease and desist orders themselves, respondents proceeded to destroy virtually all such documents in their possession one month after the enforcement complaint was served on them.¹¹⁸

Finally, complainants criticize the ALJ's failure to find that respondents' violations of the reporting requirements are evidence of bad faith, particularly in light of his finding that respondents should have known that importation of the accused tractors violated the cease and desist orders.¹¹⁹ That respondents' actions were in bad faith is further bolstered, in complainants' view, by evidence, not addressed by the ALJ, that in addition to the accused tractors, respondents continued to import and sell KBT tractors after

¹¹⁵ CP at 33-34.

¹¹⁶ CP at 34-35.

¹¹⁷ CP at 35-36.

¹¹⁸ CP at 36-37.

¹¹⁹ CP at 37-38.

the date of the cease and desist orders.¹²⁰ Complainants contend that the combination of this evidence demonstrates that respondents have acted in bad faith, particularly in light of their obligation to take “energetic steps” to avoid infringement.¹²¹

Next, complainants criticize the ALJ’s finding that the Gamut respondents’ had a reasonable belief that their conduct was outside the scope of the cease and desist orders prior to July 31, 1997. As discussed above, complainants do not view the Customs letter of July 31, 1997, as controlling on the question of when respondents knew or should have known that they were violating the orders.¹²²

Complainants also argue that the ALJ erred in finding that the Gamut respondents received an opinion of counsel prior to engaging in conduct violative of the cease and desist orders. They contend that there is no evidence to suggest that respondents received any such opinion prior to engaging in infringing activity; the opinion relied on by respondents was not competent and not an opinion on which they could justifiably have relied; even if the opinion were competent, respondents continued to import and sell accused “L” series tractors after being explicitly informed by Customs that their conduct infringed the “KUBOTA” trademark; and even if respondents did receive a competent opinion of counsel relating to importation of “L” series tractors, there is no evidence of any opinion relating to their other conduct that violated the cease and desist orders, such as selling, marketing, distributing for sale or otherwise transferring accused tractors, record keeping, or reporting.¹²³

Finally, complainants argue that the ALJ erred in finding that respondents’ decision to engage in conduct violative of the orders was based on legal advice rather than a management decision. They contend that the only legal advice that there is any evidence at all of respondents’ receiving is a conclusory, oral opinion of counsel that the accused tractors do not infringe. Because this purported advice did not address other aspects of respondents’ conduct, complainants contend that there is no record evidence that respondents made their decisions with respect to such conduct on the basis of legal advice.¹²⁴

ii. Respondents’ Arguments

Respondents contend that they have acted in good faith. They argue that they have made continuing efforts, through counsel, to ascertain what models of tractors Customs considers to be infringing. They assert that, despite the Customs letters indicating that Customs stopped several shipments of “L” series tractors, and despite initial questions from Customs regarding tractors with “KUBOTA” on the hour meter, Customs continued to permit the importation of other shipments. Respondents also argue that they have never imported any of the 45 models of KBT tractors which the Commission found to be infringing since the dates of the orders. They also argue that they had no obligation to keep records or

¹²⁰ CP at 39.

¹²¹ CP at 39-40.

¹²² CP at 42-43.

¹²³ CP at 43-49.

¹²⁴ CP at 49-50.

report imports or sales, since the tractors at issue are not infringing.¹²⁵

Respondents object to complainants' contention that any advice of counsel which they received was not competent. Respondents contend that their counsel, "who has practiced a good many years in many Courts, has no concern about his competency or the competency in which this matter has been presented," and urge the Commission to sanction complainants for their disparaging remarks.¹²⁶

Because there was no intentional misconduct, respondents contend that the recommended penalty of \$652,476 is too high.¹²⁷

iii. Arguments of the Staff

The staff agree with complainants that the Gamut respondents have exhibited significant bad faith in failing to comply with the cease and desist orders. In particular, the staff point out that they have sought review of the ALJ's determination that bad faith was sufficiently lacking on Gamut's part to warrant excusing all of Gamut's sales of "L" series tractors prior to July 31, 1997, on the grounds that Gamut had sought the advice of counsel.¹²⁸ The staff contend, however, that while the bad faith factor weighs in favor of assessing a high penalty against the Gamut respondents, two other factors militate against the imposition of the maximum penalty: the injury to the public and the extent of benefit to the violator, discussed below.¹²⁹

c. Analysis of Factor 1

We agree with complainants and the staff that the ALJ has understated the degree of bad faith exhibited by the Gamut respondents with respect to their violations of the cease and desist orders. First, as discussed above, we have determined to reverse the ALJ's finding that the majority of accused sales were not infringing, and instead find that a majority of such sales did infringe the cease and desist orders. Second, although the ALJ considered respondents' violations of the reporting requirements of the cease and desist orders in assessing their degree of bad faith, he did not expressly address their violation of the record keeping requirements and, in particular, the fact that the relevant records were destroyed shortly after respondents received notice of the pendency of this enforcement proceeding. Third, we believe that the ALJ gave insufficient weight to evidence regarding respondents' practice of removing the "KUBOTA" trademark from their advertising and sales materials and providing counterfeit "KUBOTA" labels to their customers. In particular, we do not believe that Mr. DuPuy's statement that, even though a "stupid order" precluded him from using the "KUBOTA" trademark, he would still sell tractors and send the labels under separate cover, were the words of one who was doing his best to stay "several healthy steps" from infringing Kubota's trademark.

¹²⁵ RP at 7-9; RR at 3.

¹²⁶ RR at 4-5.

¹²⁷ RP at 9-10.

¹²⁸ SP at 30-32; SR at 7, 19-20.

¹²⁹ SR at 7.

As discussed above, we disagree with the ALJ's reasoning that, although respondents' sales of accused "L" series tractors prior to July 31, 1997, were in violation of the cease and desist orders, such sales should not be calculated into the penalty amount because respondents may have had a reasonable belief that such sales were not prohibited. The ALJ found some evidence that respondents relied on an opinion of counsel in making their decision to sell KBT/Zen-Noh tractors. The only evidence he could find of such an opinion is counsel's argument, reflected in the briefs in this proceeding, that a "KUBOTA" label that appears only on a tractor part, such as the hour meter, does not infringe the trademark with respect to the tractor as a whole, and Mr. DePue's testimony that he consulted with his counsel on whether Zen-Noh tractors infringe the "KUBOTA" trademark.¹³⁰ There is no record evidence of anything but an oral opinion of counsel; no evidence of the content of that opinion; and no evidence that any such advice addressed the differences between exclusion orders and cease and desist orders, or the requirements of the record keeping and reporting provisions of the cease and desist orders.¹³¹ Moreover, the ALJ himself concedes that reliance on this "opinion" would not have been reasonable after July 31, 1997, when Customs expressly stated that "L" series tractors bearing the "KUBOTA" mark on the hour meter were covered by the general exclusion order.¹³²

In our view, respondents and their counsel should have known, from the date they received notice of the cease and desist orders, that their importation and sale of the accused "L" series tractors violated those orders. Despite counsel's repeated insistence that he has never been provided with a list of all infringing tractor models and that he therefore could not have known that the accused tractors were infringing, he has had such a list in his possession at all relevant times. The Commission Opinion in the original investigation, issued one week after the effective dates of the orders, contained a list of 45 models (25 listed in the ID and an additional 20 identified in the Commission Opinion) which includes all of the KBT model numbers at issue in this enforcement proceeding.¹³³ Moreover, Customs gave Mr. Walker a copy of their instructions to the ports on enforcement of the exclusion order, and those instructions also list the 45 models.¹³⁴ Respondents' argument that the orders do not apply to KBT/Zen-Noh tractors bearing the same model numbers because the "KUBOTA" mark appears on one or more parts and not in large letters on the hood of the tractor appears to us to be at best a *post hoc* rationalization for conduct which cannot reasonably be described as keeping several healthy steps away from infringement. This is particularly true in light of respondents' failure to seek clarification or an advisory opinion from the Commission, options that are plainly set forth in the Commission's rules and should not have escaped counsel's notice. Moreover, we find that respondents' failure to maintain the information specified in the record keeping provision of the cease and desist orders is further evidence of their bad faith in complying with the orders.

¹³⁰ RD at 45.

¹³¹ Indeed, we have not reviewed ALJ Order No. 69. That order sanctioned respondents for bringing a frivolous motion to dismiss the proceeding to enforce the cease and desist orders because the motion was based solely on arguments regarding the scope of the exclusion order issued in the original investigation.

¹³² RD at 44-45.

¹³³ See Commission Opinion at 13 and 1996 ID at 91-95, FF 153.

¹³⁴ See RR at Exhibit A.

In sum, we do not agree with the ALJ that there is evidence in the record to support giving respondents the benefit of the doubt with respect to the degree of bad faith they exhibited in connection with this matter. Accordingly, we find that respondents have acted in bad faith and that this factor weighs in favor of a significant civil penalty.

2. Injury to the Public

a. The RD

With respect to the second factor, injury to the public, the ALJ stated that the Commission's focus is not on harm to the public at large, but on whether respondent's violation of a remedial order caused sufficient injury to the domestic industry to warrant the maximum penalty. RD at 48, *citing San Huan*, 161 F.3d at 1362. He noted that in *Magnets*, the Commission found that harm to the domestic industry can generally be measured in terms of the respondents' unlicensed sales. The ALJ found that the Gamut respondents represented to their customers that the accused "L" series tractors were in fact "KUBOTAs," and, in doing so, traded on the goodwill of the "KUBOTA" trademark in the United States market and sold their tractors to customers who wanted to purchase "KUBOTA" tractors. ID at 48-49. The ALJ noted that evidence of record in the original investigation demonstrates that such sales are potentially damaging to complainants' reputation in the U.S. market. Nevertheless, he found that every sale of Gamut's used gray market KBT/Zen-Noh tractors in the U.S. market is not necessarily a lost sale to complainants since, in the original investigation, complainants conceded that they do not consider new KTC tractors to be in direct competition with used gray market KBT tractors and that they do not prohibit their own U.S. authorized dealers from selling gray market KBT tractors taken in trade. Accordingly, the ALJ found that, while the Gamut respondents' infringing activities with respect to the accused "L" series tractors may damage the reputation of complainants, which he found to warrant a civil penalty, the fact that not every gray market sale by the Gamut respondents is a loss to the authorized KTC dealer mitigates the harm to the domestic industry and thus this factor does not warrant imposition of the maximum allowable civil penalty. ID at 49.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred by giving more weight to the absence of lost sales than to the harm to complainants' reputation due to respondents' infringing conduct. Complainants contend that the true injury suffered in this case, as in any trademark infringement case, must be assessed in terms of injury to the trademark owner's reputation and goodwill. They note that, in the original investigation, the Commission found that KTC has made a considerable investment in the goodwill of the "KUBOTA" trademark in the United States and that, consequently, the ALJ should not have treated the lack of substantial lost sales to KTC and its dealers as a mitigating factor.¹³⁵

ii. Respondents' Arguments

Respondents do not address this factor.

¹³⁵ CP at 50-51.

iii. Arguments of the Staff

The staff argue that, in past decisions assessing the injury to the public factor, the Commission has focused on harm to the domestic industry as measured in terms of the respondents' unlicensed sales. In that regard, staff contend that Kubota's own testimony in the underlying investigation suggests that the Gamut respondents' gray market sales have not diminished the authorized sales of Kubota's U.S. dealers. In particular, they note that KTC's senior vice president for sales and marketing testified at the trial that KTC and its dealers are not in direct competition with dealers who sell used gray market tractors, because there is little overlap between consumers considering a new tractor and consumers considering a used tractor. Staff submit that, where respondents' infringing sales adversely affect complainants' goodwill and reputation, but do not adversely affect their sales of new tractors, this factor weighs against imposition of the maximum civil penalty.¹³⁶

c. Analysis of Factor 2

In *EPROMs* and *Magnets*, the Commission addressed the harm to the public in terms of the harm to the domestic industry. In *EPROMs*, the Commission found that respondent's unlicensed sales harmed complainant by depriving it of sales to which it was entitled by virtue of its patent rights and that no quantification of such harm was required in light of the elimination of the injury requirement from section 337 in patent-based cases.¹³⁷ In *Magnets*, the Commission declined to rely on the ALJ's analysis of harm to the general public, stating: "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. In this case, 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."¹³⁸

Although the Commission opined in *EPROMs* and *Magnets* that harm to the domestic industry could be measured in terms of respondent's unlicensed sales, we do not read those opinions as holding that no other measure of harm to the domestic industry can ever be appropriate. *EPROMs* and *Magnets* were both patent-based cases in which the patent owner has a right to exclude all others such that each sale made by the respondent was at a minimum a sale lost to the complainant. The same is not true in this trademark-based case.¹³⁹

Unlike a patent infringement case where the harm to the patent holder takes the form of lost sales, in a trademark case involving goods that are not directly competitive, the harm to the trademark holder results from the damage to its reputation and the loss of good will arising from consumer confusion.¹⁴⁰ Since this case has, from the beginning, been about harm to complainants' reputation and not about harm

¹³⁶ SR at 8-9.

¹³⁷ *EPROMs*, Commission Opinion at 25.

¹³⁸ *Magnets*, Commission Opinion at 25.

¹³⁹ 1996 ID at 51.

¹⁴⁰ 1996 ID at 13-14.

to their sales figures, we conclude that the absence of lost sales is not a mitigating factor in this case. Rather, we conclude that respondents' sales in violation of the cease and desist orders substantially harmed Kubota.¹⁴¹

3. The Gamut Respondents' Ability to Pay

a. The RD

With respect to the ability of the Gamut respondents to pay a civil penalty, the ALJ concluded that the affidavits of respondents DePue and DuPuy claiming that they are "broke" and unable to pay any penalty, as well as the Gamut respondents' financial statements showing losses in 1996 and 1997, are entitled to little or no weight. With respect to personal assets, the ALJ found evidence that DePue has financial interest in other businesses and is the owner of Homestead Tractor and Feed; that sometime in late 1998 Homestead purchased 5 KBT/Zen-Noh tractors from Gamut Trading, two of which were being offered for sale by Homestead; and that DePue received \$65,000 from the sale of another company, Apple Implement. He also noted that the affidavit of DuPuy makes no reference to a checking account, savings account, equities or other assets that may have a bearing on his ability to pay. ID at 52-53. With respect to business assets, the ALJ found that, because the 1996 and 1997 financial statements of Gamut Trading were not audited, and because the Gamut respondents sold the computer containing the underlying records in January of 1999, their claim of losses in those years is "questionable." RD at 52. He further found that the Gamut respondents made a profit of 135 percent over cost in the sale of accused "L" series tractors and that they had sales of both "L" and "B" series tractors that totaled nearly one million dollars in revenue between February of 1997 and October of 1998. RD at 53, *citing* Table 1, ID at 13-18, and Order No. 76 (Apr. 28, 1999).¹⁴² Accordingly, the ALJ found that the Gamut respondents' ability to pay is not a mitigating factor in assessing any civil penalty. RD at 53.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants do not address this factor in their Petition for Review.

ii. Respondents' Arguments

Respondents contend that the ALJ should not have rejected the credibility or sufficiency of Messrs. DePue and DuPuy's affidavits stating that they are "broke" and cannot pay a penalty. They contend that since complainants and the staff failed to disprove the veracity of respondents' affidavits, it was not proper

¹⁴¹ This conclusion is supported by record evidence that used tractor dealers and consumers do not recognize the "Zen-Noh" name and were only interested in the accused KBT/Zen-Noh tractors when they were assured that the tractors were genuine "KUBOTAs". ID at 70, FF 24.

¹⁴² The 135 percent profit margin which the ALJ adopted as an adverse inference in Order No. 76 was calculated using an analysis proposed by the staff. Order No. 76 at 8 and Exhibit A. Using the same methodology, the staff calculated a profit margin of 118 percent on all "L" and "B" series accused tractors combined. *See* Commission Investigative Staff's Response to Complainants' Motion for Adverse Inferences Against Respondents (Apr. 16, 1999) at 5.

to reject them.¹⁴³

iii. Arguments of the Staff

Staff argues that, unlike in prior enforcement proceedings, the Commission has very little information on the Gamut respondents' profits or their ability to pay a civil penalty, principally because they destroyed most of the pertinent records and because the ALJ found that the few records submitted were of limited probative value. Because all of the information necessary to assess and collect a civil penalty should be obtained at the enforcement stage (and not at the time of any later court proceeding to enforce a civil penalty), the staff urge the Commission to make it clear that enforcement respondents must provide evidence that is necessary to evaluate properly the ability to pay and extent of benefit factors.¹⁴⁴ On the other hand, staff state that this case differs from the two previous formal enforcement proceedings in that the respondents are individuals and relatively small entities, which are unlikely to have extensive amounts of reliable and probative financial data.¹⁴⁵

c. Analysis of Factor 3

We disagree with respondents' argument that the ALJ should have given probative weight to the affidavits of DePue and DuPuy asserting that they have no assets from which to pay a civil penalty. While respondents assert that there was no record evidence to support a finding that they have substantial assets, the ALJ did, in fact, refer to record evidence of assets of the individual respondents and significant recent revenues received by Gamut Trading. Moreover, as the staff point out, it was respondents' own conduct in destroying relevant business records after the commencement of this enforcement proceeding, as well as their refusal to cooperate with complainants' and the staff's discovery requests, that has deprived the Commission of information from which it could make a more accurate assessment of respondents' current financial means.¹⁴⁶

On the other hand, as the staff point out, this case, unlike *EPROMs* and *Magnets*, involves two individuals and their small business, rather than a large corporation. Although we are deeply troubled by respondents' failure to provide full and accurate information on their financial condition, we note that there is some record evidence concerning their assets and income identified by the ALJ, which demonstrate that respondents' means are not unlimited.

Overall, therefore, while we agree with the ALJ's conclusion that respondents have the ability to pay a significant civil penalty, we find that their ability to pay should, to some extent, place an upward boundary on the penalty amount.

¹⁴³ RR at 7.

¹⁴⁴ SP at 33-37.

¹⁴⁵ SP at 36.

¹⁴⁶ It would appear to be no coincidence that Gamut Trading, which continued to operate with numerous employees after issuance of the Commission's remedial orders, suddenly ceased all operations and went out of business shortly after institution of this enforcement proceeding.

