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Enforcement Penalties at the ITC

Andrea R. Hugill

John C. Jarosz

Katherine D. Cappaert

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Cover Page Footnote

Andrea R. Hugill, BA, MA (International Relations and Economics), DBA (Strategy) and John C. Jarosz, BA, JD, MA (Economics), are Manager and Managing Principal, respectively, at Analysis Group, Inc. Katherine D. Cappaert, BS (Mechanical Engineering) and JD, is a Partner at Steptoe and Johnson. Hugill and Jarosz were involved and provided expert analysis in *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, Inv. No. 337-TA-1012, USITC Pub. 4956 (Sep. 2019), and all three authors were involved in *Certain High-Density Fiber Optic Equipment and Components Thereof*, Inv. No. 337-TA-1194, USITC Pub. 5314 (Mar. 2022, forthcoming). Our views are current and only ours but may change over time. We would like to thank Joey Duong and Carla Mulhern for their invaluable insights and assistance.

Enforcement Penalties at the ITC

*Andrea R. Hugill, John C. Jarosz, and Katherine D. Cappaert**

Abstract:

The U.S. International Trade Commission (“ITC” or “Commission”) has grown in importance as a venue for U.S. companies to pursue intellectual property (“IP”) violators and to block the sale or importation of goods from overseas that infringe U.S. IP rights. Once a violation of the Section 337 of the Tariff Act of 1930 is found, an order halting further infringement, including importation, is almost always entered. In theory, potentially sizeable penalties may be imposed on entities that do not comply with the terms of an import restriction. In practice, the terms of an import restriction are almost always honored, but when they are not, maximum enforcement penalties are rarely imposed. In fact, most penalties for non-defaulting respondents are one-third or less of the maximum penalty allowed by the law. Thus, non-compliance tends not to be too harshly punished.

Penalty determinations at the ITC are governed by a set of six factors, called “the EPROMs factors,” which arose from the Commission’s 1989 decision in Certain Erasable Programmable Read Only Memories (“EPROMs”).¹ To date, no scholarship has sought to examine how courts have treated these factors collectively or evaluated their relevance individually to the penalties ultimately adopted by the ITC. Without such an investigation, parties considering enforcement actions have been left with little guidance as to the merits of their

* Andrea R. Hugill, BA, MA (International Relations and Economics), DBA (Strategy) and John C. Jarosz, BA, JD, MA (Economics), are Manager and Managing Principal, respectively, at Analysis Group, Inc. Katherine D. Cappaert, BS (Mechanical Engineering) and JD, is a Partner at Steptoe and Johnson. Hugill and Jarosz were involved and provided expert analysis in Certain Magnetic Data Storage Tapes and Cartridges Containing the Same, Inv. No. 337-TA-1012, USITC Pub. 4956 (Sep. 2019), and all three authors were involved in Certain High-Density Fiber Optic Equipment and Components Thereof, Inv. No. 337-TA-1194, USITC Pub. 5314 (Mar. 2022, forthcoming). Our views are current and only ours but may change over time. We would like to thank Joey Duong and Carla Mulhern for their invaluable insights and assistance.

¹ There is a different set of nine EPROMs factors from that same case used to evaluate whether an exclusion order, or import restriction, should be extended to downstream products. We are not addressing that set of factors. Our analysis here is directed only to the six EPROMs factors that are used to evaluate whether and at what level enforcement penalties have been imposed when an exclusion order has not been honored.

case.

This paper provides a descriptive analysis of the EPROMs factors as well as an economic analysis of the relationship between these six factors and enforcement penalties imposed on ITC respondents. We undertake a qualitative and quantitative review of all ITC cases to date in which penalties have been assessed either by an Administrative Law Judge (“ALJ”) or by the Commission itself. In short, we find that maximum enforcement penalties are rarely imposed. Moreover, proof of the good faith or bad faith of respondent’s compliance with an import restriction (Factor 1) appears to be the most important of the EPROMs factors. Even proving respondent’s bad faith, however, rarely leads to imposition of the maximum penalty.

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I. INTRODUCTION

U.S. firms increasingly are pursuing legal actions against alleged intellectual property infringers at the International Trade Commission (“ITC”). Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), provides that the ITC can investigate “unfair competition in import trade.”² Those investigations center on the alleged unfair methods of competition and unfair acts in the importation of articles into the U.S and the importation, sale for importation, or sale after importation of articles that infringe a valid IP right, or were manufactured using a process that infringes a valid IP right.

The number of completed Section 337 investigations and ancillary proceedings has risen dramatically from 30 in 2006 to 67 in 2020 before dropping to 64 in 2021; active investigations have risen from 70 to 120 over the same time.³ These cases span a range of forms of IP, but have centered primarily on patent rights. Though there are costs that must be borne and burdens that must be satisfied, the payoff to a successful complainant can be substantial. One form of payoff is the speed of action. The ITC aims to complete (and usually does complete) most investigations in less than 15 months.⁴ Another form of the payoff is the type of relief granted. If a complainant is able to satisfy its burden and show that a violation has occurred, an exclusion order preventing infringing products from entering the U.S. and/or a cease and desist order stopping the sale of infringing products already in the U.S., is almost always granted.⁵ The power of an ITC action can be very strong, in large part, because the power of relief to a prevailing complainant is so strong.

² Section 337 Investigations at the U.S. International Trade Commission: Answers to Frequently Asked Questions, USITC Pub. 4105 (Mar. 2009) at 1.

³ U.S. INT’L TRADE COMM’N, *Section 337 Statistics: Number of New, Completed, and Active Investigations by Fiscal Year*, https://www.usitc.gov/intellectual_property/337_statistics_number_new_completed_and_active.htm (last visited Apr. 20, 2023).

⁴ See *San Huan New Materials High Tech, Inc., v. U.S. Int’l Trade Comm’n*, 161 F.3d (Fed. Cir. 1998) 1347, 1364-65 [hereinafter *San Huan*]; Robert J. Walters & Yefat Levy, Sutherland, Asbill & Brennan LLP, *An Introduction to Remedies and Enforcement Proceedings in Section 337 Investigations at the International Trade Commission*, INTELL. PROP. OWNERS ASS’N 11 (2007), <https://ipo.org/wp-content/uploads/2013/04/ITCRemedies.pdf>.

⁵ See 19 U.S.C. §1337(d)(1) (providing that “[i]f the Commission determines, as a result of the investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.”); see generally H. Mark Lyon & Sarah E. Piepmeier, *ITC Section 337 Investigations: Patent Infringement Claims* PRACTICAL L. CO. (2012), <https://www.gibsondunn.com/wp-content/uploads/documents/publications/Lyon-ITCSection337InvestigationsPatentInfringementClaims.pdf>.

Though a powerful tool, an exclusion order is not always honored. When Commission orders are violated, as described in *San Huan New Materials High Tech, Inc., Ningbo Konit Industries, Inc. and Tridus International, Inc. v. International Trade Commission and YBM Magnex, Inc.* (“*San Huan*”),⁶ complainants can pursue enforcement through informal, formal, and/or emergency proceedings at the ITC seeking further relief against the respondent.⁷ Although violations of exclusion orders are rare, complainants have initiated enforcement proceedings associated with alleged violations on more than 30 occasions since 1997. Many of these have resulted in settlements that have terminated the enforcement proceedings before a penalty is determined. Some have resulted in penalties that have been sizeable and garnered (recent) attention in the IP press, such as the \$6 million penalty in the DeLorme Publishing action.⁸ In that case, the Court of Appeals for the Federal Circuit (“Fed. Circuit”) did not disturb the terms of an enforcement penalty (effectuated through a consent order) even though the patent was later invalidated, confirming the sizeable penalty owed by the respondent.⁹ Following the opinion, an IPLaw360 article in March 2022 proclaimed that the “Federal Circuit Shows ITC Consent Orders Have Teeth.”¹⁰

Notwithstanding the substantial penalty in the DeLorme case, typically when the parties do not settle and the ITC undertakes an enforcement action, the penalties granted are often a third or less of what is legally allowed and less than the penalties sought by complainants. In the DeLorme case, IPLaw360 failed to note that the maximum penalty that could have been imposed was \$22.7 million, almost three times higher than that actually imposed.¹¹

II. ENFORCEMENT ACTIONS

Subsection (f)(2) of Section 337 provides that if a respondent violates an exclusion order, the respondent “shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of

⁶ See Walters & Levy, *supra* note 4 at 7.

⁷ See *San Huan*, *supra* note 4 at 1349, 1352-57; Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, Inv. No. 337-TA-372, USITC Pub. 3073 (Nov. 1997) (Enforcement Proceeding) [hereinafter *Magnets*]; Walters & Levy, *supra* note 4 at 2, 6-9.