4. Extent to Which the Gamut Respondents Benefitted from Their Violations

a. The RD

With respect to the extent of benefit to the Gamut respondents, the ALJ found that no substantial competitive advantages have accrued to the Gamut respondents as a result of their violation of the Commission's orders. He based this conclusion on his prior finding that the sale of an accused "L" series tractor does not necessarily represent the loss of a sale by authorized KTC dealers. Comparing this case to *EPROMs*, in which the Commission found that the respondent had accrued substantial competitive advantages, the ALJ found that the absence of such advantages here weighs against imposition of the maximum civil penalty. RD at 55-56. Nevertheless, he found that the Gamut respondents did benefit from their violation of the cease and desist orders, in that the total sales value of the 172 infringing "L" series tractors sold since February 25, 1997, was \$741,211, of which \$425,803 represents the profit over cost to the Gamut respondents. RD at 56.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants do not address this factor in their petition for review.

ii. Respondents' Arguments

Respondents do not address this factor.

iii. Arguments of the Staff

The staff argue that, because respondents gained no substantial competitive advantages from their violations of the cease and desist orders, this factor weighs against imposition of the maximum civil penalty. Staff assert that the ALJ's reasoning in this regard is consistent with the Commission's treatment of this factor in *Magnets*, where the Commission indicated that it sought to ensure that the penalty amount was not disproportionate to the extent of the benefit derived by respondents from their violations of the order, and that it was sufficient to examine the general order of magnitude of the benefit rather than seeking a precise quantification.¹⁴⁷ The staff argue that assessing a penalty of \$6.9 million, as advocated by complainants, would be many orders of magnitude in excess of the extent to which the Gamut respondents have been shown to have benefitted from their activities in violation of the cease and desist orders. Thus, while the staff agree that a significant penalty is appropriate in light of respondents' bad faith and the need for an appreciable deterrent effect on future activities, staff do not believe that the objective of meaningful deterrence requires the imposition of such a mammoth penalty as complainants advocate.¹⁴⁸

c. Analysis of Factor 4

We believe that the ALJ's conclusion that no substantial competitive advantage accrued to the

¹⁴⁷ SR at 10, *citing Magnets*, Commission Opinion at 28.

¹⁴⁸ SR at 11.

Gamut respondents by virtue of their violation of the Commission's orders is based on too narrow an interpretation of this factor. As stated in *Magnets*, the benefit to a violating party may be measured in a number of ways, including revenues received from infringing sales, profits from those sales, or even revenues from sales of related products where those sales would not have occurred but for the sales of the infringing goods.¹⁴⁹ In this case, as in *Magnets*, we find that the sales revenues respondents received from their sales of tractors in violation of the orders is a reasonable measure of the extent to which they have benefitted, since respondents should not have made any such sales.¹⁵⁰

We find, however, that the relatively modest magnitude of respondents' revenues derived from infringing sales is a mitigating factor in setting the appropriate penalty in this case. The total sales revenue received by respondents from selling infringing tractors on the 58 identified violation days is \$753,976, for an average of about \$13,000 per violation day.¹⁵¹

5. Need to Vindicate the Authority of the Commission

a. The RD

With respect to the need to vindicate the Commission's authority, the ALJ found that such an interest does exist in this case. He noted that in *Magnets*, the respondents actively urged the Commission to issue the consent order at issue in order to obtain a termination of the investigation as to them, but then continued to import the infringing product. On appeal, the Federal Circuit found that the respondents' act of inducing the Commission to issue an order that would save them significant further litigation costs and which they evidently had no intention of obeying made the Commission's interest in vindicating its authority "particularly strong" in the circumstances of that case. ID at 54, citing *San Huan*, 161 F.3d at 1363. Nevertheless, the ALJ concluded that the lack of evidence that the Gamut respondents actively induced the Commission to issue the cease and desist orders at issue does not suggest a lack of interest in vindicating the Commission's authority in this case. RD at 54.

b. Arguments of the Parties

None of the parties addresses this factor in their Petitions for Review.

c. Analysis of Factor 5

We agree with the ALJ that there is an interest in vindicating the authority of the Commission in

¹⁴⁹ *Magnets*, Commission Opinion at 28 ("there are several means by which benefit can be evaluated. Given that respondents should not have made any sales in violation of the order, we think that at least one appropriate measure of the benefit is the value of the sales made in violation of the order").

¹⁵⁰ Thus, we find that sales revenue is an appropriate measure of the benefit regardless of whether complainant Kubota would have made those sales absent respondents' sales.

¹⁵¹ The ALJ found that the total sales value of respondents' 172 sales of accused "L" series tractors in violation of the orders is \$741,211. RD at 56. Adding the 16 sales of accused "B" series tractors that we have found to be infringing brings the total to \$753,976. ID at 13-18; CEX 52 (Revised Version, Apr. 1, 1999).

this case, particularly in light of respondents' manifest bad faith. The ALJ suggested that differences between the facts in this case and the facts in *Magnets* may lessen the weight that should be afforded to this factor.¹⁵² In *Magnets*, the Commission found that respondents unilaterally proposed a consent order that would permit them to avoid significant further litigation costs and to import free of interference by the Customs Service. Distinguishing other cases where respondents are subjected to remedial orders after they default or even participate fully on the merits, the Commission stated that its interest in vindicating its authority was particularly strong in that case, because respondents actively induced the Commission to adopt a consent order they had no intention of obeying.¹⁵³ In the present case, respondents did not induce the Commission to issue the cease and desist orders or gain any advantages over other respondents in the original investigation by virtue of those orders. However, in addition to making infringing sales, respondents here also violated the reporting and record keeping requirements of the cease and desist orders, which directly requires that the Commission vindicate its authority. In addition, the record indicates that respondents engaged in a pattern of activity intended to circumvent the Commission's orders. Accordingly, we find that the need to vindicate the Commission's authority is an aggravating factor with respect to the penalty amount in this case.

6. The Public Interest

A. The RD

With respect to the final factor, the public interest, the ALJ found that the public interest weighs in favor of protecting the complainants' intellectual property rights in the United States, and that assessing a civil penalty is some assurance that Commission orders protecting such rights will be obeyed and that its reporting and record keeping requirements will be observed. He noted, however, that in *Magnets* the Commission found that while this factor warranted a "significant" penalty, it did not warrant the maximum allowable penalty. He also noted that complainants offered no precedent to support their argument that "potential harm" to the public, in the form of possible physical injuries arising out of the operation of unsafe gray market KBT tractors in the United States, should be considered. Accordingly, the ALJ concluded that the public interest warrants a civil penalty, but not the maximum allowable penalty. RD at 50-51.

b. Arguments of the Parties

i. Complainants' Arguments

Complainants argue that the ALJ erred in failing to find that the public interest factor warrants the maximum allowable civil penalty and that he did so without any explanation. They assert that, in accordance with *Magnets*, the appropriate inquiry is whether there are any significant public interest factors that would militate against the imposition of a civil penalty. Since the ALJ found no such factors in this case, and in fact found that the public interest factor weighs in favor of a civil penalty, they contend that the maximum penalty is warranted. In addition, they urge the Commission to consider safety concerns associated with the sale of accused tractors in the United States. In particular, they point to the fact that KBT and KTC have been named as defendants in product liability lawsuits wherein it is alleged that

¹⁵² RD at 54.

¹⁵³ *Magnets*, Commission Opinion at 33.

plaintiffs' injuries were caused by the negligent design of gray market KBT tractors. They contend that the safety concerns associated with gray market tractors, together with the continued damage to KTC's goodwill, warrant imposition of the maximum allowable civil penalty.¹⁵⁴

ii. Respondents' Arguments

Respondents do not address this factor.

iii. Arguments of the Staff

Staff agree with the ALJ's reasoning that the public interest favors protection of complainants' intellectual property rights, but that the public interest does not warrant imposition of the maximum allowable civil penalty. Staff argue that the Commission's determination to review and reverse with regard to the substantive issues raised in staff's petition for review will further serve the public interest by assuring that the Commission's remedial orders will be obeyed and not circumvented, and will assist in preserving the integrity of the enforcement process and the Commission's ability to apply that process in future cases.¹⁵⁵

c. Analysis of Factor 6

We adopt the ALJ's analysis of the public interest factor and find that the public interest weighs in favor of a civil penalty, but not necessarily the maximum civil penalty, in this case. The public interest at issue in this case, as in most section 337 investigations, is the protection of intellectual property rights. We disagree with complainants' assertion that public safety is an additional public interest factor in this case. In the original investigation, complainants argued that one of the reasons the Commission should issue an unconditional general exclusion order, rather than adopting the ALJ's recommended remedy of permitting gray market imports with a special label attached, was because used gray market tractors are not as safe as new KTC tractors. The Commission rejected that argument, noting that its "statutory obligation under section 337 is to substantially eliminate any likelihood of confusion, not to make sure that the accused imports are made perfectly safe. . . . Nothing in section 337 forbids a consumer from purchasing a product that is not completely safe, so long as he is not acting under any misimpression resulting from a violation of the statute."¹⁵⁶ Thus, we do not believe that the fact that complainants have been subject to two product liability lawsuits involving KBT tractors is an additional public interest factor favoring the maximum penalty in this case.

¹⁵⁴ CP at 52-53.

¹⁵⁵ SP at 37-38.

¹⁵⁶ Commission Opinion at 28-29. In so concluding, the Commission noted that there is no law requiring used tractors to be retrofitted to conform to current safety standards and that there was evidence that used authorized KTC models (as well as other manufacturers' tractors) are sold without current safety equipment. *Id.*

C. The Appropriate Penalty Amount

1. The RD

To determine his recommended penalty amount, the ALJ weighed all of the above six factors and compared this case to the circumstances in *Magnets* and *EPROMs*. He concluded that the Gamut respondents have not shown the level of bad faith that led the Commission to impose the maximum allowable penalty in *EPROMs*, particularly in light of: (1) the fact that the ALJ found only 172 of the 265 tractors put in issue by complainants to be infringing; (2) the fact that some of the infringing sales took place before Customs put the Gamut respondents on notice that the accused tractors were covered by the order; and (3) the limited competitive advantage accruing to the Gamut respondents from their infringing activities. RD at 58-60. The ALJ further found that the circumstances of this case are not as grave as those in *Magnets*, where the Federal Circuit let stand a Commission penalty of three times the sales value of the infringing goods. He concluded, however, that in order to have a deterrent effect the appropriate penalty must be a multiple of the profit gained by the Gamut respondents from their infringing sales. Accordingly, the ALJ recommended that the Commission impose a “significant penalty” in the amount of two times the profit made by the Gamut respondents on the sale of the infringing “L” series tractors after July 31, 1997, the date on which they were put on notice by Customs that “L” series tractors are in violation of the cease and desist orders at issue. Based on the adverse inference that the profit on the sale of each “L” series tractors was 135 percent over cost and a total sales value for infringing tractors of \$567,895, the ALJ found that the profit on such sales was \$326,238, and recommends a civil penalty of twice that amount or \$652,476. RD at 61-62.

2. Arguments of the Parties

a. Complainants’ Arguments

Complainants argue that the ALJ should have based his penalty calculation on the number of violation days rather than on the profit from the sale of infringing tractors. They argue that section 337(f), as well as the legislative history, indicate that calculating the civil penalty based on the number of violation days found is the favored method, unless the \$100,000 daily penalty is less than twice the value of infringing sales on any given violation day, which is not true in this case. They also note that in *EPROMs* the Commission rejected the ALJ’s recommended determination on the penalty where it was based on the domestic value of infringing goods sold rather than on the days of violation, based on the legislative history, and that the Federal Circuit approved a penalty based on violation days in *San Huan*.¹⁵⁷ Thus, complainants argue that the Commission should impose a civil penalty of \$6.9 million, *i.e.*, \$100,00 times 69 violation days.¹⁵⁸

b. Respondents’ Arguments

Respondents do not address the ALJ’s methodology for calculating the civil penalty, arguing only that the recommended penalty amount is too high in view of the absence of any violation or intentional

¹⁵⁷ CP at 53-55; CR at 1617.

¹⁵⁸ CP at 55-56. Complainants further argue that, in the event that the Commission finds fewer than 69 violation days, it should assess a penalty equal to the number of violation days found times \$100,000.

conduct and in light of respondents' inability to pay.¹⁵⁹

c. Arguments of the Staff

The staff state that they do not object to the manner in which the ALJ calculated the recommended penalty amount based on respondents' profits on the sale of accused tractors, even though they argued before the ALJ for a penalty of \$1 million. Staff contend, however, that the Commission should adjust the civil penalty amount upward to \$840,848, to reflect profits on the additional infringing sales that staff have urged the Commission to find.¹⁶⁰

3. Discussion¹⁶¹

Because twice the domestic value of the accused tractors sold on any given violation day is less than \$100,000,¹⁶² the maximum civil penalty that we could assess in this enforcement proceeding is \$100,000 for each of the 58 violation days, or \$5.8 million. We are to exercise our discretion in determining whether it is appropriate to impose the maximum daily civil penalty statutorily permitted or to adopt a lesser daily penalty.¹⁶³

Several factors warrant imposing a significant daily penalty in this case. As discussed above, we

¹⁵⁹ RP at 9-10; RR at 6-7.

¹⁶⁰ SP at 33.

¹⁶¹ As noted, Commissioner Crawford defers to the ALJ in the methodology by which he calculated the civil penalty as consistent with her view of achieving the requirement of the legislative history to "insure the deterrent effect of [an] order." *Magnets*, USITC Pub. 3073, Dissenting Views of Commissioner Carol T. Crawford at 1. However, Commissioner Crawford joins her colleagues in finding a total of 58 violation days and in finding a violation with respect to sales of "B" series tractors made on or after January 12, 1998. Accordingly, while deferring to the ALJ's methodology for calculating the civil penalty amount, she has made two adjustments to the calculation. First, rather than a total sales value for infringing tractors of \$741,211, she finds a total sales value for infringing tractors sold on the 58 identified violation days of \$753,976. Second, in calculating the profits made by the Gamut respondents on those sales, she uses the profit margin of 118 percent over cost estimated for "L" and "B" series tractors combined, rather than the 135 percent figure for "L" series tractors alone applied by the ALJ. *See* RD at 56. Applying the ALJ's formula ((invoice price) = (purchase price) + (1.18)(purchase price)), results in profits on the infringing sales of \$408,116. Accordingly, Commissioner Crawford determines that the appropriate civil penalty in this case is double the profits on infringing sales, or \$816,232.

¹⁶² *See* ID at 13-18, Table 1; Revised CEX 52 (Apr. 1, 1999).

¹⁶³ In this regard, we have not adopted the ALJ's penalty recommendation. For the reasons discussed above, we do not agree in all respects with the ALJ's application of the six factor analysis we utilize in setting the appropriate penalty amount. *See San Huan* at 1362. In addition, he did not recommend a *per diem* penalty amount. We are authorized only to impose a penalty for each day on which the cease and desist order was violated. 19 U.S.C. § 1337(f)(2). Accordingly, we have exercised our discretion in accordance with the six factor analysis in assessing an appropriate penalty amount for each violation day.

find that respondents have exhibited bad faith in failing to comply with the cease and desist order. This case also presents a significant need to vindicate the Commission's authority: in addition to our interest in ensuring meaningful enforcement of our orders, we are troubled by the fact that in this case respondents destroyed important documents soon after the enforcement proceeding was instituted. The destruction of those documents severely hampered our ability to assess both the extent to which respondents benefitted from their violation of the cease and desist order and their ability to pay the civil penalty imposed. Moreover, we find that respondents' marketing of the infringing tractors has injured complainant Kubota and that the public interest favors the protection of intellectual property rights. Thus, these factors point to imposing a significant daily penalty.

The legislative history to the civil penalty provision counsels that, while we are to take into account other factors, we are principally to exercise our discretionary authority "so as to insure the deterrent effect of [our] order."¹⁶⁴ In this case, while we have given little weight to respondents' self-serving claims to be completely without assets, particularly in light of their destruction of company records and their failure to provide requested information on their personal assets through discovery, we have taken into consideration that respondents are relatively small businesses and not large corporate entities. Respondents appear to have received gross revenues of less than one million dollars from their sales of tractors in violation of the order -- a substantial amount, but not one that calls for a penalty approaching the statutory maximum.

Therefore, balancing these aggravating and mitigating factors, we determine that a civil penalty in the amount of \$40,000 per violation day, for a total penalty of \$2,320,000, is necessary and sufficient to deter respondents and those similarly situated from violating our orders.¹⁶⁵ We find that a penalty of this amount represents an appropriate balance of the factors we consider and adequately penalizes respondents for their violations of the order. Such a penalty is commensurate with the overall extent to which respondents benefitted from their violations and harmed Kubota and, at the same time, sufficiently punitive so as to deter respondents and others similarly situated from violating the Commission's orders.

Finally, we adopt the ALJ's recommendation that the penalty be assessed against the Gamut respondents jointly and severally.¹⁶⁶ Joint and several liability means that "each individual [entity] remains responsible for payment of the entire liability, so long as any part is unpaid."¹⁶⁷ In *Magnets*, the Commission found that joint and several liability was appropriate where all the enforcement respondents participated in both the underlying section 337 investigation and the enforcement proceeding; the consent

¹⁶⁴ H.R. Rep. No. 317, 96th Cong., 1st Sess. 191 (1979); S. Rep. No. 249, 96th Cong., 1st Sess. 262 (1979).

¹⁶⁵ We note that the record evidence indicates that respondents have garnered \$753,976 in gross revenues from their infringing sales in violation of the cease and desist orders, or an average of just under \$13,000 per violation day. In *San Huan*, the Federal Circuit found that a penalty amount equal to approximately three times the sales value of the infringing goods was reasonable and not a constitutionally excessive fine. 161 F.3d at 1363-65. Indeed, the court stated that the Commission's penalty amount "represents a relatively low ratio of penalty to value of infringing goods." *Id.* at 1364. In *EPROMs*, the Commission's penalty was equal to about six times the sales value of the infringing merchandise.

¹⁶⁶ RD at 62.