⁸ See, e.g., Perry Cooper, *Fed. Cir. Appears Reluctant to Nix \$6 Million ITC Patent Penalty*, BLOOMBERG LAW, (Oct. 5, 2021, 11:07 AM), <https://news.bloomberglaw.com/ip-law/fed-cir-appears-reluctant-to-nix-6-million-its-patent-penalty>.

⁹ See Dani Kass, *Federal Circuit Shows ITC Consent Orders Have Teeth* LAW360, (Mar. 8, 2022, 7:35 PM), <https://www.law360.com/articles/1470474/federal-circuit-shows-its-consent-orders-have-teeth>.

¹⁰ See *id.*

¹¹ See *id.*

\$100,000 or twice the domestic value of the articles sold on such day in violation of the order.”¹² This penalty is paid to the United States, not to the complainant.¹³ Once the maximum per diem penalty is established, the Commission generally applies a six-factor analysis to set the actual penalty imposed on the violating respondent within the range defined by law, which is \$0 up to the maximum. The six factors are called the “*EPROMs* factors” because they were first applied in the 1989 matter of *Certain Erasable Programmable Read Only Memories* (“*EPROMs*”), or ITC Inv. No. 337-TA-276.¹⁴

The *EPROMs* factors are used by the ITC to decide how much to penalize a respondent for continuing to sell or import an infringing product after an ITC exclusion order barring such sale and importation has gone into effect. While the Commission has written that it takes into account other factors, the six *EPROMs* factors are intended to act as the primary guidance to a decision that is otherwise determined by the Commission’s “discretionary authority.”¹⁵ This discretion is intended to adjust penalties so that they, at least, ensure a “deterrent effect,” while taking into account other considerations, such as intention and the public interest.¹⁶ In fact, the Commission wrote in *Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, ITC Inv. No. 337-TA-380 (“*Tractors*”) that the goal of the penalty determination is to not only deter future potential violators of ITC exclusion orders, but to penalize violations that were intentional differently from those that were unintentional.¹⁷

The *EPROMs* factors have been considered in all published enforcement proceedings when determining a penalty.¹⁸ Table 1 below

¹² *San Huan*, *supra* note 4 at 1357.

¹³ 19 U.S.C. §1337(f)(2).

¹⁴ *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) [hereinafter *EPROMs*]. There is a different set of nine *EPROMs* factors from that same case which is used to evaluate whether an exclusion order or import restriction should be extended to downstream products. We are not addressing that set of factors. Our analysis here is directed only to the six *EPROMs* factors that are used to evaluate whether and at what level enforcement penalties have been imposed when an exclusion order has not been honored.

¹⁵ *Certain Ink Cartridges and Components Thereof*, Inv. No. 337-TA-565, USITC Pub. 4196, Commission Opinion at 41 (Dec. 2010) [hereinafter *Ink Cartridges*].

¹⁶ *See, e.g., Magnets*, *supra* note 7, at 21-22 (citing H.R. Rep. 317, 96th Cong., 1st Sess. 191 (1979); S. Rep. 249, 96th Cong., 1st Sess. 262 (1979)).

¹⁷ *Certain Agricultural Tractors Under 50 Power Take-off Horsepower*, Inv. No. 337-TA-380, USITC Pub. 3227 (Aug. 1999) (Enforcement Proceeding) [hereinafter *Tractors*] at 31, 46 (citing H.R. Rep. 317, 96th Cong., 1st Sess. 191(1979)).

¹⁸ An *EPROMs* analysis is unavailable in publicly available documents in certain cases where the respondent defaulted, such as *Certain Agricultural Tractors, Lawn Tractors, Riding Lawnmowers, and Components Thereof*, Inv. No. 337-TA-486, USITC Pub. 3625 (Aug. 2003), or where the respondent failed to respond to the complaint and notice of investigation.

summarizes the data for those actions, and shows the investigation number, the year of the Commission Opinion or ALJ Enforcement Initial Determination, the respondent(s)' name(s), the penalty imposed, the number of violating days (when it could be determined from the ITC document), the maximum penalty allowed, and the actual penalty imposed as a percentage of the maximum allowed. The data show that the penalty adopted by the Commission for respondents who have not defaulted consistently has been less than the maximum, except in the *EPROMs* case itself. In fact, the median (or middle) penalty as a percentage of the maximum was 27.5 percent of the penalty allowed by the law (22.5 percent excluding respondents who defaulted).

Table 1: All Respondents¹⁹

Inv. No.	Case Nickname	Year	Complainant	Respondent	Violating Days	Defaulted	Actual Penalty	Maximum Penalty	Actual Penalty as a % of Maximum
276	<i>EPROMs</i>	1991	Intel	Atmel	26	0	\$ 2,600,000	\$ 2,600,000	100.0%
372	<i>Magnets</i>	1997	Crucible	San Huan, Ningbo, Tridus	31	0	\$ 1,550,000	\$ 3,100,000	50.0%
380	<i>Tractors</i>	1999	Kubota	Gamut	58	0	\$ 2,320,000	\$ 5,800,000	40.0%
4061	<i>Film Packages</i>	2003	Fuji	Ad-Tek	2	1	\$ 200,000	\$ 200,000	100.0%
4061	<i>Film Packages</i>	2003	Fuji	Argus	24	0	\$ 480,000	\$ 2,400,000	20.0%
4061	<i>Film Packages</i>	2003	Fuji	PhotoWorks	-	0	\$ 1,600,000	\$ 6,400,000	25.0%
4062	<i>Film Packages</i>	2007	Fuji	Jazz, Benun	547	0	\$ 13,128,000	\$ 156,118,017	8.4%
4062	<i>Film Packages</i>	2007	Fuji	Cossentino	479	0	\$ 119,750	\$ 47,900,000	0.3%
565	<i>Ink Cartridges</i>	2009	Epson	Ninestar	202	0	\$ 11,110,000	\$ 20,504,974	54.2%
565	<i>Ink Cartridges</i>	2009	Epson	Mipo	97	1	\$ 9,700,000	\$ 9,700,000	100.0%
565	<i>Ink Cartridges</i>	2009	Epson	Apex	7	1	\$ 700,000	\$ 700,000	100.0%
698	<i>DC Controllers</i>	2013	Richtek	uPI	62	0	\$ 620,000	\$ 6,200,000	10.0%
830	<i>Lamps</i>	2014	Neptun	MaxLite	1	0	\$ 10,000	\$ 100,000	10.0%
854	<i>Satellites</i>	2014	BriarTek	DeLorme	227	0	\$ 6,242,500	\$ 22,700,000	27.5%
921	<i>Marine Sonar</i>	2017	Navico	Garmin	-	0	\$ 37,000,000	\$ 74,000,000	50.0%
1012	<i>Tapes</i>	2019	Fujifilm	Sony	3	0	\$ 210,134	\$ 1,818,366	11.6%
1217	<i>Blowers</i>	2021	Regal	East West	19	0	\$ 86,500	\$ 1,900,000	4.6%
Average for All Respondents					119		\$ 5,157,464	\$ 21,302,433	41.8%
Median for All Respondents					31		\$ 1,550,000	\$ 5,800,000	27.5%
Average for Respondents who did not Default					140		\$ 5,505,492	\$ 25,110,097	29.4%
Median for Respondents who did not Default					45		\$ 1,575,000	\$ 6,000,000	22.5%
Average for Respondents who did not Default, excluding EPROMs					150		\$ 5,728,991	\$ 26,841,643	24.0%
Median for Respondents who did not Default, excluding EPROMs					58		\$ 1,550,000	\$ 6,200,000	20.0%

The difference between the maximum penalties allowed by law and those adopted by the Commission are often millions of dollars. Therefore, the determination of penalties can be significant to a respondent who pays them, to other companies in the respondent's industry who may anticipate positive competitive effects from a respondent paying substantial penalties, and to the U.S. government, who receives these penalties as revenue. As shown in Table 1, maximum allowable penalties under the law have ranged from \$100,000 to over \$156 million, with a median maximum penalty of \$5.8 million.

¹⁹ Blanks for "Number of Violation Days" are for investigations where the public version of the Commission Opinion, or Enforcement Initial Determination, did not specify the number of violation days, or where the information was redacted.

Companies must comply with exclusion orders issued by the Commission, or else face potentially steep penalties, often in addition to damages that may be awarded in separate, parallel non-ITC patent infringement matters. Despite the importance of enforcement penalties to the ITC process and their sometimes-substantial magnitude, the *EPROMs* factors and the accompanying analysis have received little attention in the literature.²⁰ Understanding the ITC's processes and considerations surrounding penalty determination largely has been a black box, except for what can be gleaned anecdotally from the individual ITC documents or comparable cases.