¹⁶⁷ *United States v. Scop*, 940 F.2d 1004, 1010 (7th Cir. 1991) (citations omitted).

order at issue stipulated that the Commission had *in personam* jurisdiction over all three entities; and section 337(f)(2) authorizes the imposition of civil penalties on “any person” who violates the relevant Commission remedial order.¹⁶⁸ In this case, respondents Gamut Trading and Gamut Imports participated in both the original investigation and the enforcement proceeding. Respondents DePue and DuPuy were not parties to the original investigation. The cease and desist orders addressed to Gamut Trading and Gamut Imports, however, state that they apply to those entities’ “principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors and assigns,” several of which categories apply to Messrs. DePue and DuPuy. Further, the Commission has *in personam* jurisdiction over all four respondents in this enforcement proceeding. Finally, the record indicates that respondents DePue and DuPuy are doing or have done business under a number of names, including Gamut Imports, Gamut Trading, Apple Implement, and Homestead Tractor, at various times, and it is unclear which assets are held by which business entity at any given time. Accordingly, we concur with the ALJ that joint and several liability is appropriate in this case.

¹⁶⁸ *Magnets*, Commission Opinion at 34 n.103.

PUBLIC VERSION

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

In the Matter of)

CERTAIN AGRICULTURAL)
TRACTORS UNDER 50 POWER)
TAKE-OFF HORSEPOWER)

Investigation No. 337-TA-380
ENFORCEMENT PROCEEDING

Final Initial And Recommended Determinations

Pursuant to the Notice of Investigation (63 Fed. Reg. 60020-21), this is the administrative law judge's final initial and recommended determinations in this enforcement proceeding. The administrative law judge determines that the Gamut respondents have violated Cease and Desist Orders which the Commission issued on February 25, 1997. He also recommends, as an enforcement measure, that a penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476.

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TABLE OF CONTENTS

I. PROCEDURAL HISTORY 1

II . GAMUT RESPONDENTS 4

III. THE CEASE AND DESIST ORDERS IN ISSUE 6

IV. VIOLATION OF THE CEASE AND DESIST ORDERS IN ISSUE 12

A. The Accused Tractors 12

B. The "L" Series Accused Tractors Violate The Cease and Desist Orders 21

**C. The "B" Series Accused Tractors Do Not Violate The Cease and
Desist Orders 29**

**D. The Gamut Respondents Have Violated The
Reporting And Record Keeping Requirements 35**

E. Conclusion (Violation) 39

V. ENFORCEMENT MEASURES 41

A. The Good Or Bad Faith Of The Gamut Respondents 42

B. Injury To The Public 47

C. Public Interest Factor 49

D. Ability Of Gamut Respondents To Pay 51

E. Need To Vindicate Commission Authority 53

F. Extent Of Benefit To Gamut Respondents 54

G. Conclusion (Amount Of Penalty) 56

VI. ADDITIONAL FINDINGS 63

VII. CONCLUSIONS OF LAW 71

VIII. ORDER 71

ABBREVIATIONS

CBr	Complainants' Initial Submission
CEFF	Complainants' Proposed Finding
CEX	Complainants' Enforcement Exhibit
CRBr	Complainants' Rebuttal Submission
RBr	Gamut Respondents' Initial Submission
REX	Gamut Respondents' Enforcement Exhibit
RRBr	Gamut Respondents' Rebuttal Submission
SBr	Staff's Initial Submission
ESX	Staff's Enforcement Exhibit
SPFF	Staff's Proposed Finding

VIOLATION

I. PROCEDURAL HISTORY

By Notice of Referral (notice) and Order dated October 28, 1998, the Commission certified this enforcement proceeding to this administrative law judge for appropriate proceedings and the issuance of an initial determination, which is to be consistent with the Commission's findings in the original investigation, and shall rule on the question of whether respondents Gamut Trading Co., Inc, Gamut Imports, Ronald A. DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading Co., Inc.) and Darrel J. Du Puy (Chief Financial Officer, President and member of the Board of Directors of Gamut Trading Co., Inc.) (Gamut respondents)¹ have violated one or more of the Cease and Desist Orders which issued on February 25, 1997. The notice stated that an initial determination should issue no later than six (6) months from the October 28, 1998 date of the Order.

The Commission's Order provided that the administrative law judge may allow discovery of third parties to the extent he deemed necessary in order to generate an adequate record on the issues raised in the enforcement proceeding; that in the course of the enforcement proceedings, it shall be the burden of complainants Kubota Corporation, Kubota Tractor Corporation and Kubota Manufacturing of America Corporation (Kubota)² to demonstrate that the Gamut respondents have violated one or more of the Cease and Desist

¹ Respondents DePue and DePuy in this enforcement proceeding were not respondents in the underlying violation proceeding. Thus, the administrative law judge will use the term "underlying Gamut respondents" to refer only to those Gamut entities which were respondents in the violation proceeding, *viz.*, Gamut Trading Co. Inc. and Gamut Imports.

² Complainant Kubota Corporation is a Japanese Corporation with corporate offices in Japan. Complainant Kubota Tractor Corporation is a corporation organized and existing under the laws of the State of California.

Orders; and that if he finds a violation of one or more of the Cease and Desist Orders in his initial determination, 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.

Order No. 58, which issued on October 29, 1998, directed the parties to respond regarding a procedural schedule. Following submissions of the parties, Order No. 59, which issued on November 9, set a discovery cutoff date, a discovery completion date and a cut-off date for motions to compel discovery. The order also ordered the parties no later than February 2, 1999, to resubmit proposals regarding a further procedure.

Order No. 69, which issued on January 21, 1999, granted complainants' Motion No. 380-68 for sanctions on the Gamut respondents and their attorney Lloyd J. Walker. Order No. 73, which issued on March 2, denied Motion No. 380-78 of the Gamut respondents for interlocutory appeal of Order No. 69.

Order No. 71, which issued on February 9, 1999, based on the submissions of the parties which, inter alia, proposed hearing dates of March 22 to 25, set a final procedural schedule including hearing dates of March 22 to 25. Order No. 72, which issued March 2, 1999, denied the Gamut respondents' Motion No. 380-72 to suppress the use of any and all information that has been acquired through the use of recording of telephone communication between Mr. Lou Celentro and/or William Callahan with Daniel Du Puy, Ronald Depue, Leo Livingston and others. Order No. 72 stated that, in connection with the forthcoming hearing on March 22 to 25, submission of direct exhibits and witness statements would not occur until March 5 with objections to be made by March 17 and that since the audiotapes and transcripts had not yet been offered into evidence, Motion No. 380-72 was denied on procedural grounds.

Order No. 74, which issued on March 4, based on joint Motion No. 380-79 of the private parties and on the representation of the staff to the effect that there should be no hearing, waived the hearing requirement of Order No. 71 and set a new procedural schedule. Because there was to be no submission of direct exhibits and witness statements, Order No. 74, referring to Order No. 72, included in the procedural schedule a date of March 30 for the filing of any objections to any documents relied on by the parties in any forthcoming submissions. Any response to any objections was to be made with an April 1 rebuttal submission.

Complainants, in a submission dated March 30, 1999, objected to the affidavit of Ronald DePue (ESX 15) and the affidavit of Darrel Du Puy (ESX 14), said to be submitted by the Gamut respondents³ and the staff on the grounds that they are incomplete and misleading to the extent that they relate to the personal assets of DePue and Du Puy. In support it was argued that complainants requested and were refused discovery relating to the personal assets of respondents' DePue and Du Puy, citing CEX 73 p. 4, and deposition of Du Puy CEX 37 pp. 306-307 and as such the statements made in those affidavits regarding the personal assets of DePue and Du Puy are incomplete and misleading. Complainants also objected to the admission of ESX5, which is represented as the annual financial statements of respondent Gamut Trading for 1996 and 1997, on the grounds that those statements are incomplete and misleading and that the Gamut respondents during the pendency of the enforcement proceeding

³ Complainants noted that while the Gamut respondents did not specifically designate the affidavits as exhibits to their submissions on March 23, said respondents referred to them in those submissions at 9.

destroyed "numerous documents" relating to the financial condition of Gamut Trading.

The Gamut respondents, in a submission dated March 30, 1999, objected "to the admission into evidence of certain exhibits of Complainants and the Commission Investigative Staff" although it was also represented that the Gamut respondents "do not object to the exhibits as submitted by Staff's Exhibits and or Complainants, but object that the exhibits are misstated in the Proposed Findings of Fact and Conclusions of Law" and that the Gamut respondents' objections to complainants' and the staff's proposed findings of fact and conclusions of law "will set out the misuse of the exhibits."

The objections of complainants and the Gamut respondents in their submissions dated March 30 are overruled and the exhibits objected to by the private parties will be considered by the administrative law judge and given the weight he finds appropriate.

On April 1, 1999, complainants filed Motion No. 380-80 for leave to file Motion No. 380-81 for adverse inferences. On April 8 Motion No. 380-80 was granted and each of the Gamut respondents and the staff was ordered to respond to Motion No. 380-81. Order No. 76, which issued on April 28, 1999, granted in part said Motion No. 380-81.

Submissions, pursuant to Order No. 74, have been made and the matter is now ready for a determination of violation and recommendation of any enforcement measures.

II. GAMUT RESPONDENTS

Complainants argued that Gamut Trading Co., Inc (Gamut Trading) is a company with an office and place of business in Apple Valley, California, (CEFF 12); that Gamut Trading is a legal entity under the laws of the State of California, (CEFF 14); that Gamut Imports is a company with an office and place of business in Apple Valley, California, (CEFF 13); and

that Ronald A. DePue and Darrell J. DuPuy are principals of Gamut Trading and Gamut Imports.

The staff argued that Gamut Trading is a company having a principal place of business in Apple Valley, California; that Gamut Trading is still a legal entity under the laws of California; that Gamut Imports was a company having a principal place of business in Apple Valley, California but has discontinued operations; and that DuPue and DuPuy are officers and directors of Gamut Trading and have done business as Gamut Imports. (SBr at 6). The staff however in its SPFF 6 states that "Gamut Imports ... is a company having a principal place of business in Apple Valley, California," and "[a]pparently, Gamut Imports was affiliated with Gamut Trading but has discontinued operations", referring to response to enforcement complaint at 5. (Emphasis added).

The Gamut respondents in their submission dated March 24, 1999 argued that Gamut Trading and Gamut Imports are no longer in business; and that DePue and DuPuy have no ability of going back into the tractor business. (RBr at 10). However, with respect to whether or not Gamut Trading and Gamut Imports are still in business, the Gamut respondents in their later "Respondents' Objections To Complainants' Proposed Findings Of Fact" dated April 15, 1999 made no objections to complainants' proposed findings of fact 12, 13 and 14, supra.

The Commission's Order of October 28, 1998 identified as the respondents in this proceeding Gamut Trading, Gamut Imports, DePue (Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading) and DuPuy (Chief Financial Officer, President, and member of the Board of Directors of Gamut Trading). In view of the lack of objections by the Gamut respondents to CEFF 12, 13 and 14, the administrative law judge finds that both Gamut

Trading and Gamut Imports are still legal entities under the laws of California. The administrative law judge also finds that DuPue and DuPuy are officers and directors of Gamut Trading. Thus, the term "the Gamut respondents," as used in the "Final Initial And Recommended Determinations," refers to each of Gamut Trading, Gamut Imports, DePue and DuPuy.

III. THE CEASE AND DESIST ORDERS IN ISSUE

The Cease and Desist Orders in issue resulted from the underlying violation proceeding. In that proceeding complainants had accused certain respondents, including Gamut Trading and Gamut Imports, of infringing registered trademarks under Section 32 of the Lanham Act, 15 U.S.C. § 1114, and of unlawful importation of goods bearing infringing trademarks under Section 42 of the Lanham Act, 15 U.S.C. § 1124.⁴ The registered trademarks at issue were (1) KUBOTA®, U.S. Reg. No. 922,330, and (2) KUBOTA

⁴ Section 32 of the Lanham Act declares unlawful:

(1) Any person who shall, without the consent of the registrant --

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive

15 U.S.C. § 1114

Section 42 of the Lanham Act provides in relevant part:

no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States. . . .

15 U.S.C. § 1124.

(Stylized)* U.S. Reg. No. 1,775,620, which are owned by Kubota Corporation, and exclusively licenced to its affiliates, Kubota Tractor Corporation and Kubota Manufacturing of America Corporation, and which were alleged to be infringed through importation and/or sale of certain used agricultural tractors under 50 power take-off horsepower. (Initial and Recommended Determinations in the underlying violation proceeding (ID at 7, 8)).

A nine-day evidentiary hearing was held in which Gamut Trading and Gamut Imports fully participated. Thereafter on November 22, 1996, this administrative law judge issued his ID holding that of the 25 representative models termed "KBT models"⁵ there was the unauthorized importation and sale of 24 models (KBT tractors) which were originally sold in Japan and which infringed the registered KUBOTA trademark because the KUBOTA trademark appear on those models and because material differences existed between those models and the corresponding model number KTC tractors manufactured by Kubota Corporation for the United States market. (ID 10, 20-41).

This administrative law judge, in his ID, pointed out that a gray-market good is a foreign-manufactured good, bearing a valid United States trademark that is imported without the consent of the United States trademark holder, citing K-Mart Corp. v. Cartier, Inc. 486 U.S. 281, 285 (1988) (K-Mart); that a gray market may arise in a situation where a foreign manufacturer (Kubota Corporation in the underlying proceeding) sells goods abroad (KBT tractors) bearing a trademark, and that foreign manufacturer also sells goods in the U.S. market (KTC tractors) through a U.S. subsidiary (Kubota Tractor Corporation in the

⁵ The staff in its SX-1 in the underlying violation proceeding identified the twenty-five (25) representative models.

underlying proceeding) bearing an identical U.S. registered trademark; that if those foreign goods (i.e., KBT tractors) are purchased abroad by third parties and imported into the United States without the consent of the trademark holder, viz; Kubota Corporation, a "gray market" is created, K-Mart 486 U.S. at 286,⁶ Certain Alkaline Batteries, Inv. No. 337-TA-165, USITC Pub. 1616, 6 ITR 1849, 1851 (Nov. 1984) and 4 McCarthy and Trademarks, § 29.18[1]; that in that type of gray market situation, which this administrative law judge found was involved in the underlying proceeding, there will always be a first authorized sale of the trademarked goods to a foreign purchaser;⁷ and that a "first sale" abroad has not been found to exhaust the rights of the domestic trademark owner if the foreign goods bearing the KUBOTA trademark issue are materially different from the domestic goods, Original Appalachian Artwords, Inc. v. Granada Electronics, Inc., 816 F.2d 68, 73, 2 USPQ2d 1343, 1349 (2d. Cir.), cert. denied, 484 U.S. 847 (1987). ID at 10, 11.

The Commission adopted this administrative law judge's findings of infringement in his ID for 24 of the 25 representative KBT models and also found a violation with respect to the 25th representative KBT model as well as additional models of KBT tractors (a total of 45

⁶ It was noted in the ID that the three "gray market" case scenarios identified in K-Mart were (1) where a domestic firm purchases from an independent foreign firm the right to use the trademark to sell foreign manufactured products in the United States, (2) where a domestic firm registers the U.S. trademark for goods that are manufactured abroad by an affiliated manufacturer, and (3) where the domestic trademark holder authorizes an independent foreign manufacturer to use it, K-Mart, 486 U.S. at 286-287; that in the original investigation, the foreign manufacturer Kubota Corporation, is the owner of the U.S. trademarks in issue, and licenses the right to use those marks to its U.S. subsidiary; and that such is found most similar to (2) because each of the foreign manufacturer, the trademark owner and the domestic distributor are under common control.

⁷ It was noted in the ID that in this sense all gray market goods are "used" goods, because ownership of the goods has transferred from the foreign manufacturer to a third party.

different models) for which there was evidence of importation. In Re Certain Agricultural Tractors, 44 USPQ2d 1385, 1389-1394 (February 25, 1997). (Tractors)^{8, 9} The Commission, in finding infringement, found that certain KBT tractors bearing the KUBOTA trademark which complainant Kubota Corporation designed for use in the Japanese market were materially different from certain KTC tractors of the same model number which Kubota Corporation designed for use in the United States market, thus creating a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the marketholder's goodwill. Id. at 1389 -1394.

Complainants have represented that "to simplify issues in this Enforcement Proceeding the tractors accused of infringement in this proceeding are limited to those tractors identified on SX-1 (CEX 30)." (CRBr at 10, fn. 6). Thus the accused tractors in this enforcement proceeding are limited only to those which correspond to the 25 KBT tractor model numbers

⁸ Specifically, the Commission, with respect to finding infringement of the KBT L200 tractor for which the administrative law judge did not find infringement, compared the KBT L200 with the corresponding KTC L200 and stated:

We therefore find that the absence of English-language warning labels and instructional labels on the KBT L200 at the time of its importation and sale constitutes a material difference from the otherwise identical KTC L200 and reverse the ALJ's finding of no violation by the KBT L200.

Tractors 44 USPQ2d at 1392.

⁹ While complainants asserted that the Commission found infringement of the KUBOTA trademark by 46, not 45, different models of KBT tractors (CBr at 16, CEFF 98), the Commission found infringement of the 25 models considered by the administrative law judge as well as an additional 20 models which the administrative law judge did not consider, which is a total of 45 tractors. See Id. Consistent with the Commission's finding, both the Gamut respondents and the staff represented that the Commission found infringement of 45 models.

corresponding to the 25 KBT tractor model numbers identified in its SX-1 in the underlying proceeding.

The Commission on February 25, 1997 issued a general exclusion order. The general exclusion order ordered the Customs Service (Customs) to exclude from entry for consumption in the United States agricultural tractors under 50 power take-off horsepower that are manufactured by Kubota Corporation of Japan and infringe the "KUBOTA" trademark (U.S. Reg. No. 922,330), the Commission, noting that because the "KUBOTA" (block letters) trademark registration covers use of the trademark "KUBOTA" in any "kind of type," tractors "bearing the new stylized version of the 'KUBOTA' trademark (U.S. Reg. No. 1,775,620)" were also covered by the exclusion order. *Id.* at 1404. (Emphasis added). The Commission on February 25, 1997 also issued eleven Cease and Desist Orders to the individually-named domestic respondents in the original investigation.¹⁰ Of those Cease and Desist Orders, one is directed to Gamut Imports and another is directed to Gamut Trading. Those two Cease and Desist Orders are in issue in this enforcement proceeding.