This paper seeks to remedy this information shortcoming by providing an overview of the ITC *EPROMs* factors, explaining what each factor entails, and evaluating the relative importance of each factor in the Commission's decisions. This paper draws on evidence from all the published opinions in ITC enforcement proceedings that resulted in a penalty either being proposed by an ALJ in an Enforcement Initial Determination ("EID") or approved by the Commission in a Commission Opinion. This paper also evaluates quantitatively the importance of each of the six factors for the determination of the actual penalty and how it deviates from the maximum allowable penalty payment. We find that certain *EPROMs* factors show a strong relationship with the penalty chosen, however, most do not. In addition to providing academic understanding, these findings suggest actionable evidence for legal professionals, economists, and parties involved in enforcement actions at the ITC.

III. DESCRIPTION OF THE *EPROMs* FACTORS

Since 1991, there have been nine ITC enforcement proceedings against 17 distinct sets of respondents that have resulted in the Commission imposing a penalty.²¹ There also have been three additional ITC

²⁰ The penalties determined at the ITC, either by the ALJ in the Enforcement Initial Determination or by the Commission in a Commission Opinion has reached over \$13 million for the respondents Jazz Photo Corporation and its founder Mr. Benun in Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406 (Enforcement Proceedings (II)), Opinion at 2 (Sept. 2007) [hereinafter Film Packages II]; and up to \$37 million in Certain Marine Sonar Imaging Devices, Including Downscan and Sidescan Devices, Products Containing the Same, and Components Thereof, Inv. No. 337-TA-921 (Enforcement Proceeding), Enforcement Initial Determination at 73 (Jun. 2017) [hereinafter Marine Sonar].

²¹ See *EPROMs*, *supra* note 14; Magnets, *supra* note 7; Tractors, *supra* note 17; Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406 (Consolidated Enforcement and Advisory Opinion Proceedings), Commission Opinion (Jun. 2003) [hereinafter Film Packages I]; Film Packages II, *supra* note 20; Ink Cartridges, *supra* note 15; Certain DC-DC Controllers and Products Containing the Same, Inv. No. 337-TA-698 (Enforcement Proceeding) Commission Opinion (Jan. 2013) [hereinafter DC-DC Controllers]; Certain Two-Way Global Satellite Communication Devices, System, and Components Thereof, Inv. No. 337-TA-854 (Enforcement Proceeding) Commission Opinion (Jul. 2014) [hereinafter Satellites]; Certain Dimmable Compact Fluorescent Lamps and Products Containing the Same, Inv. No.

enforcement proceedings against three additional respondents that resulted in an EID and proposed penalties that were either never implemented or that have not yet been reviewed by the Commission for various reasons, such as the parties settling the investigation.²² Each of these 12 enforcement proceedings considered the six *EPROMs* factors.

The six factors considered for ITC enforcement penalty determinations are called the “*EPROMs* factors” because they were first considered by the ITC in the enforcement proceedings in ITC Investigation No. 337-TA-276 *Certain Erasable Programmable Read Only Memories, Components Thereof, Product Containing Such Memories, and Processes for Making Such Memories (EPROMs)* in 1991.²³ While *EPROMs* was the first time the ITC considered the six factors, they are not new to government consideration. The six *EPROMs* factors apparently are derived from the factors that the Federal Trade Commission (“FTC”) considers in cease and desist enforcement and penalty cases.²⁴ The Administrative Law Judge in the *EPROMs* case concluded that, “in light of the similarities of the FTC statute to subsection 337(f)(2), it was appropriate for him to look at the factors used in assessing FTC civil penalties in recommending a penalty amount” in ITC penalty determinations.²⁵ While the Commission found that there were differences between the ITC and FTC orders, such as the fact that the ITC penalty is final once the Presidential review period concludes and the FTC penalty is final once the judicial review period concludes, arguments for the appropriateness of these factors were ultimately convincing to the Commission.²⁶ The Commission wrote in its *EPROMs* Commission Opinion that, “[t]he parties agreed that the factors for assessing the appropriate amount of a civil penalty for violation of an FTC cease and desist order are applicable to this enforcement proceeding” and

337-TA-830 (Enforcement/Modification) Commission Opinion (Apr. 2014). The ITC also imposed a penalty in ITC 337 investigation number 503 in 2006; however, the EID was never made public and the Commission chose not to review the EID, therefore the penalty amounts are unknown. *See* *Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy Duty Trucks and Components Thereof*, Inv. No. 337-TA-503, USITC Pub. 3934 (Aug. 2007).