Part III of the Cease and Desist Orders, to each of Gamut Trading and Gamut Imports, provide, inter alia:

Respondent shall not:

- (A) import or sell for importation into the United States covered product; or

¹⁰ Certain respondents in the underlying investigation filed an appeal in the Federal Circuit, Gamut Trading v. U.S.I.T.C Appeal Docket No. 97-1414 which is still pending. In said caption "Gamut Trading" includes all respondents in the underlying investigation represented by Lloyd J. Walker. On April 27, 1999 the Federal Circuit's disposition sheet, as posted on its electronic web page, did not display a decision for Appeal Docket No. 97-1414.

- (B) sell, market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States imported covered product.

The definition section of the Cease and Desist Orders define "covered product" as:

agricultural tractors under 50 power take-off horsepower manufactured by Kubota Corporation of Japan that infringe federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330) and that are not imported by, under license from, or with the permission of the trademark owner.
[Emphasis added]

Part II of the Cease and Desist Orders in issue states they apply not only to the named respondent in the underlying proceeding but also 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." The administrative law judge finds that such language would include Ronald A. De Pue and Darrel J. Puy which the Commission Order of October 28, 1998 designated respectively as "Chief Executive Officer and Chairman of the Board of Directors of Gamut Trading" and "Chief Financial Officer, President and member of the Board of Directors of Gamut Trading."

The Cease and Desist Orders issued to the Gamut respondents further includes the following:

Within (30) days of the last day of the reporting period, respondent shall report to the Commission the following: the quantity in units and the value in dollar of the foreign-produced covered product that respondents has imported or sold in the United States during the reporting period or that remains in inventory at the end of the period.

Any failure to make the required report shall constitute a violation of this Order.¹¹

(Emphasis added). The Cease Desist Orders also require:

For the purpose of securing compliance with the [Cease and Desist] Order, Respondent shall retain any and all records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product 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.

(Part VI(A), at 4).

IV. VIOLATION OF THE CEASE AND DESIST ORDERS IN ISSUE

As indicated in Section I, supra, according to the Commission Order it shall be the burden of complainants to demonstrate that the Gamut respondents violated the Cease and Desist Orders in issue.¹²

A. The Accused Tractors

An examination of the invoices of Gamut Trading Co. Inc. (Gamut) (CEX 50) shows the accused tractors sold by the Gamut respondents after the issuance of the Commission's Cease and Desist Orders. The following Table 1, based on said invoices, sets forth, inter alia, the date of sale of the accused tractors as well as the model numbers of the tractors sold and

¹¹ This paragraph further requires that, starting with 1997, such reporting be made within thirty (30) days of August 31, of each year until expiration or abandonment of the KUBOTA trademark. (FF 10).

¹² The Gamut respondents argued that the "complaint is with the United States Customs Service, not with Gamut" (RBr at 7). However it is the Commission that is responsible for the enforcement of its Cease and Desist Orders. See 19 U.S.C. § 1337 (f). This is apparent from the Commission's issuance of its Order dated October 28, 1998.

the price paid.¹³

Table 1

LIST OF GAMUT INVOICES SHOWING SALES OF ACCUSED TRACTORS

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
1	N/A	GE 00085	ZL1801DT	1	\$4,890
2	02/27/97	GE 00139	ZL1501DT	2	\$8,346
			ZB7001DT	1	\$3,740
3	03/13/97	GE 00144	ZL2402DT	1	\$6,200
			ZB7001DT	1	\$3,740
			ZB1500DT	1	\$4,950
			ZL1500DT	1	\$3,770
4	03/19/97	GE 00111	ZB5000	1	\$2,475
			ZB5001	1	\$2,775
			ZB7000	2	\$6,210
5	03/20/97	GE 00147	ZL1500	8	\$15,200
			ZL1501	2	\$3,800
6	03/26/97	GE 00124	ZB7000DT	1	\$3,105
7	03/31/97	GE 00133	ZL2002DT	1	\$5,375
			ZL1801DT	1	\$4,405
			ZB7000DT	2	\$6,210
	03/31/97	GE 00114	ZB7000DT	1	\$3,105
			ZB7001DT	2	\$7,480
			ZB1600DT	1	\$3,960
8	04/01/97	GE 00118	ZB6000DT	1	\$2,475
			ZB7000DT	3	\$9,315

¹³ While the record is devoid of any documentation relating to the precise days on which the accused tractors were imported and/or when Customs received the tractors there is no denial that the accused tractors were imported.

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
	04/01/97	GE 00148	ZB6000DT	1	\$2,475
			ZB7000DT	3	\$9,315
9	04/10/97	GE 00132	ZB7000DT	4	\$12,420
	04/10/97	GE 00113	ZB5000DT	1	\$2,475
			ZB7000DT	2	\$6,210
			ZB7001DT	1	\$3,740
10	04/17/97	GE 00129	ZB7001DT	1	\$3,740
11	04/18/97	GE 00117	ZB6001DT	1	\$3,105
			ZB7001DT	2	\$7,480
12	04/22/97	GE 00134	ZB7000DT	1	\$3,105
			ZL1501DT	1	\$4,173
			ZL1801DT	1	\$4,405
			ZL2201DT	1	\$5,355
	04/22/97	GE 00123	ZB7000DT	4	\$12,420
	04/22/97	GE 00121	ZL2201DT	2	\$10,710
13	05/06/97	GE 00149	ZB6000DT	2	\$4,950
			ZB7000DT	2	\$6,210
14	05/12/97	GE 00119	ZL2201DT	1	\$5,355
			ZB1600DT	1	\$4,650
			ZL1501DT	1	\$4,173
15	05/16/97	GE 00150	ZB7000	4	\$12,420
16	05/22/97	GE 00122	ZB1400DT	1	\$4,200
			ZL1501DT	2	\$8,346
			ZB6000DT	2	\$4,950
17	05/28/97	GE 00143	ZB7001DT	1	\$3,740
			ZB1500DT	1	\$4,950
			ZL1500DT	1	\$3,700
	05/28/97	GE 00142	ZL2402DT	1	\$6,200

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
18	06/02/97	GE 00135	ZB5001	1	\$2,775
			ZB1600	1	\$5,200
19	06/16/97	GE 00152	ZL1500	9	\$17,550
20	06/19/97	GE 00126	ZL2000DT	1	\$4,560
			ZL2201DT	1	\$5,355
			ZB7001DT	2	\$7,480
	06/19/97	GE 00136	ZL1501DT	1	\$4,173
			ZB7001DT	1	\$3,740
			ZB7000DT	2	\$6,210
21	06/30/97	GE 00140	ZB7001DT	2	\$7,480
			ZL2601DT	2	\$13,600
			ZL1500DT	2	\$7,540
22	07/15/97	GE 00112	ZL1500	1	\$2,450
23	07/23/97	GE 00151	ZB5000	1	\$2,475
			ZB6000	2	\$4,950
			ZL2000	1	\$2,650
24	08/12/97	GE 00127	ZB7000	5	\$5,000
			ZB7001	3	\$3,600
			ZL1501DT	2	\$3,000
			ZL2202DT	1	\$2,000
25	08/14/97	GE 00146	ZB7000DT	1	\$3,740
26	12/18/97	GE 00103	ZL1500DT	2	\$8,510
27	12/19/97	GE 00089	ZL1500DT	2	\$8,510
			ZL1501DT	1	\$4,658
28	12/23/97	GE 00081	ZL1501DT	1	\$4,323
			ZB6001DT	1	\$3,885
			ZB6000DT	1	\$3,885
29	01/15/98	GE 00080	ZL2201DT	1	\$5,840

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
			ZL1801DT	1	\$4,890
			ZB7001DT	2	\$8,510
30	01/22/98	GE 00108	ZL1500DT	1	\$4,255
			ZL1501DT	2	\$9,316
31	02/04/98	GE 00073	ZL1500DT	2	\$8,510
			ZL1501DT	2	\$9,316
32	02/06/98	GE 00106	ZL1500DT	1	\$4,255
			ZL1501DT	1	\$4,657
			ZL7001DT	1	\$4,255
			ZL2202DT	1	\$6,350
33	02/23/98	GE 00079	ZL1500	1	\$2,955
			ZL1500DT	1	\$4,255
34	03/05/98	GE 00082	ZL1500	1	\$2,955
35	03/11/98	GE 00063	ZL1501DT	4	\$18,632
36	03/16/98	GE 00059	ZL1500	1	\$2,955
37	03/23/98	GE 00104	ZL1500DT	3	\$12,765
38	03/24/98	GE 00058	ZL1500DT	2	\$8,510
39	03/25/98	GE 00097	ZL1500DT	2	\$8,510
			ZL1501DT	2	\$9,316
40	04/06/98	GE 00084	ZL1501DT	4	\$17,020
41	04/14/98	GE 00066	ZB6000	1	\$680
42	04/16/98	GE 00109	ZL2002DT	1	\$5,600
			ZL2201DT	2	\$11,680
43	04/17/98	GE 00088	ZL1501DT	1	\$4,658
44	04/20/98	GE 00074	ZL1500DT	4	\$17,020
45	04/27/98	GE 00105	ZL1500DT	3	\$12,765
			ZL1501DT	2	\$8,510
46	04/30/98	GE 00067	ZB6000	4	\$2,700

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
	04/30/98	GE 00087	ZL2000DT	1	\$5,045
47	05/05/98	GE 00065	ZL1500DT	2	\$8,510
			ZB6000DT	1	\$2,960
48	05/18/98	GE 00057	ZL2000DT	1	\$5,045
49	05/20/98	GE 00069	ZB6000	2	\$1,350
	05/20/98	GE 00091	ZB6000	2	\$1,350
	05/20/98	GE 00075	ZL1501DT	2	\$8,510
			ZL2000DT	2	\$10,090
50	05/27/98	GE 00107	ZL1500DT	4	\$17,020
	05/27/98	GE 00076	ZL1500DT	3	\$12,765
			ZL2000DT	1	\$5,045
51	06/01/98	GE 00060	ZL1501DT	3	\$13,974
52	06/04/98	GE 00094	ZL1501DT	1	\$4,658
	06/04/98	GE 00092	ZL1501DT	1	\$4,658
			ZB1702DT	1	\$5,365
			ZL2202DT	1	\$5,950
53	06/08/98	GE 00093	ZL1501DT	2	\$9,316
			ZL1500DT	1	\$4,255
	06/08/98	GE 00064	ZL1500DT	2	\$8,510
			ZL1501DT	1	\$4,658
54	06/11/98	GE 00098	ZL1501DT	1	\$4,255
			ZL1500DT	3	\$12,765
55	06/15/98	GE 00099	ZL2202DT	1	\$5,950
56	06/23/98	GE 00095	ZL1500DT	2	\$8,510
57	06/30/98	GE 00071	ZB6000	3	\$2,025
58	07/01/98	GE 00086	ZL1501DT	1	\$4,658
59	07/06/98	GE 00100	ZL1500DT	4	\$17,020
60	07/17/98	GE 00077	ZL1500DT	1	\$4,255

DAY #	ORIGINAL DATE OF INVOICE	CONTROL NUMBER OF INVOICE	MODEL NUMBER	UNITS	TOTAL PRICE
			ZL2000DT	1	\$5,045
			ZL2202DT	2	\$11,900
61	08/18/98	GE 00061	ZL1501DT	3	\$13,974
62	08/19/98	GE 00110	ZL7001DT	2	\$8,450
			ZL1501DT	2	\$8,510
63	08/26/98	GE 00101	ZL1500DT	4	\$17,020
64	09/09/98	GE 00078	ZL1802DT	1	\$5,280
			ZL2000DT	2	\$10,090
			ZL2002DT	1	\$5,600
65	09/14/98	GE 00102	ZL2201DT	1	\$5,840
66	09/21/98	GE 00056	ZL2000DT	1	\$5,045
67	09/23/98	GE 00083	ZL1500DT	4	\$17,020
			ZL1501DT	4	\$18,632
68	10/02/98	GE 00072	ZL1501DT	1	\$4,658
			ZB7001DT	1	\$4,225
69	10/13/98	GE 00096	ZL1501DT	1	\$4,658

The parties are in agreement that there are two types of accused KBT tractors at issue in this enforcement proceeding, viz., the "B" series and "L" series tractors. The accused "L" series tractors are identified on invoices of Gamut and promotional materials as "Zennoh" and as indicated in Table 1 a model number with the prefix "ZL", such as "ZL 1500." (FF 1, 2). The accused "B" series tractors are identified on said invoices and promotional materials as "Zennoh" and as indicated in Table 1 a model number with the prefix "ZB", such as "ZB 5000" ("B" series caused tractors"). (FF 1, 2).

A summary of accused tractors by series, taken from the said invoices and promotional

materials are in the following Table 2 ("L" series) and Table 3 ("B" series):¹⁴

Table 2

L Series Accused Tractors
ZL240*
ZL1500, ZL1500(DT)
ZL2000(DT)
ZL1501, ZL1501(DT)
ZL1801(DT)
ZL2201*, ZL2201(DT)
ZL2601(DT)
ZL1802(DT)
ZL2002*, ZL2002(DT)
ZL2202*, ZL2202(DT)
ZL2402*, ZL2402(DT)**

Table 3

B Series Accused Tractors
ZB5000, ZB5000(DT)
ZB6000, ZB6000(DT)
ZB7000, ZB7000(DT)
ZB5001, ZB50001(DT)
ZB6001(DT)
ZB7001(DT)
ZB1200(DT)*
ZB1400(DT)
ZB1500*, ZB1500(DT)
ZB1600**, ZB1600(DT)

(FF 3).

In support of complainants' initial submission, Shigeru Kashihara (CEX 3), an engineer of Kubota Corporation who testified in the underlying proceeding, stated:

L-Series KBT tractors (tractors which include an "L" in the prefix of the model number) made for Zen-Noh bear the KUBOTA trademark in various locations:

(i) L Series KBT tractors made for Zen-Noh in the "00" series, namely, those tractors where the last two numbers of the model are "00", such as model numbers ZL1500 and ZL2000, bear the KUBOTA trademark on the hour meter.

¹⁴ Accused tractors identified in Tables 2 and 3 and the following Table 5 with an asterisk are included on Gamut promotional materials, but not on said invoices while those identified with a double asterisk are included on Gamut invoices, but not on Gamut promotional materials (FF 3).

(ii) L Series KBT tractors made for Zen-Noh in the "01" series, namely, those tractors where the last two numbers of the model number are "01", such as model numbers ZL1501 and ZL2201, also bear the KUBOTA trademark on the hour meter.

(iii) L Series KBT tractors made for Zen-Noh in the "02" series, namely, those tractors where the last two numbers of the model number are "02", such as model numbers ZL1802 and ZL2002, bear the KUBOTA trademark at several locations: hood (right, left and front), key, hour meter, level grip and control box.

(CEX 3, ¶ 8). A comparison of Kashihara's testimony and the accused "L" series tractors, set forth in Table 2 supra, shows that all of the accused "L" series tractors bear the KUBOTA trademark.

In contrast to said "L" series tractors the complainants have stated that "the B series tractors may not have borne the KUBOTA trademark on the tractors at the time of importation into the United States." (CBr. at 22). Also, the complainants' stipulated that "[n]one of the tractors identified with a 'ZB' prefix [B series] on Gamut Trading Co., Inc. Price Lists, bearing production numbers GE0003-55 or Gamut Trading Co., Inc. invoices bearing production numbers GE00056-152 have an hour meter."¹⁵ (JSF at ¶ 30).

Based on the foregoing, and because complainants have the burden to demonstrate that the Gamut respondents violated the Cease and Desist Orders in issue, of the two series of accused tractors imported by the Gamut respondents, the administrative law judge finds that while all of the "L" series tractors bear the KUBOTA trademark at the time of importation, none of the accused "B" series tractors bear the KUBOTA trademark at the time of importation.

¹⁵ The hour meter is the primary location of the KUBOTA trademark. (CEX 3).

B. The "L" Series Accused Tractors Violate The Cease and Desist Orders

The Cease and Desist Orders in issue prohibit Gamut Trading and Gamut Imports from the importation, sale, marketing, distribution, offer for sale or transfer of "covered product" which infringes federally-registered U.S. trademark "KUBOTA" (Reg. No. 922,330). See Section II, supra. As stated in Section III supra, in the underlying proceeding, the Commission held that in order to establish infringement, in addition to bearing the U.S. registered KUBOTA trademark, the accused tractors must be materially different from the KTC tractors of the same model number authorized for sale in the United States. Thus, in order to determine if the accused tractors are "covered product" it must be found that the accused tractors (1) bear the KUBOTA trademark and (2) are materially different from the KTC tractors of the same model number authorized for sale in the United States. If either (1) or (2) is lacking in an accused tractor there can be no direct infringement and accordingly the accused tractor is not a "covered product" as recited in the Cease and Desist Orders in issue.

Complainants argued that the "L" series accused tractors bear the KUBOTA trademark in several locations. It is also argued that it is irrelevant that the "L" series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark. (CBr at 20, 21).

The staff argued that the importation and sale of Zen-Noh model "ZL" tractors manufactured by Kubota Corporation and that bear the KUBOTA trademark meet the first element for infringement under the Lanham Act, citing 15 U.S.C. § 1114(1)(a). (SBr at 22-23). The staff further argued that the evidence shows said "ZL" tractors are "materially different" from the U.S. authorized KTC tractors, and therefore Gamut's use of the KUBOTA trademark in connection with those tractors is "likely to cause confusion, or to cause mistake,

or to deceive," citing 15 U.S.C. § 1114(1) (a) (SBr at 26-28).

The Gamut respondents argued that the "L" series Zen-Noh tractors are not included in the Cease and Desist Orders in issue.

As seen in Section IV, A, supra, the evidence establishes that the accused "L" series tractors imported by the Gamut respondents bear the KUBOTA trademark. The administrative law judge agrees with complainants that it is irrelevant to a determination of infringement that said L series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark. The presence of more than one trademark on a product does not exempt a party who sells that product from liability for infringement if the party has not obtained permission to affix any one of those marks to the product. See Carter-Wallace, Inc. v. Procter & Gamble Co., 434 F.2d 794,800 (9th Cir. 1970) (Carter) and Old Dutch Foods, Inc. v. Dan Dee Pretzel & Potato Chip Co., 477 F.2d 150, 154-56 16th Cir. 1973) (Old Dutch). Moreover the position of a symbol or a word is not controlling as to whether or not it performs a trademark function. The relevant issue is whether, when the mark is noticed, it will be understood as indicating the source of the goods. See, Chum King Corp. v. Genii Plant Line, Inc., 403 F.2d 274, 276 (C.C.P.A. 1968) (Genii), Safe-T Pacific Company v Nabisco Inc., 204 USPQ 307, 315 (T.T.A.B. 1979) (Safe-T), and Education Development Corp. v. Educational Corp., 183 USPQ 492 (T.T.A.B. 1974) (Education). See also McCarthy On Trademarks and Unfair Competition §§§ 7.1, 7.3, 7.8 (1996).

With respect to any material differences between the accused "L" series tractors bearing the KUBOTA trademark and the KTC tractors which Kubota corporation designs for the United States market, certain KBT tractors, including those "L" series tractors, are sold in

Japan by Kubota Corporation to Zen-Noh, which is the acronym for an agricultural organization in Japan known as the Japan National Federation of Agricultural Cooperative Associations (KBT tractors sold to Zen-Noh). (FF 6). Kashihara in his declaration (CEX 3) stated that:

A KBT tractor sold to Zen-Noh is identical in all respects to a KBT tractor sold to the Japanese market of the same model number, with two exceptions. First, KBT tractors sold to Zen-Noh have the word "Zen-Noh" on the hood, whereas KBT tractors sold for the Japanese market have the word KUBOTA on the hood. Second, KBT tractors sold to Zen-Noh include a "Z" designation as a prefix to the tractor model number, whereas KBT tractors sold to the Japanese market do not include such a designation. Apart from those two differences, KBT tractors sold to Zen-Noh are identical in all respects to tractors KBT sells to the Japanese market.

(CEX 3, ¶ 6, Emphasis added). In the underlying proceeding, as seen from the following Table 4, the Commission found that the certain KBT "L" series models infringe because they bear the "KUBOTA" trademark and are materially different from the KTC tractors designed by Kubota Corporation for the United States and bearing the same model number:

Table 4

KBT "L" Series Models Found to Infringe In Underlying Investigation (from SX-1)
L240
L1500
L1501(DT)
L2000

L1801(DT)
L2201(DT)
L2601(DT)
L1802(DT)
L2002(DT)
L2202(DT)
L2402(DT)

Because a KBT tractor sold to Zen-Noh is identical to a KBT tractor of the same model number sold to the Japanese market, except that the KBT tractors sold to Zen-Noh have the words "Zen-Noh" on their hoods and have the "Z" designation as a prefix to the tractor model number both of which the administrative law judge finds do not affect the materiality issue, complainants have established that the accused "L" series tractors bearing the KUBOTA trademark in the following Table 5 are materially different from the KTC tractors of the same model number (except the "Z" prefix):

Table 5

Accused "L" Series Tractors (from Gamut Invoices and Promotional Materials)
ZL240*
ZL1500, ZL1500(DT) ¹⁶

¹⁶ The designation (DT) indicates that a tractor is four wheel drive. (FF 7-9). As explained in the declaration of Kashihara (CEX 3), the DT version of a particular tractor is identical in all respects to a non-DT version of the same model, except that the DT version is four wheel drive and the

ZL1501, ZL1501(DT)
ZL2000, ZL2000(DT)
ZL1801(DT)
ZL2201*, ZL2201(DT)
ZL2601(DT)
ZL1802(DT)
ZL2002*, ZL2002(DT)
ZL2202*, ZL2202(DT)
ZL2402(DT)**

Based on the foregoing, the administrative law judge finds that complainants have established that the accused "L" series tractors are "covered" product as defined in the Cease and Desist Orders in issue and accordingly violated not only Part III (A) of the Cease and Desist Orders in issue, viz., "import or sell for importation into the United States covered product" but also Part III (B) of said orders, viz., "sell, market, distribute, offer for sale, or otherwise transfer ... in the United States imported covered product."¹⁷

The administrative law judge rejects the Gamut respondents' argument that the issue involving the accused "L" series tractors centers itself on the enforcement by Customs as to Zen-Noh tractors only with hour meters labeled KUBOTA. (RBr at 6). As seen in the

non-DT version is two wheel drive. (FF 7-9). Therefore, as Kashihara further explained in his declaration, any finding of material differences for a particular model number marked as SX-1 will apply to both the DT and non-DT versions of a particular model. (FF 7-9).

¹⁷ There is ample support for violation by the Gamut respondents of Part II (B) of said orders. See FF 23, 24.

Kashihara declaration, CEX 3, certain of the accused "L" series tractors are not limited to bearing the KUBOTA trademark on the hour meter. Thus, the issue in this enforcement proceeding is not limited to those "Zen-Noh" tractors with hour meters labeled KUBOTA, but in fact encompasses all the accused "L" series tractors that bear a KUBOTA trademark anywhere.

The administrative law judge also rejects the Gamut respondents' arguments that the accused "L" series tractors with hour meters bearing the KUBOTA trademark do not violate the Cease and Desist Orders in issue, because Customs cleared those tractors for importation; that since the Zen-Noh tractors with KUBOTA trademarked hour meters were imported, the complaint is with Customs not with Gamut or any other American business; and that the Federal Circuit decision in Hyundai Electronics Industries Co. Ltd. v. U.S. International Trade Commission, 14 USPQ2d 1396 (Fed. Cir. 1990) (Hyundai Electronics) supports the proposition that "if U.S. Customs enforces the Exclusion Order in a manner with which Kubota does not agree, then a separate legal action must be taken in a separate Federal District Court to cause Customs to change its enforcement," citing Id. at 1401. (RBr at 6-7).

While Customs allowed the importation of the accused "L" series tractors, Customs blocked the importation of "L" series tractors by letters dated July 31, 1997 and September 23, 1997 on the grounds that they violated the KUBOTA trademark. (CEX 82 and 83).¹⁸ Thus,

¹⁸ Significantly, as indicated by a Customs letter dated January 22, 1999, a copy of which was submitted to this administrative law judge by complainants on February 23, 1999 and which complainants represented was a letter sent to the Gamut respondents' counsel, it was Customs' position that a tractor which does not bear the KUBOTA trademark is not subject to the orders in issue. Said letter, in part, reads:

the Gamut respondents were put on notice at least by the letter of Customs dated July 31, 1997 (CEX 82) that Customs considered "L" series tractors, which bear the KUBOTA trademark, in violation of the Cease and Desist Orders in issue.¹⁹ Hyundai Electronics, relied on by the Gamut respondents, is inapposite to this enforcement proceeding. In Hyundai Electronics appellant Hyundai contended that the Court should set aside the Commission remedy determination, viz. a limited exclusion order, on the grounds that such a remedy was unsupported by substantial evidence. In addressing Hyundai's argument, the Federal Circuit nowhere in its opinion held that a "separate legal action must be taken in a separate Federal District Court to cause Customs to change its enforcement," as the Gamut respondents argued citing Hyundai Electronics at 1401. At 1401, the Court did state:

Hyundai's challenge strikes us as a thinly veiled and vaguely expressed dissatisfaction with the Customs Service certification procedure it expects the Customs Service to devise when it implements the Commission's order. But that procedure is not

Please be advised that tractors bearing a KUBOTA trademark are subject to exclusion where the tractor is under 50 power take-off horsepower and is materially different from the U.S. model. Accordingly, a KUBOTA trademark appearing anywhere on a tractor, including the hour meter, which is under 50 power take-off horsepower and is materially different from the U.S. model would fall under the order. [Emphasis added]

Zen-Noh tractors which have no KUBOTA trademarks appearing anywhere on the tractor are not subject to the exclusion order and may be imported. [Emphasis added].

(REX A).

¹⁹ Neither complainants nor the staff has taken a position as to the specific dates when each of the accused "L" series tractors was imported into the United States. The administrative law judge finds no evidence that Customs permitted entry of the accused "L" series tractors after July 31, 1997. Hence the imports of the accused "L" series tractors must have taken place prior to July 31, 1997.

before us and cannot be contested in a proceeding seeking review of the Commission's underlying remedy determination.

Id. (Emphasis added). Thus in Hyundai Electronics the Court only held that a certification procedure implemented by Customs was not before the Court, and the only issues involved dealt with the Commission's underlying remedy determination.

The administrative law judge further rejects the Gamut respondents' arguments that the accused "L" series tractors do not violate the Commission Cease and Desist Orders because the Cease and Desist Orders do not list specific Kubota model numbers which are materially different and thus infringe the KUBOTA trademark; that there has never been a model by model comparison of the KTC tractors to the KBT tractors to determine whether there are in fact material differences; and that there was no finding in the underlying investigation that 45 models of KBT tractors were infringing tractors. (RRBr at 3).

While the Cease and Desist Orders in issue did not include specific model numbers, those Orders prohibit the import of tractors that infringe the KUBOTA trademark. As stated supra, if a KBT tractor that bears the KUBOTA trademark is materially different from the corresponding KTC tractor of the same model number it infringes the KUBOTA trademark. Thus, the administrative law judge finds that it is not necessary to have a specific model number to comply with the Cease and Desist Orders in issue but rather the Gamut respondents need only know whether or not the accused imported "L" series tractor bearing the KUBOTA trademark is materially different from the corresponding KTC model number tractor. Furthermore, there has been a model by model comparison of KBT and KTC tractors of the same model number in order to determine if they are materially different. As stated supra, in

the underlying investigation the Commission explicitly found 45 different models of KTC tractors materially different from their corresponding KBT model tractors. Moreover, as stated supra, the accused "L" series tractors in this enforcement proceeding have the same model numbers as the "L" series tractors found to be infringing in the underlying investigation. Therefore, the administrative law judge finds that the lack of specifying model numbers in the Cease and Desist Orders in issue does not render the Orders ineffectual.

The administrative law judge, in addition, rejects the argument of the Gamut respondents that while "some of the ZL series tractors may have been sold with hour meters labeled KUBOTA. The hour meter does not comprise a secondary, conflicting tractor label. It is a parts label" (RRBr at 6). As legal precedent shows, it is irrelevant to a determination of infringement that the accused L series tractors may bear the name "Zen-Noh" in addition to the KUBOTA trademark and the position of a trademark is not controlling as to whether it performs a trademark function. See Genii, Education, Carter, Old Dutch and Safe-T, supra. The Gamut respondents have cited no legal precedent to the contrary.

C. The "B" Series Accused Tractors Do Not Violate The Cease And Desist Orders

Complainants argued that while the accused B series tractors may not have borne the KUBOTA trademark on the tractors at the time of importation into the United States, the Gamut respondents used the KUBOTA trademark extensively in connection with offering those tractors for sale in marketing efforts, in promotional materials and in representations made to customers (CBr at 22); and that since February 1997 the Gamut respondents used the KUBOTA trademark in their promotional materials to advertise the "B" series accused tractors and encouraged dealers to inform their customers that those tractors were manufactured by

Kubota Corporation. (CRBr at 23). Complainants also argued, under a heading titled "F. Contributory Infringement," that the Gamut respondents induced others to infringe the KUBOTA trademark. (CBr at 25).

The staff argued that the Gamut respondents "used" the KUBOTA trademark in connection with the sale, offer for sale, and advertising of the accused Zen-Noh model "ZB" tractors ("B" series tractors) in violation of the Cease and Desist Orders in issue. (SBr at 24). However the staff later eliminated the sales of the accused "B" series tractors in its determination of a penalty amount stating that while between February 25, 1997 and March 10, 1998 there were sales of the accused "B" series tractors, there was "no evidence that they bore the KUBOTA trademark or that Gamut advertised them as 'Kubotas'." (SBr at 42).

The Gamut respondents argued that the "B" series Zen-Noh tractors are not included in the Cease and Desist Orders in issue.

As seen in Section IV A, supra, complainants have not established that the accused "B" series tractors, as received by Customs, bear the KUBOTA trademark. The Cease and Desist Orders in issue specifically refer to tractors "that infringe federally-registered U.S. trademark KUBOTA (Reg. No. 922,330)". See Section III supra.²⁰ Since said "B" series tractors lack the KUBOTA trademark, as those tractors are received by Customs, the administrative law judge finds no direct infringement. Accordingly he finds that complainants have not established the accused "B" series tractors are "covered product" as defined in the

²⁰ Customs has interpreted the relief granted by the Commission as requiring that imported tractors bear a KUBOTA trademark on the tractor. See fn.18 supra.

Commission's Cease and Desist Orders in issue and thus complainants have not established that the Gamut respondents have violated either (A) or (B) of Part III of said orders.

Complainants have argued that there is contributory infringement involving the accused "B" series tractors, in that the Gamut respondents induced others to infringe. (CBr at 25). Complainants' argument appears to be an attempt to circumvent (B) of Part III of the Cease and Desist Orders in issue. Part III (B) does prohibit the selling, marketing, distributing, offering for sale in the United States certain imported goods. However it specifically limits said imported goods to "imported covered product." The Gamut respondents in selling marketing, distributing and/or offering accused "B" series tractor are not marketing an "imported covered product." Hence the administrative law judge has found no violation of Part III (B) of the Cease and Desist Orders in issue.

In addition it is well settled that there can be neither inducement of infringement or contributory infringement in the absence of direct infringement. Thus, the Supreme Court in Aro Mfg. Co, Inc. v. Convertible Top Replacement Co., 128 USPQ 354 (1961) stated that it is a fundamental precept "that there can be no contributory infringement in the absence of direct infringement." Id. at 357. Moreover, the Federal Circuit in Met -Coil Sys. Corp. v. Korners Unlimited, Inc., 231 USPQ 474 (1986) stated:

Because of our affirmance of the district court's holding that Met-Coil's customers enjoyed an implied license to practice the invention claimed in Met-Coil's patent, there can be no direct infringement under the facts of this case. Absent direct infringement of the patent claims, there can be neither contributory infringement, Porters v. Farmer Supply Service, Inc., 229 USPQ 814, 815 (Fed. Cir. 1986), nor inducement of infringement, Stuckenberg v. Teledyne, Inc., 169 USPQ 684, 586 (9th Cir. 1971).

Id. at 476-77. See also Micro Chemical Inc. v. Great Plains Chemical Co., 41 USPQ2d 1238, 1247 (Fed. Cir. 1997) and Preemption Devices v. Minnesota Mining & Manufacturing, 231 USPQ 297, 299 (Fed. Cir. 1986). Hence because the administrative law judge has found no direct infringement by the "B" series tractors, as received by Customs, he finds that complainants have not established any contributory infringement or inducement of infringement by the Gamut respondents with respect to those tractors.

Specifically, the administrative law judge rejects complainants' argument that even though the accused tractors may not have borne the Kubota trademark, the respondents are infringing because they use the Kubota trademark extensively in connection with the sale of the accused tractors, citing McCarthy On Trademarks § 25:26 (1997), and that respondents infringe because "there is no requirement that the product itself be used in commerce," citing Miller Brewing Company v. Carling O'Keefe Breweries of Canada, LTD, 452 F. Supp. 429, 442 (W.D.N.Y. 1978). (CBr at 22, CRBr at 3 and 9). In a section 337 investigation the infringement analysis is directed at the accused goods at the time of importation and is not directed at activities that occur wholly within the United States after importation. Thus, the Commission, in the underlying investigation, stated:

The unlawful act defined by section 337 is the "importation into the United States, the sale for importation into the United States, or the sale within the United States after importation" of an article that infringes a registered trademark. 19 U.S.C. §1337(a)(1)(C). Thus, for purposes of establishing a violation of section 337, the question whether an item is infringing should be determined at the time of importation or sale, not at some later point in time when the ultimate purchaser may have an opportunity to acquire the proper labels. [which labels were in the English language and thus eliminated the material differences in the tractors]

Tractors, 44 USPQ2d at 1392 (Emphasis added). Therefore, because complainants have failed to establish that the "B" series tractors bear the KUBOTA trademark at the time of importation, there cannot be "importation into the United States, the sale for importation into the United States, or the sale within the United States after importation of an article that infringes a registered trademark" because there is no direct infringement in the importation.²¹

The administrative law judge also rejects arguments that the Gamut respondents have violated any Commission Cease and Desist Order because they have induced their dealers to infringe the KUBOTA trademark by encouraging the resale of tractors the Gamut respondents sell and by supplying their dealers with counterfeit KUBOTA labels with instructions to affix the labels on the accused tractors. (CBr at 28). Specifically, it is argued that in William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526 (1924) (Warner) the Supreme Court held that a manufacturer is liable if it enables or induces sellers to deceive their customers by palming off its product as the product of another; and that a party is liable for contributory infringement if it (i) intentionally induces another to infringe a mark, or (ii) continues to supply a product knowing or having reason to know that the recipient is using the product to engage in trademark infringement, citing Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 853-54 (1982) (Inwood). (CBr at 27-28).

In Warner the Supreme Court agreed with the court below that "the charge of infringement was not sustained." Id. at 528. The Supreme Court then made its liability analysis on principles of unfair competition regarding activities that occurred wholly within the

²¹ The administrative law judge makes no finding as to whether any action of the Gamut respondents in the United States does or does not constitute direct infringement.

United States. Id. Thus, the administrative law judge finds that the facts of Warner and the Supreme Court's holding in that case are inapposite to this enforcement proceeding.

Furthermore the Supreme Court in Inwood found direct infringement before it found contributory infringement. Thus the Court acknowledged that:

Ives did not allege that the petitioners themselves applied the Ives trademark to the drug products they produced and distributed, it did allege that the petitioners contributed to the infringing activities of the pharmacists who mislabeled their generic cyclandelate.

Id. at 850 (Emphasis added). The Court then stated "It is undisputed that those pharmacists who mislabeled generic drugs with Ives' registered trademark violated § 32." Id. at 854.

Thus the administrative law judge finds that Warner and Inwood do not support complainants' argument that the Gamut respondents are liable for contributory infringement with respect to the accused "B" series tractors that do not bear the KUBOTA trademark at the time of importation.

Moreover, the administrative law judge rejects complainants' argument that the Gamut respondents are liable for contributory infringement by the offer of sale of infringing KBT tractors. (CBr at 47). 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 28 (Aug. 1991) (EPROMS), aff'd. sub nom. Hyundai Electronics, cited by complainants, while the Commission did consider evidence that respondent Atmel Corporation (Atmel) offered infringing tractors for sale in assessing the maximum penalty allowed, the Commission first found that Atmel had violated the Commission's Cease and Desist Order which provided that

Atmel "shall not import into or sell for importation, erasable programmable read only memories, whether assembled or unassembled...that infringe claim 2 of U.S. Letters Patent 4, 223, 395..." *Id.* at 9. (Emphasis added) In contrast, in this enforcement proceeding, the accused "B" series tractors which the Gamut respondents imported, did not bear the KUBOTA trademark and thus were not infringing when imported by the Gamut respondents.