²² *See* *Marine Sonar*, *supra* note 20; *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, Inv. No. 337-TA-1012, USITC Pub. 4956 (Sep. 2019) [hereinafter *Tapes*]; *Certain Blowers and Components Thereof*, Inv. No. 337-TA-1217 (Enforcement) Commission Opinion (Mar. 2022) [hereinafter *Blowers*].

²³ *See* *EPROMs*, *supra* note 14.

²⁴ Federal Trade Commission Act, Pub. L. No. 93-637, title II, Sec. 205, 88 Stat. 2200-01 (1975) (stating that “[i]n the case of a violation through continuing failure to comply with a rule or with subsection (a)(1) of this section, each day of continuance of such failure shall be treated as a separate violation for purposes of subparagraphs (A) and (B). In determining the amount of such a civil penalty, the court shall take into account the degree of culpability, any history of prior such conduct, ability to pay, effect on ability to continue to do business, and such other matters as justice may require.”).

²⁵ *See* *EPROMs*, *supra* note 14 at 23-24.

²⁶ *See id.* at 21-24.

went on to consider the same factors.²⁷

In the first ITC § 337 enforcement proceeding in which a penalty was imposed following the *EPROMs* case, *Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing the Same*, ITC Inv. No. 337-TA-372 (“*Magnets*”), in 1997, the Commission again chose to rely on the factors that the FTC used when determining civil penalties.²⁸ The Commission wrote in *Magnets* that, while it was not required to use the FTC factors, it agreed with the ALJ, who wrote in the EID (then called a Recommended Determination) that “the FTC factors ‘amply flesh out the issues raised in the legislative history of subsection 337(f)(2) for the Commission’s consideration in determining the appropriate amount of a civil penalty.’”²⁹ The Commission noted, however, that it only applied the *EPROMs* factors as a framework, and it did not intend to prevent future ITC enforcement proceedings from considering alternative or modified frameworks for establishing penalties.³⁰ Therefore, it appears that the Commission did not anticipate the permanence of the *EPROMs* factors and anticipated that a replacement might be proposed at a later date, which, of course, has never come to pass.

In 1998, the Respondents in *Magnets*, San Huan New Materials High Tech, Ningbo Konit Industries, and Tridus International (collectively, “San Huan”), appealed the Commission’s decision on enforcement in the Federal Circuit.³¹ San Huan argued that the ITC had no authority to impose civil penalties and that it, San Huan, had a right to a trial *de novo* in district court on the issues of law and facts relating to patent infringement and whether it violated the ITC’s exclusion order, as well as the amount of the penalty.³² In 1998, Federal Circuit Judges Rich, Newman, and Michel affirmed the ITC’s decision in *Magnets* and wrote in the decision that “[i]t was not unreasonable for the Commission to employ the *EPROMs* factors.”³³ This appeal and the resulting decision solidified the role of the *EPROMs* factors in ITC enforcement proceedings. As the Commission wrote in the next enforcement proceedings after *Magnets*, which was *Tractors* in 1999, “[t]he Commission’s reliance on [the *EPROMs*] 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.”³⁴

The six *EPROMs* factors are

²⁷ *Id.* at 23.

²⁸ *See Magnets*, *supra* note 7 at 21.

²⁹ *Id.*

³⁰ *See id.* at 22.

³¹ *See San Huan*, *supra* note 4.

³² *See id.* at 1350.

³³ *Id.* at 1365.

³⁴ *Tractors*, *supra* note 17 at 46.

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 the violation;
5. the need to vindicate the authority of the Commission; and
6. the public interest.³⁵

These factors are discussed in more detail below.