Based on the foregoing, the administrative law judge finds that complainants have not established that the accused "B" series tractors are "covered product" as defined in the Commission's Cease and Desist Orders in issue.

D. The Gamut Respondents Have Violated The Reporting and Record Keeping Requirements

Each of complainants and the staff argued that the Gamut respondents violated the reporting and record keeping requirements of the Cease and Desist Orders in issue. In support it is argued that on November 14, 1997, respondent Du Puy reported to the Commission on behalf of the Gamut respondents that four units of covered products were in inventory as of February 25, 1997²² (CEFF 207); and that Du Puy stated that "Gamut Trading Company has not imported any units of covered product since February, 1997 nor has it sold any Kubota tractors since February, 1997;" that all of the tractors on hand as of February 25, 1997" have been broken down into parts and sold or have been shipped to the scrap yard as metal." It was also argued that on August 10, 1998, counsel for the Gamut respondents submitted a letter to the Commission dated July 29, 1998 from Du Puy to said counsel, which stated "since the

²² Complainants noted that that letter listed the following covered products: 1 model B6000Dt, 1 model B7001DT, 2 model L1500s. (CEFF 207)

report submitted last year Gamut Trading has not imported or sold any 'Kubota' tractors"; and that when Du Puy submitted those letters, he knew that both submissions contained false statements and as such, the Gamut respondents intentionally violated the reporting requirements of the Cease and Desist Orders. (CBr at 32, 33).

The staff argued that the evidence shows that during the first reporting period between February 25, 1997 and August 31, 1997, the Gamut respondents imported and sold KBT-manufactured Zen-Noh tractors to U.S. customers on at least 24 different days; that during the second reporting period between September 1, 1997 and August 31, 1998 the Gamut respondents sold KBT-manufactured Zen-Noh tractors on at least 38 different days and after August 31, 1998, the Gamut respondents sold KBT-manufactured Zen-Noh tractors on at least 6 different days; that the evidence also shows, as reported in price lists issued during the period between March 12, 1997 and January 9, 1998, that the Gamut respondents either had in their U.S. inventory or received into their U.S. inventory a substantial number of KBT-manufactured Zen-Noh tractors that they advertised to their dealers as being "ZENNOH" tractors, but as reported in price lists issued during the period between March 10, 1998 and September 30, 1998, they either had in their U.S. inventory or received into their U.S. inventory KBT-manufactured Zen-Noh tractors that they advertised to their dealers as being "ZENNOH (Kubota)" tractors and that thus the Gamut respondents violated the reporting requirements of the cease and desist orders by failing to report their importation, sale and inventorying of those tractors; and that in November 1998, after the enforcement complaint was filed, the Gamut respondents threw out all of their importation records and many sales records for KBT-manufactured Zen-Noh tractors sold in the United States after the Cease and

Desist Orders in issue issued on February 25, 1997. (SBr at 29-30).

As seen in Section III supra the Cease and Desist Orders in issue require that the Gamut respondents shall make reports to the Commission, and for the purpose of securing compliance with the Cease and Desist Orders in issue shall retain records concerning imported covered product. The administrative law judge finds that the Gamut respondents sold the accused "L" series tractors that bore the KUBOTA trademark on 56 separate days, in the period from Feb. 27, 1997 to October 13, 1998. See Table 1 supra. The administrative law judge finds further that the failure to report the sale of each of the accused "L" series tractors bearing the KUBOTA trademark was a violation of the reporting requirements of the Cease and Desist Orders in issue.

The administrative law judge also finds that the statements made by the Gamut respondents on November 14, 1997 and August 10, 1998 violated the reporting requirements of the Orders in issue because the evidence does show that the Gamut respondents did import and sell the accused "L" series tractors bearing the KUBOTA trademark. While the position of the Gamut respondents is that such "L" series tractors were not covered product because "the hour meter does not comprise a secondary conflicting tractor label. It is a parts label" (RBr at 6), Customs, on July 31, 1997, put the Gamut respondents on notice that it was denying entry to a shipment of "L" series tractors because they infringed the KUBOTA trademark. Thus, as of July 31, 1997, the Gamut respondents ought to have been aware that Customs considered "L" series tractors bearing the KUBOTA trademark in violation of the Cease and Desist Orders. Therefore, the Gamut respondents ought to have been aware that any sales of the accused "L" series tractors after July 31, 1997 would be subject to the

reporting requirement. Based on the foregoing, the administrative law judge finds that the Gamut respondents knowingly violated the reporting requirements of the Cease and Desist Orders in issue when they stated on November 14, 1997 and again on August 10, 1998 that they had not imported or sold any of the accused "L" series Kubota tractors since February 1997.

The administrative law judge also finds that the Gamut respondents violated the Cease and Desist Orders in issue because they destroyed "records relating to the importation, sale, offer for sale, marketing, distribution, or otherwise transferring in the United States of imported covered product made and received in the usual and ordinary course of business" as required by the Cease and Desist Orders in issue. Thus the evidence establishes that the Gamut respondents on November 1, 1998, after the July 31, 1997 Customs letter and after the filing on July 16, 1998 of the complaint in this enforcement proceeding, destroyed three types of documents, viz, records relating to importation, records relating to offer for sales and marketing, and records relating to sales distribution and transfer.²³ With respect to records relating to importation, the Gamut respondents had numerous importation documents, including bills of lading, invoices reflecting the Gamut respondents' purchases of tractors and

²³ The administrative law judge further finds that although DePue testified that he discarded only a "[c]ouple file drawers, probably" of documents (FF 18), his brother Darrel Du Puy testified that Gamut Trading once had something of the order of three to four file cabinets of documents, or approximately nine drawers of documents, in its offices, (FF 18); that Du Puy's testimony is supported by that of Gamut Trading's former bookkeeper, Ms. Ernestine Cadwallader in that Ms. Cadwallader testified that approximately four filing cabinets of documents, each cabinet having four drawers, remained at Gamut Trading when she left the company on or about November 5, 1998 (FF 19-20); and that some of the drawers were full, she explained, and some were only half full. (FF 19-20).

parts from their suppliers, documents showing Customs clearance of the tractors, bills of lading, accounts payable information, faxes from their trading companies and other importation documents that accompanied the tractor shipments. (FF 11, 14). Those importation documents would have shown, inter alia, from whom the Gamut respondents purchased the accused "L" series tractors and for how much. (FF 12). With respect to records relating to offer for sales and marketing and to sales, distribution, and transfer, the Gamut respondents had customer lists and files, which would have shown to whom offers to sell "L" series tractors were sent, letters to and from Gamut Trading's dealers, and other documents relating to Gamut Trading's marketing efforts. (FF 15 and 17).

In addition, respondent De Pue, when asked about the information used to generate the 1996 and 1997 financial statements of the Gamut respondents, testified that the underlying information was contained on computer files, including receivables, payables, payroll and invoices, and that the computer containing these files was sold in January of 1999. (FF 29). The date of sale of the computer was after the date on which the Gamut respondents were put on notice by Customs that "L" series tractors were infringing and was also after the date on which the enforcement complaint was filed. The administrative law judge finds that the sale of the computer containing those files, and thus the effective destruction of those files, a further violation of the record keeping requirements of the Commission Orders in issue because the Gamut respondents ought to have been aware that the records on the computer should have been maintained pursuant to the Commission Orders in issue.

E. Conclusion (Violation)

Based on the foregoing, the administrative law judge has found that the Gamut

respondents have violated Part III (A) of the Cease and Desist Orders in issue by the importation of 172 accused "L" series tractors. Specifically, the administrative law judge has found that the Gamut respondents imported said tractors and they sold said tractors, for a total of 56 separate days,²⁴ as follows:

- one "L" series tractor on each of 14 separate days;
- two "L" series tractors on each of 12 separate days;
- three "L" series tractors on each of 9 separate days;
- four "L" series tractors on each of 14 separate days;
- five "L" series tractors on each of 2 separate days;
- six "L" series tractors on 1 day;
- eight "L" series tractors on each of 2 separate days;
- nine "L" series tractors on 1 day; and
- ten "L" series tractors on 1 day.

In addition, based on the foregoing, the administrative law judge has found that the Gamut respondents have violated Part III (B) of the Cease and Desist Orders in issue in their selling, marketing, distributing and offering for sale in the United States said "L" series

²⁴ Complainants argued that, based on the Gamut respondents' invoices, there are 69 violation days with respect to the "B" and "L" series tractors; and that even though one of the invoices is undated, it should be treated as a separate violation day due to the fact that the Gamut respondents have destroyed pertinent records. (CRBr at 22). The staff argued that when counting violation days the undated invoice should not be treated as a separate day and thus there are a total of 68 violation days. (SBr at 32 fn. 9). In light of the complainants' burden in establishing violation, the administrative law judge agrees with the staff that the undated invoice should not be treated as a separate day. Thus, when calculating the number of days on which the "L" series tractors were sold, the administrative law judge has not included the undated invoice.

tractors; and that the Gamut respondents have violated the Commission's Cease and Desist Orders in issue by failure to report the importation and sale of the accused "L" series tractors and the failure to maintain adequate records concerning the importation and sale of the 172 accused "L" series tractor bearing the KUBOTA trademark.

V. ENFORCEMENT MEASURES

As indicated Section I, supra, the Commission Order directed that, if the administrative law judge finds a violation of the Cease and Desist Orders in issue, he should recommend what enforcement measures, if any, are appropriate, in light of the nature and significance of any violations found.

Subsection (f)(2) of section 337 provides that

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

19 U.S.C. § 1337(f)(2). Congress has made it clear 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." See H.R. Rep. No. 96-317 at 191 and S. Rep. No. 96-249 at 262 (1979).

In assessing the civil penalty and the amount of said penalty, the Commission considers the following factors:

- (1) the good or bad faith of the respondent,
- (2) the injury to the public,
- (3) the extent to which respondent has benefitted from the violations,

- (4) respondent's ability to pay, and
- (5) the need to vindicate the authority of the Commission.

EPROMs and Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, Inv. No. 337-TA-372, Enforcement Proceeding, Commission Opinion (Nov. 1997) (Magnets), affd sub nom San Huan New Materials High Tech, Inc. v. International Trade Commission, 161 F.3d 1347, 1362 (1998) (San Huan). In addition to the above factors, the Commission also considers the public interest as required by the legislative history of subsection (f)(2) of section 337.

A. The Good Or Bad Faith Of The Gamut Respondents

In assessing, and determining the amount of, any civil penalty, as indicated supra, the good or bad faith of the Gamut respondents should be considered. The complainants argued that the Gamut respondents acted in bad faith and such bad faith weighs in favor of imposing the maximum penalty allowable. (CBr at 38-42). The staff argued that the Gamut respondents have demonstrated "significant bad faith" in their failure to comply with the Commission's remedial orders and this bad faith weighs in favor of imposing the maximum penalty allowable. However, the staff, after balancing all the factors in the assessment of a civil penalty, did not seek the maximum penalty. (SBr at 46-47).

The Commission has held that respondents that are subject to a Commission remedial order have "an affirmative duty to take 'energetic steps' to do 'everything in their power' to assure compliance with that order," Magnets, Commission Enforcement Opinion at 24. This duty not only means "not to cross the line of infringement, 'but to stay several healthy steps away,'" Id; and that "[t]he 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." Id. Furthermore a failure on a respondent's part to act in good faith in complying with a Commission remedial order militates in favor of a substantial penalty "in order to ensure the continuing deterrent effect of the Commission's order ..., 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." Id.

In EPROMs the Commission determined "to assess the maximum penalty of \$2,600,000 ..., particularly in light of Atmel's other violations of the Commission's order (failure to report infringing EPROMs for sale) for which penalties are not specifically authorized by statute." Id. at 28. In that regard, the Commission particularly noted this administrative law judge's conclusion that "[i]n view of the entirety of Atmel's conduct regarding the infringing 27C010 and 27H641 EPROMs and the Commission's order the administrative law judge finds that Atmel failed to make a good faith effort to comply with the order." Id. at 28. Based on this administrative law judge's conclusion that the respondent had not acted in good faith with respect to its efforts to comply with the Commission order, the Commission stated:

We believe the failure of Atmel to act in good faith in attempting to comply with the Commissions 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.

Id. at 29.

In determining that Atmel's conduct evidenced a lack of good faith, the Commission,

in EPROMs, pointed out that Atmel had: (1) an unreasonable belief that its product was not within the scope of the Commission's orders; (2) failed to request any advisory opinion or clarification from the Commission; (3) refused to provide any opinion of counsel indicating that it obtained legal advice before engaging in the acts underlying the charge of violation; (4) and decided which parts were subject to the order based on the decisions of management and technical personnel, without legal advice. Id. at 28-29. In addition, the Commission found bad faith because Atmel failed to report to the Commission the offering for sale of infringing product. Id. at 28. Thus, an analysis of the Gamut respondents' conduct to determine if they made good faith efforts to comply with the Cease and Desist Orders in issue includes determining: (A) if the Gamut respondents had a reasonable belief that the accused "L" series tractors are not within the scope of the Commission Cease and Desist orders in issue; (B) whether or not the Gamut respondents requested an advisory opinion or clarification from the Commission; (C) whether the Gamut respondents have provided any opinion of counsel that they had received legal advice before importing the accused "L" series tractors; (D) whether the decision of the Gamut respondents to import the accused "L" series tractors was based on a decision by management or based on legal advice; and (E) whether the Gamut respondents failed to report the importation and offering for sale and sale of the accused "L" series tractors.

As to the first factor, the administrative law judge finds that the Gamut respondents should have had a reasonable belief at least by July 31, 1997, the date of the letter of Customs (CEX 82), that "L" series tractors were within the Cease and Desist Orders in issue. Despite the July 31, 1997 letter of Customs, the evidence conclusively shows that the Gamut

respondents sold 125 accused "L" series tractors after July 31, 1997 in violation of the Cease and Desist Orders in issue. See Table 1 supra. This total disregard of the Customs letter is evidence of bad faith.

The second factor in the bad faith analysis is whether or not the Gamut respondents requested an advisory opinion, pursuant to Commission sale 210.79, or clarification from the Commission as to whether or not the accused tractors would be within the scope of the Cease and Desist Orders in issue. The administrative law judge finds no evidence in the record to show that the Gamut respondents sought an advisory opinion or clarification from the Commission after the July 31, 1997 Customs letter. (FF 21).

The third factor in the bad faith analysis is whether or not the Gamut respondents have provided any opinion of counsel that they had received legal advice before importing the accused tractors. As stated supra, counsel for has Gamut respondents has maintained that the importation of the accused "L" series tractors is not a violation of the Cease and Desist Orders in issue because the KUBOTA mark on the hour meter is a "parts label." See section IV B supra. Moreover, DePue testified that he consulted with his counsel as to whether or not the Zen-Noh tractors infringed the KUBOTA trademark. (FF 22). Thus, the administrative law judge finds the third factor of bad faith lacking in this proceeding.

The fourth factor in the analysis of the Gamut respondents' bad faith is whether their decision to import the accused tractors was based on a decision by management or based on legal advice. As stated supra, it is the opinion of the Gamut respondents' counsel that the importation and sale of all the accused "L" series tractors do not violate the Cease and Desist Orders in issue. The administrative law judge finds that there is no evidence that the Gamut

respondents' based their decision to sell certain accused "L" series tractors after July 31, 1997 on only a management decision, and as stated supra, DePue testified that he consulted with his counsel, as to whether or not the Zen-Noh tractors infringed the KUBOTA trademark. (FF 22). Thus, the administrative law judge finds the fourth factor of bad faith lacking in this proceeding.

The administrative law judge rejects complainants' argument that counsel for the Gamut respondents admitted that "if a tractor imported by the Gamut respondents bore the KUBOTA trademark in addition to another trademark then that tractor would infringe the KUBOTA mark," (CEFF121A, citing CEX 88). While in a filing on December 29, 1998 entitled Issues and Admissions, counsel for the Gamut respondents stated that "[i]f there are double labels placed on the tractors by Gamut, then of course, that is in violation of the Cease and Desist Order" (CEX 88 at 2), it has been the position of said counsel that accused "L" series tractors bearing a KUBOTA trademark on the hour meter is only a "parts label" and hence the accused "L" series tractor is not a covered product as required by the Cease and Desist Orders in issue. See RRB at 6.

The administrative law judge also rejects complainants' further argument that the Gamut respondents admitted infringement. DuPuy, who is not a lawyer, at his deposition on January 19, 1999 did testify:

Q. And what's your understanding of what a covered product is?

A. A tractor with a KUBOTA trademarked label, or such.

Q. So if the name KUBOTA appears on the tractor, it's a covered product, correct?

A. If we imported or sold it as such. Yes... [CEX 37 at 266]

In light of the position taken by counsel for Du Puy that an accused "L" series tractor which bears the KUBOTA trademark only on the hour meter is considered excluded from "[a] tractor with a KUBOTA trademarked label, or such," the administrative law judge finds no indication in the record to support Du Puy taking a position inconsistent with his counsel.

The final step in the analysis set out by the Commission in EPROMs of any bad faith of the Gamut respondents is to determine if they failed to report the importation and offer for sale of the accused tractors. Section IV D supra details the Gamut respondents' failure to report after July 31, 1997 the sale of accused "L" series tractors bearing the KUBOTA trademark, in addition to the destruction of documents relating to their sale. The administrative law judge finds the lack of reporting and the destruction of documents evidence of bad faith.

Based on the foregoing, the administrative law judge finds that while there is evidence of bad faith in the compliance of the Gamut respondents with the Cease and Desist Orders in issue such evidence does not weigh in favor of imposing the maximum penalty allowable under subsection (f)(2), of section 337 as argued by the complainants.

B. Injury To The Public

As indicated supra, the injury to the public should be considered in connection with any penalty.

Complainants argued that there is no evidence that the public will be injured by the Commission's issuance of a "significant" civil penalty because authorized Kubota tractors (KTC tractors) are available to the public from complainants and the public will not be denied access to the subject products. (CBr at 42). The complainants also argued that the Gamut

respondents have traded on the good will of the KUBOTA trademark, and that such use is damaging to complainants' reputation in the United States market and thus warrants the maximum civil penalty allowable. (CRBr at 19).

The staff argued that the evidence suggests that although the Gamut respondents' sales of gray-market Zen-Noh tractors do detract from complainants' reputation in the U.S. market, said sales do not necessarily diminish the authorized sales of the domestic industry and consequently the "injury to the public" factor does not favor imposing the maximum allowable penalty on the Gamut respondents. (SBr at 37, 38).

The complainants, in their rebuttal submission, argued that the staff's argument that a sale of an accused tractor is "not necessarily a lost sale" to complainants is insignificant to the inquiry of injury to the public and that the loss of reputation and goodwill is paramount. (CRBr at 19).

In considering whether a respondent's violation of a Commission remedial order has harmed the public, the Commission's focus is not on harm to the public at large, but on harm to the domestic industry, San Huan 161 F.3d at 1362. Thus the inquiry is whether the Gamut respondents' infringing activities caused sufficient injury to the public, viz., harm to the domestic industry, in order to warrant the imposition of the maximum penalty.

The Commission, in Magnets, found that harm to the domestic industry can generally be measured in terms of the respondents' unlicensed sales. Magnets, at 25. The administrative law judge finds that the evidence shows that the Gamut respondents represented to their customers that the accused "L" series tractors were in fact "Kubotas" (FF 23) and in doing so, the Gamut respondents traded on the goodwill of the KUBOTA trademark in the

United States market, and sold their tractors to customers who wanted to purchase Kubota tractors. The evidence already of record in the underlying investigation demonstrates that such sales are potentially damaging to complainants' reputation in the U.S. market. See Tractors, ID at 160-61 (FF 317) and Trial Transcript at 978-980 (Testimony of Robert F. Killian) (September 3, 1996). However, every sale of Gamut's used gray-market KBT-manufactured tractors in the U.S. market is not necessarily a lost sale to complainants and in the underlying investigation complainants asserted that they do not consider new KTC tractors to be in competition with used gray market KBT tractors. See Tractors, ID at 160-61 (FF 317); and Trial Transcript at 978-980 (Testimony of Robert F. Killian). Complainants, in the underlying investigation also stated that they have no policy about their own U.S.-authorized dealers selling gray market KBT tractors, and leave that decision to the discretion of each dealer. See Tractors, Trial Exhibit CX 600 (Witness Statement of Robert F. Killian, ¶ 82, at p. 26).

Based on the foregoing, the administrative law judge finds that, while the Gamut respondents' infringing activities with respect to the accused "L" series tractors may damage the reputation of the complainants, which the administrative law judge finds warrants a civil penalty, the fact that not every gray market sale by the Gamut respondents is a loss to the authorized KTC dealer mitigates the harm to the domestic industry and thus does not warrant the imposition of the maximum civil penalty allowable.

C. Public Interest Factor

Complainants argued that the public interest factor favors the imposition of the maximum civil penalty in this proceeding and that consideration of the public interest includes any potential harm to the public at large that has or may result from violations of the Cease

and Desist Orders and references the fact that two of the complainants have been named as defendants in products liability lawsuits wherein plaintiffs' injuries were allegedly caused by the design of gray market KBT tractors.²⁵ (CRBr at 20).

The staff argued that the public interest weighs in favor of the protection of U.S. intellectual property rights and respect for Commission orders and that assessing a civil penalty is in the public interest by assuring that the Commission's orders will be obeyed, and that the reporting and recordkeeping requirements of such orders will be strictly observed. (SBr at 46).

The complainants provided no Federal Circuit or Commission precedent to support their argument that "potential harm" to the public should be considered. The Federal Circuit, in San Huan, did state:

Finally, addressing the "public interest" factor, the Commission determined that the public interest favors the protection of intellectual property rights and weighs in favor of a "significant" penalty.

San Huan 161 F.3d at 1363 (Emphasis added). While the Commission assessed a significant penalty in Magnets a maximum penalty was not found to be warranted. Magnets at 25.

The administrative law judge finds, in this enforcement proceeding, that the public interest weighs in favor of the protection of the complainants' intellectual property rights in the United States, and that assessing a significant civil penalty is some assurance that the Commission orders will be obeyed and that the reporting and recordkeeping requirements of

²⁵ Complainants however also represented that in George Dunger v Kubota Corp. et. al. when Kubota Corporation filed a motion to dismiss, plaintiff withdrew the complaint against Kubota. (CBr at 45, 46).

said orders will be observed. However he finds that in this proceeding the public interest does not warrant the maximum penalty.

D. Ability Of Gamut Respondents To Pay

In issue as to any assessment of penalty is the Gamut respondents' ability to pay a civil penalty. Eproms, Comm. Op. at 23-24.

Complainants argued that given the Gamut respondents' destruction of documents and the evidence of record, the Commission should ignore any of the unsupported assertions of the Gamut respondents that they do not have any ability to pay a civil penalty. (CBr at 44).²⁶

The staff argued that the fact that there is an absence of any "reliable" evidence to support or refute certain assertions of Messrs. DePue and DuPuy that they are unable to pay a civil penalty should only partially mitigate the amount of civil penalty that the Gamut respondents should be assessed. (SBr at 41).

The Gamut respondents argued that although the possibility of collecting a fine was always "rare" as this proceeding commenced, it was completely ended with the submissions of the affidavits of DePue and DuPuy stating that both were financially broke, had no money, and probably technically are bankrupt since there were debts that could not be paid, and each had as assets, the equity in a home which was protected by "Homestead filings;" and that a

²⁶ On January 29, 1999 in response to complainants' Motion No. 380-76 and the staff's Motion No. 380-77 for production of documents relating to respondents DePue and DuPuy, each of respondents DePue and DuPuy filed affidavits in which they swore that they had no liquid assets themselves and that both Gamut Imports and Gamut Trading were out of business because neither entity had assets. Based on the affidavits submitted by DePue and DuPuy and the record that was then before the administrative law judge, the administrative law judge issued Order No. 70 on February 4, 1999 denying each of Motion Nos. 380-76 and 380-77 to compel.

"mandatory injunction" requiring compliance with the Commission's Cease and Desist Orders in issue is also moot²⁷ because Gamut Imports, Gamut Trading, DePue and DuPuy are no longer in any kind or form of tractor business and have no ability of going back into the tractor business or used tractor business including the sales of Zen-Noh tractors, and will so stipulate. (RBr at 9, 10).

While respondents DePue and DuPuy have submitted affidavits with reference to the Gamut respondents' inability to pay any civil penalty, the affidavit of Du Puy makes no reference to a checking account, savings account, equities or other assets that may have a bearing on his ability to pay. With respect to the Gamut respondents' financial statements showing losses in 1996 and 1997, there is no indication in the record that those statements were audited. Moreover DePue testified that the information used to generate those financial statements was no longer in his possession because they were contained on a file in a computer which was sold in January, 1999 (FF 29). Based on DePue's testimony and the lack of any audit, the administrative law judge finds the Gamut respondents' financial statements concerning losses in 1997 and 1997 questionable. Furthermore, there is evidence in the record, since the issuance of Order No. 70, which demonstrates that the Gamut respondents have assets. Thus, the administrative law judge finds that DePue has financial interests in other businesses and is the owner of Homestead Tractor and Feed (Homestead) (FF 25); that sometime in late 1998 Homestead purchased 5 KBT tractors sold to Zen-Noh from Gamut Trading and that DePue testified that two of those KBT tractors sold to Zen-Noh were being

²⁷ In issue in this proceeding are only whether the Gamut respondents violated certain Cease and Desist Orders and if so the penalty to be recommended. A "mandatory injunction" is not in issue.

offered for sale by Homestead (FF 27 and 28); and that DePue received \$65,000 from the sale of another company, Apple Implement (FF 26). Moreover, the administrative law judge has inferred that the Gamut respondents have sold accused "L" series tractors during 1997 and 1998 and that they obtained a profit of 135 percent over their cost from their sale.²⁸ In addition, the administrative law judge finds that the Gamut respondents had sales of both "L" and "B" series tractors that totaled nearly one million dollars between February of 1997 and October of 1998. See Table 1 supra.

Accordingly, the administrative law judge finds that the Gamut respondents' ability to pay a civil penalty is not a mitigating factor in assessing any penalty.

E. Need to Vindicate Commission Authority

In issue is a need to vindicate the Commission's authority when one of its orders is violated. See Magnets, Commission Enforcement Opinion at 32-33.

Complainants argued that the Commission has a compelling need to vindicate its authority to issue Cease and Desist Orders; that vindication of the Commission's authority involves the assessment of a penalty that provides a "meaningful deterrent" to violation; that in the underlying investigation, the Commission conducted a hearing and determined that "Gamut" had violated section 337; that the Commission issued Cease and Desist Orders to Gamut prohibiting conduct found to be in violation of Section 337; and that the Gamut respondents ignored the Orders. Hence it is argued that, in such circumstances, a significant civil penalty is necessary to provide a meaningful deterrent to future violations. (CBr at 45).

²⁸ See Order No. 76 which issued on April 28, 1999.

The staff argued that the need to vindicate the Commission's authority is influenced in this investigation by the fact that the Gamut respondents misrepresented their sales of infringing KBT tractors on their reports to the Commission, and the fact that they threw out records that were supposed to be kept as required by the Cease and Desist Orders in issue (SBr. at 45-46).

In San Huan the Federal Circuit stated that:

With respect to the factor of the Commission's authority , the Commission determined that a "significant penalty" was necessary in light of San Huan's actions in this proceeding, first unilaterally proposing to enter into the Consent Order, obtaining a termination of the investigation without the issuance of further orders, and continuing the importation substantially unabated. The Commission stated: "[San Huan] here actively induced the Commission to permit them to avoid significant further litigation costs and to import free from interference from the Customs Service. 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."

San Huan, 161 F.3d at 1363, (Emphasis added).

The administrative law judge finds that there is an interest in vindicating the Commission's authority in this proceeding and payment of a civil penalty is warranted since he has found that the Gamut respondents have violated the Commission Orders, although there is no indication that the Gamut respondents actively induced the Commission to permit them to "avoid significant further litigation costs and to import free from interference from the Customs Service," as was done by San Huan in San Huan.

F. Extent Of Benefit To Gamut Respondents

In any penalty assessment, the extent to which the violator has benefitted from the

violation should be considered. See EPROMs and Magnets, *supra*.

Complainants argued that since the Gamut respondents destroyed many of its financial documents it is impossible for complainants to establish the amount of benefit that the Gamut respondents it received from their conduct in violation of the Cease and Desist Orders in issue. (CEFF154-155, 157, 158).

The staff argued that there is evidence that shows , in certain instances, the Gamut respondents benefitted from a mark-up of 118 percent over its cost on the sales of accused tractors. (SBr at 43).

The Federal Circuit in San Huan, in holding that the Commission's approach to determining the extent of the respondent's benefit from violation of the Commission Order was reasonable, stated:

The Commission devoted much attention to factor (4), *i.e.*, the extent to which San Huan benefitted from its violations, "with a view to determining the general order of magnitude of the infringing conduct." San Huan argued before the Commission that the appropriate measure of the benefit was the import value of the products that San Huan admitted were sold in violation of the Consent Order. The Commission, however, determined that the import value "greatly understate[d] the extent of [San Huan's] sales in violation of the Consent Order," and that the sales value of the imported goods better reflected the effect of the infringing sales on the market.

161 F.3d at 1362, (Emphasis in original). The Commission, in EPROMs, in addressing the extent of the respondent's benefit from its violation of the Commission Order stated "[the administrative law judge] also found that substantial competitive advantages accrued to Atmel as a result of its sales of the infringing 27C010 and 27HC641 EPROMs." EPROMs at 25.

The administrative law judge finds that no substantial competitive advantages have

accrued to the Gamut respondents as a result of their violation of the Commission Orders. As stated supra, the sale of the accused "L" series tractors is not necessarily a loss to the authorized KTC dealers. Thus, the absence of a substantial competitive advantage weighs against the imposition of the maximum civil penalty, which the Commission imposed in EPROMs where it found that the respondent had accrued substantial competitive advantages.

However, the administrative law judge finds that the Gamut respondents did benefit from their violation of the Commission Orders. As seen in section IV B and E supra, the administrative law judge has found that the Gamut respondents have sold 172 different "L" series tractors in violation of the Commission Orders. Based on Table 1 supra, the administrative law judge finds, as the staff argued, that the total sales value of the accused "L" series tractors was \$741, 211 (See Attachment "A" to SBr). The administrative law judge has also inferred that the profit made by the Gamut respondents on the sale of the 172 accused "L" series tractors was 135 percent over their costs. See Order No. 76. Thus the administrative law judge finds that the extent of the Gamut respondents' benefit equals the profit made on the sale of the accused "L" series tractors which totals \$425,803.

G. Conclusion (Amount Of Penalty)

Complainants argued that the Gamut respondents willfully and intentionally violated the Cease and Desist Orders in issue in bad faith; and that a maximum penalty of \$6,900,000 be imposed based on a penalty of \$100,000 for "each of the 69 days" for which documents exist showing a violation involving the accused tractors. In support complainants argued that besides selling KBT tractors in violation of Cease and Desist Orders in issue, there is "significant and uncontroverted" evidence that the Gamut respondents marketed and offered to

sell KBT tractors allegedly sold to Zen-Noh and used the KUBOTA trademark extensively in their sales efforts and that although penalties for offers to sell infringing tractors are not specifically authorized by the statute, the Commission, in EPROMs at 28, considered such evidence in assessing the maximum penalty allowed. (CBr at 46-48).

The staff argued that a civil penalty totaling at least \$1 million is the appropriate amount to assess against the Gamut respondents, jointly and severally, referring in particular to the Gamut respondents' alleged lack of good faith in complying with the Cease and Desist Orders in issue, their uncooperativeness in corroborating their professed inability to pay a civil penalty, the "significant" benefit to the Gamut respondents of their violations, the Commission's need to vindicate its authority, and the public interest, and countered by the relative lack of injury to the domestic industry. It is argued that in view of the fact that the total reported infringing sales of the Gamut respondents over the two-year violation period approximated \$741,000, and the approximate gross profit margin on those sales (exclusive of transportation and overhead costs) approximated \$340,000, a civil penalty of at least \$1 million would wipe out KBT tractor sales volume of the Gamut respondents and equal approximately six times the roughly-estimated yearly gross profit margin of the Gamut respondents on such sales; and that in view of the "low likelihood" that all sales in violation of the Cease and Desist Orders in issue have been detected as a result of the Gamut respondents' document destruction and the failure to report sales to the Commission, the assessment of a penalty that is below the allowable maximum but by the same token a multiple of Gamut's approximate profit margin is appropriate. (SBr at 46, 47).

The Federal Circuit has made clear that in determining the amount of penalty to assess

for a violation of a Commission Order the Commission must balance all the factors in the civil penalty assessment. Thus the Court in San Huan, in approving the Commission's penalty assessment, stated:

The Commission concluded: "Based on a balancing of the foregoing factors, particularly the fact that [San Huan] made some, albeit belated, efforts to comply with the Commission's order, we have concluded that the maximum penalty is not warranted in this case. However, we believe that all of the factors discussed above support the recommended penalty of \$50,000 per violation day."

161 F.3d at 1363. Accordingly, the administrative law judge has balanced all of the factors set forth supra in recommending an amount of penalty.

The Commission, in EPROMs at 28, did reject this administrative law judge's assessment of a penalty of twice the domestic value of the infringing product, stating:

In addition it is unclear from the RD why the ALJ chose to recommend a penalty based on the domestic value of infringing EPROMs sold, rather than the daily penalty, which the language of the statute and the legislative history suggests is appropriate unless the domestic value of the articles sold on a given day makes the daily maximum insufficient to serve as a deterrent to a violation.

Id. at 26 (Emphasis in original). The Commission then assessed the maximum penalty in light of this administrative law judge's findings that the factors in the penalty assessment analysis weighed against the respondent, and particularly in light of the respondent's bad faith. Id. at 27-29. In this enforcement proceeding, comparing the level of bad faith demonstrated by the Gamut respondents with that shown by the respondent Atmel in EPROMs, the administrative law judge finds that the bad faith of the Gamut respondents does not rise to the level of bad faith of the respondent Atmel in EPROMs. Specifically the Commission in EPROMs found

that the respondent had an unreasonable belief that the accused product was within the scope of the Commission's Order during the period in issue whereas in this enforcement proceeding not all of the accused tractors violated the Commission Orders in issue and the administrative law judge has found an unreasonable belief for only a portion of the period in issue. Thus, while complainants had put in issue 265 accused tractors, the administrative law judge found a violation involving only the 172 accused "L" series tractors. Moreover, of the 172 accused "L" series tractors, only 125²⁹ were sold by the Gamut respondents after they were put on notice by Customs on July 31, 1997 that the "L" series tractors were infringing. See Table 1 supra. In addition the Commission in EPROMs also found that the respondent Atmel had failed to request an advisory opinion or clarification from the Commission. By contrast, in this enforcement proceeding the administrative law judge has found that the need to request an advisory opinion only arose after the Gamut respondents were put on notice that the accused tractors were infringing. In EPROMs the Commission further found that the respondent refused to provide any opinion of counsel indicating that it obtained competent legal counsel before engaging in the acts underlying the charge of infringement. In this enforcement proceeding the administrative law judge has found that the Gamut respondents did consult their counsel prior to importation and sale of the accused tractors, and that counsel has consistently maintained non-violation of the Cease and Desist Orders in issue. The Commission in

²⁹ For purposes of determining the number of accused "L" series tractors sold after July 31, 1997, the administrative law judge has not included the accused "L" series tractor reflected on the undated invoice in Table 1 supra. In view of the fact that complainants have the burden in establishing violation, the administrative law judge has considered the accused "L" series tractor reflected in the undated invoice as being sold prior to July 31, 1997. See fn. 23 supra.

EPROMs also found that the respondent made its importation decision based on the decisions of management and not legal counsel. In this enforcement proceeding the administrative law judge has found that the Gamut respondents consulted counsel.

The Commission in EPROMs, in addition to finding that the respondent had acted in bad faith, also found that substantial competitive advantages accrued to the respondent as a result of its infringing sales. Id. at 25. In this enforcement proceeding, the administrative law judge has found that substantial competitive advantages have not accrued to the Gamut respondents. The Commission in EPROMs also found that the respondent's violations harmed complainant by the loss of unlicensed sales and that this harmed the public. Id. at 25. By contrast, in this enforcement proceeding, the administrative law judge has found that, while the damage to the complainants' reputation and goodwill warrants a civil penalty, the fact that the sales of the accused "L" series tractors do not represent a loss to the sales of the authorized dealers makes the harm to the domestic industry insufficient to recommend the maximum penalty.

Based on the balancing of the factors in EPROMs, the Commission assessed the maximum penalty against the respondent due to the extent of the respondent's bad faith and due to the fact that many of the other civil penalty factors weighed in favor of the maximum penalty. Because the administrative law judge has found that the Gamut respondents' bad faith does not rise to the same level as the respondent in EPROMs and since he has concluded that certain of the civil penalty factors do not weigh against the Gamut respondents as they did in EPROMs, the administrative law judge finds that a maximum penalty, as assessed in EPROMs, is not warranted in this proceeding.

A maximum penalty moreover is not warranted in every enforcement proceeding. Thus while the Commission in EPROMs did assess the maximum penalty, the Federal Circuit in San Huan let stand the Commission's conclusion that a maximum penalty was not warranted based on the facts of that case. San Huan, 161 F.3d at 1363-4. In San Huan the Commission however did assess a penalty three times the sales value of the infringing goods, and characterized it as a significant penalty. Id. at 1363. The Court noted that the Commission found, inter alia, that the harm to the domestic injury supported the significant penalty recommended by the administrative law judge because "the significant importations and sales of infringing magnets by the enforcement respondents have harmed complainant, and by extension the public," Magnets at 25. In this enforcement proceeding, the administrative law judge has found that not all of the accused tractors violated the Cease and Desist Orders in issue. Also, while the complainants' reputation may have been harmed, the administrative law judge has found that the sale of the accused "L" series tractors does not represent a loss to the authorized KTC dealers. The Commission, in San Huan, further found that the Commission's need to vindicate its authority was "particularly strong" because San Huan, through a consent order, had actively induced the Commission to "permit them to avoid significant further litigation costs and to import free of interference from the Customs Service." San Huan at 1363. In this enforcement proceeding, there is no prior history of a consent order and the administrative law judge finds that the Gamut respondents did not actively induce the Commission to "permit them to avoid significant further litigation costs and to import free of interference from the Customs service." San Huan, 161 F.3d at 1363.

Based on a balancing of the factors in San Huan, the Commission approved a penalty

of three times the sales value where several of the factors weighed in favor of a significant penalty and where the Commission's need to vindicate its authority was "particularly strong." In view of the fact that the administrative law judge has found that the balancing of factors in this enforcement proceeding does not rise to the same level as that in San Huan, the administrative law judge finds that in this proceeding, while there should be a significant penalty, a civil penalty of three times the profit margin on the accused tractors is not warranted.

The administrative law judge does find, as the staff argued, that in order to have a deterrent effect the appropriate penalty must be a multiple of the profit gained by the Gamut respondents. Accordingly, the administrative law judge finds that the appropriate civil penalty is two times the profit made on the sale of the infringing "L" series tractors after July 31, 1997, the date on which the Gamut respondents were put on notice by Customs that "L" series tractors were in violation of the Cease and Desist Orders in issue. The administrative law judge has inferred that the profit made on the sale of the "L" series tractors was 135 percent over the cost to the Gamut respondents. See Order No. 76. The sales value of the accused "L" series tractors sold after July 31, 1997 was \$567,895. See Table 1 supra. Therefore the profit on the sales of those accused "L" series tractors was \$326,238. Accordingly, the administrative law judge recommends a civil penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476 which is twice the profit.

VI. ADDITIONAL FINDINGS

1. The accused tractors are identified on the Gamut invoices and promotional materials as “Zen-Noh” or “Zen-Noh(Kubota)” followed by a model number with a “ZL” or “ZB” prefix, such as “ZL1500” or “ZB5000.” (CEX 42; CEX 50).

2. The Gamut respondents have represented to their customers that Kubota and KBT tractors sold to Zen-Noh are the same thing (CEX 2 at 3, 6-7; CEX 11; CEX 15; CEPX1; CEPX4; Wilks, Tr. CEX 34 at 24; 25). The Gamut respondents also have identified KBT tractors sold to Zen-Noh as Kubota tractors in their sales literature (CEX 51) and have even provided their customers with sticker labels bearing the “Kubota” name for placement on the KBT tractors sold to Zen-Noh that were sold to Gamut Trading’s dealers. (CEX 1 at 4, 6, 10; CEX 2 at 16-17; CEX 12; CEX 15; CEX 17-18; CEX 20; CEX 26; CEX 40; CEPX2; CEPX4; CEPX6; Wilks, Tr. CEX 34 at 31-32, 35-36, 41-42, 42-44, 64-65; DePue, 1/14/99 Tr. CEX 35 at 130).

3. The following is a summary of accused tractors, taken from the Gamut invoices and promotional materials:

L Series Accused Tractors	B Series Accused Tractors
ZL240* ³⁰	ZB5000, ZB5000(DT)
ZL1500, ZL1500(DT)	ZB6000, ZB6000(DT)
ZL2000(DT)	ZB7000, ZB7000(DT)
ZL1501, ZL1501(DT)	ZB5001, ZB50001(DT)
ZL1801(DT)	ZB6001(DT)
ZL2201*, ZL2201(DT)	ZB7001(DT)

³⁰ Accused tractors identified with an asterisk are included on Gamut promotional materials (CEX 42), but not on Gamut invoices.

ZL2601(DT)	ZB1200(DT)*
ZL1802(DT)	ZB1400(DT)
ZL2002*, ZL2002(DT)	ZB1500*, ZB1500(DT)
ZL2202*, ZL2202(DT)	ZB1600** ³¹ , ZB1600(DT)
ZL2402*, ZL2402(DT)**	

(CEX 42; CEX 50).

4. There is no finding No. 4.
5. There is no finding No. 5.
6. Zen-Noh is the acronym for the Japan National Federal of Agricultural

Cooperative Association. (CEX 1 at 2; CEX 3 at 3).

7. The designation (DT) refers to dual traction or four wheel drive. (CEX 3 at 4-5).

The parties have stipulated that the DT version of a particular tractor is identical in all respects to a non-DT version of the same model, except that the DT version is four wheel drive and the non-DT version is two wheel drive. (JSF20-21; CEX 3 at 4-5; CEX 42; CEX 50).

8. Mr. Kashihara reviewed SX-1 which was referenced in the ID. (CEX 3 at 5; CEX 30). The following is a list of KBT tractors listed on SX-1. (CEX 3 at 5; CEX 30). The specific tractors listed in **BOLD** are as listed in SX-1. (CEX 3 at 5; CEX 30). All of the KBT tractors in the left hand column are identical to the corresponding KBT tractor in the right hand column except for the two wheel drive/ four wheel drive distinction. (CEX 3 at 5-6; CEX 30). Since all the KBT tractors listed in **BOLD** are listed on SX-1 and were found to have had material

³¹ Accused tractors identified with a double asterisk are included on Gamut invoices (CEX 50), but not on Gamut promotional materials.

differences from KTC tractors (See ID at 20-37), the corresponding two wheel drive or four wheel drive version which is in unbolded type also is materially different from corresponding KTC tractors. (CEX 3 at 5; CEX 30).

KBT Tractor - Two Wheel Drive	KBT Tractor - Four Wheel Drive
B5000E	B5000
B6000E	B6000
B7000E	B7000
B5001E	B5001
B6001E	B6001
B7001E	B7001
B1200	B1200DT
B1400	B1400DT
B1500	B1500DT
B1600	B1600DT
L200	No four wheel drive version
No two wheel drive version	L240
L1500	L1500DT
L2000	L2000DT
L2200	L2000DT
L2600	L2600DT
L1501	L1501DT
L1801	L1801DT
L2201	L2201DT
L2601	L2601DT
L3001	L3001DT

KBT Tractor - Two Wheel Drive	KBT Tractor - Four Wheel Drive
L1802	L1802DT
L2002	L2002DT
L2202	L2202DT
L2402	L2402DT

(CEX 3 at 5-6; CEX 30).

9. Based upon Mr Kashihara's review of the ID and the Commission Opinion (Tractors) he concluded that the material differences that were found between KBT tractors and KTC tractors ID are the same when the unbolded KBT tractors identified above are compared with KTC tractors. (CEX 3 at 6-7).

10. The Cease and Desist Orders issued to the Gamut respondents includes the following:

Within (30) days of the last day of the reporting period, respondent shall report to the Commission the following: the quantity in units and the value in dollars of the foreign-produced covered product that Respondent has imported or sold in the United States during the reporting period of that remains in inventory at the end of the period.

Any failure to make the required report shall constitute a violation of this Order.

(CEX 31 and 32 at 4).

This paragraph further requires that such reporting be made within thirty (30) days of August 31, of each year until expiration or abandonment of the KUBOTA trademark, starting with 1997. (CEX 31 and 32 at 4).

11. The complaint in this proceeding, which was served on the Gamut respondents on or about October 5, 1998, put the Gamut respondents on notice that documents relating to the

importation, offer for sale, and sale of KBT tractors sold to Zen-Noh are relevant to this proceeding. (Enforcement Compl. at ¶¶ 26-45). Nonetheless, only a month after the complaint was served on them, the Gamut respondents proceeded to destroy those documents. (DePue, 1/15/99 Tr. CEX 36 at 2003-203).

12. The importation documents would have shown what kinds of tractors the Gamut respondents imported; whether the tractors had the Zen-Noh name on them when they were imported; when the Gamut respondents imported the tractors; whether the accused tractors were imported as whole tractors or in parts; and from whom the Gamut respondents purchased the tractors and for how much. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 78, 80, 82-83, 183-185; DePue, 1/15/99 Tr. CEX 36 at 208, 209; Du Puy, 1/19/99 Tr. CEX 37 at 97, 215-216; Du Puy, 1/20/99 Tr. CEX 38 at 298-299).

13. The Gamut respondents discarded those importation documents when Gamut Trading closed in November 1998. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 24, 80-81, 183-185; Du Puy, 1/19/99 Tr. CEX 37 at 97).

14. The Gamut respondents also routinely discarded faxes from their trading companies, which helped clear the imported tractors through Customs, as well as communications from their suppliers. (CEX 70-71; DePue, 1/15/99 Tr. CEX 36 at 186-187; Du Puy, 1/19/99 Tr. CEX 37 at 69-71).

15. The Gamut respondents once had customer lists and files, which would have shown to whom offers to sell tractors were sent; letters to and from Gamut Trading's dealers; and other documents relating to Gamut Trading's marketing efforts. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 101-103; Du Puy, 1/19/99 Tr. CEX 37 at 90-91). The Gamut respondents

destroyed those documents in November 1998. (DePue, 1/14/99 Tr. CEX 35 at 101-103; Du Puy, 1/19/99 Tr. CEX 37 at 90-91).

16. The Gamut respondents discarded, on a routine basis, inventory lists, which reflected unsold tractors. (Du Puy, 1/19/99 Tr. CEX 37 at 134-135, 195-196, 197).

17. The Gamut respondents once had customer files, documents, and computer files, including invoices that showed to whom the tractors were sold and for how much, accounts receivable information, and other normal business records. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 23-24; DePue, 1/15/99 Tr. CEX 36 at 177, 183-184; Cadwallader, Tr. CEX 39 at 18-19). Those files and documents were destroyed in November 1998. (CEX 70-71; DePue, 1/14/99 Tr. CEX 35 at 23-24; DePue, 1/15/99 Tr. CEX 36 at 183-185).

18. Although DePue testified that he discarded only a “[c]ouple file drawers, probably” of documents (DePue, 1/15/99 Tr. CEX 36 at 177), Du Puy testified that Gamut Trading once had something of the order of three to four file cabinets of documents, or approximately nine drawers of documents, in its offices. (Du Puy, 1/19/99 CEX 37 at 71, 72).

19. Ernestine Cadwallader, is a bookkeeper for Homestead Tractor, a retailer of tractors and tractor parts, owned by Mr. DePue. (Cadwallader, Tr. CEX 39 at 10-11, 12). Prior to working for Homestead, Ms. Cadwallader worked for Gamut Trading as an office clerk from May 1996 through November 1998. (Cadwallader, Tr. CEX 39 at 12-14). Ms. Cadwallader’s activities included answering the phone, handling the payroll, mailing accounts payable checks, and creating advertising brochures, and sending boxes to storage. (Cadwallader, Tr. CEX 39 at 12-14, 17).

20. Ms. Cadwallader testified that during the period between February 1997 and

November 1998, invoices, customer files, accounts payable files, and payroll files were kept in four four-drawer file cabinets. (Cadwallader, Tr. CEX 39 at 14-15, 16). Some of the drawers were full, and some of the drawers were half full. (Cadwallader, Tr. CEX 39 at 15). In addition, DePue had one two-drawer file in his office, and Mr. Du Puy had one four-drawer filing cabinet in his office. (Cadwallader, Tr. CEX 39 at 27).

21. There is no evidence in the record that shows that the Gamut respondents requested an advisory opinion or clarification from the Commission as to whether or not the accused tractors would be within the scope of the Commission Orders in issue.

22. In his deposition of January 14, 1999, DePue testified that:

Q. At that time, did you consult with your counsel about whether Zen-Noh tractors infringed the KUBOTA trademark? And in asking that question, I want you to know that I only want a yes or know answer.

A. Yes.

Q. And when did you consult with your counsel about that?

A. I don't recall.

Q. And was your counsel Mr. Walker who you consulted with?

A. Yes.

(CEX 36 at 202).

23. The Gamut respondents encouraged its dealers who purchased the KBT tractors sold to Zen-Noh to inform their customers that those tractors were actually manufactured by KBT. (Du Puy, 1/19/99 Tr. CEX 37 at 237, 238).

24. The Gamut respondents provided KUBOTA labels to its dealers with instructions

to affix those labels to the accused tractors it sold them. (CEX 1 at 4, 6, 10; CEX 2 at 16-17; CEX 12; CEX 15; CEX 17-18; CEX 20; CEX 26; CEX 40; CEPX 2; CEPX 4; CEPX 6; Wilks, Tr. CEX 34 at 31, 32, 35, 36, 41, 42-44, 64, 65; DePue, 1/14/99 Tr. CEX 35 at 130).

Recognizing that its dealers would not purchase tractors bearing the "Zen-Noh" name, the Gamut respondents represented to their dealers that the "Zen-Noh" tractors they were selling were in fact KUBOTA tractors. (CEX 2 at 3, 6-7; CEX 11; CEX 15; CEPX 1; CEPX 4; Wilks, Tr. CEX 34 at 24, 26, 47, 48; Du Puy, 1/19/99 Tr. CEX 37 at 234, 235, 236, 248-249).

25. DePue testified that Homestead, another company that he owned and that is in the retail tractor business, paid Gamut at least \$10,000 for five KBT tractors that were originally sold to Zen-Noh, or approximately \$2,000 per tractor in November of 1998. (DePue, 1/14/99 Tr. CEX 35 at 56, 57).

26. DePue recently received \$65,000 from the sale of another company, Apple Implement Manufacturing. (DePue, 1/14/99 Tr. CEX 35 at 45, 48).

27. Sometime in late 1998, Homestead Tractor purchased five KBT tractors sold to Zen-Noh from Gamut Trading. (DePue Tr. CEX 35 at 52-57).

28. As of the time of his deposition on January 14, 1999, DePue testified that two of the KBT tractors sold to Zen-Noh purchased from Gamut Trading were being offered for sale by Homestead. (DePue Tr. CEX 35 at 57).

29. Information used to generate the 1996 and 1997 financial statements were contained on computer files, and included receivables, payables, payroll and invoices. The computer containing those files was sold in January 1999. (DePue Tr. CEX 36 at 170 -173).

VII. CONCLUSIONS OF LAW

1. The Gamut respondents have violated the Cease and Desist Orders in issue.
2. The Gamut respondents have violated each of Part III (A) and Part III (B) of the Cease and Desist Orders in issue by the importation, and in the selling, marketing, distributing and offering for sale, of each of the accused "L" series tractors.
3. The Gamut respondents have not violated Part III (A) and Part III (B) of the Cease and Desist Orders in issue by the importation, and in the selling, marketing, distributing and offering for sale, of each of the accused "B" series tractors.
4. The Gamut respondents have violated each of the Cease and Desist Orders in issue by failure to report the importation and sale of the accused "L" series tractors and failure to maintain adequate records concerning said importation and sale.
5. The Gamut respondents have not violated each of the Cease and Desist Orders in issue by any failure to report the importation and sale of the accused "B" series tractors and any failure to maintain adequate records concerning said importation and sale.
6. In light of the nature and significance of the violation by the Gamut respondents of each of the Cease and Desist Orders in issue it is recommended that a penalty be assessed against the Gamut respondents, jointly and severally, for a total aggregate amount of \$652,476 as an enforcement measure.

VIII. ORDER

Pursuant to the Commission Order dated October 28, 1998 and based on the foregoing, and having considered all of the submissions in this enforcement proceeding, the administrative law judge finds a violation of the Cease and Desist Orders in issue by the

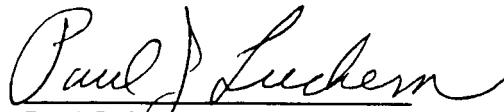
Gamut respondents and further recommends that the Commission assess against the respondents, jointly and severally, as a penalty, a total aggregate amount of \$652,476.

The administrative law judge hereby CERTIFIES to the Commission the final initial and recommended determinations. The submissions of the parties filed with the Secretary on the matter are not certified, since they are already in the Commission's possession.

Further it is ordered that:

1. In accordance with Commission rule 210.39, all material heretofore marked in camera because of business, financial and marketing data found by the administrative law judge to be cognizable as confidential business information under Commission rule 201.6(a) is to be given in camera treatment continuing after the date this proceeding is terminated.

2. Counsel for the parties shall have in the hands of the administrative law judge a copy of the final initial and recommended determinations with those portions containing confidential business information designated in brackets, no later than Friday May 21, 1999. Any such bracketed version shall not be served by telecopy on the administrative law judge. If no such version is received from a party, it will mean that the party has no objection to removing the confidential status, in its entirety, from this recommended determination.


Paul J. Luckern
Administrative Law Judge

Issued: April 28, 1999