A. The Good or Bad Faith of the Respondent

Factor 1, the good or bad faith of the respondent, assesses whether the respondent attempted to comply with the Commission's orders or whether it sought to circumvent them. Factor 1 is sometimes broken down into five sub-factors that were considered in *EPROMs*:

1. whether the respondent had a reasonable basis to believe that the violating product was not within the scope of the Commission's order;
2. whether the respondent requested an advisory opinion or clarification from the Commission;
3. whether the respondent provided any opinion of counsel indicating that it obtained complete legal advice before engaging in the acts underlying the charge of the violation;
4. whether the respondent decided which products were subject to the order based on the decision of management and technical personnel, without legal advice; and
5. whether the respondent satisfied its reporting requirement under the relevant Commission Order.³⁶

The Commission has considered these sub-factors explicitly in roughly half of the enforcement cases it has decided. The cases in which the Commission has evaluated the sub-factors are *Tractors, Ink Cartridges, and Certain Marine Sonar Imaging Devices, Including Downscan and Sidescan Devices, Products Containing the Same, and Components Thereof*, ITC Inv. No. 337-TA-921 ("*Marine Sonar*"), and ITC Inv. No. 337-TA-1217 ("*Blowers*").³⁷ In other cases, the spirit or content of one or several of these

³⁵ See *EPROMs*, *supra* note 14 at 24.

³⁶ See *id.* at 28-29.

³⁷ See generally *Tractors*, *supra* note 17 at 47-55; *Ink Cartridges*, *supra* note 15, at 32-

sub-factors are discussed by the Commission and/or the ALJ, even if all of these considerations are not explicitly identified.

1. Belief as to Compliance

A respondent's belief as to whether it complied with an enforcement order is critical. And beliefs are often reflected in associated actions. In several cases, the ITC found there to be compelling evidence that respondents either did not believe they were complying with an order or undertook no new actions that reflected an attempt to comply. In 2014 in *Certain Two-Way Global Satellite Communication Devices, System and Components Thereof*, ITC Inv. No. 337-TA-854 (“*Satellite Communication Devices*”), the Commission found that evidence “supports a finding of bad faith,” citing the fact that the respondent “continued to use important components to make and sell articles that were used to infringe,” and that these violations continued “several months after the enforcement proceeding was instituted.”³⁸ In *EPROMs*, the Commission wrote that the respondent has a “total failure to abide by the reporting requirement of the order,” and continued to offer its infringing EPROMs for sale, and failed to report sales of infringing EPROMs.³⁹

In *Ink Cartridges* in 2009, one set of respondents, the Ninestar respondents, argued that they had reason to believe that the product that was imported did not violate the Commission's orders. The Commission, however, disagreed and affirmed the ALJ's conclusions that the respondents “did not have a reasonable basis to believe that the violating product was not within the scope of the Commission's orders.”⁴⁰ Similarly, in *Tractors*, the Commission found substantial evidence of bad faith and wrote that the “respondents should have had a reasonable belief [] that “L” series tractors were within the scope of the cease and desist orders at issue.”⁴¹ The Commission went on to identify 125 sales of accused tractors, concluding that “this total disregard of the Customs letter is evidence of bad faith.”⁴²

In cases where respondents can provide at least some evidence that they attempted to comply, this evidence of good faith, even if minimal, can lead to substantial reductions in penalties. For example, in *Magnets*, the Commission concluded that the respondent “made ‘some efforts’ [] to comply with the order,” in spite of evidence that the respondents violated the ITC orders on 31 separate days.⁴³ The specific “efforts” the

39 (Commission Opinion at 18-25); *Marine Sonar*, *supra* note 20 at 64-67.

³⁸ *Satellites*, *supra* note 21 at 43.

³⁹ *EPROMs*, *supra* note 14 at 26-27.

⁴⁰ *Ink Cartridges*, *supra* note 15 at 33-34 (Commission Opinion 19-20).

⁴¹ *Tractors*, *supra* note 17 at 47.

⁴² *Id.* at 47-48.

⁴³ *See Magnets*, *supra* note 7 at 23.

Commission Opinion cited included the fact that the respondent modified its manufacturing process in an attempt to modify its imported magnets such that they did not infringe.⁴⁴ Ultimately the Commission found that the respondent in *Magnets* showed bad faith and that “the bulk” of the respondent’s compliance efforts occurred after the enforcement proceeding was initiated, but still the penalty was reduced to one-half of the daily \$100,000 maximum to \$50,000 per day.⁴⁵ Similarly, in *Certain Ink Cartridges and Component Thereof*, ITC Inv. No. 337-TA-565 (“*Ink Cartridges*”) in 2009, the Commission found that the respondent violated the ITC orders on 202 separate days, but that there was “a minor effort to comply with the remedial orders by initially purchasing empty cartridges first sold in the United States.”⁴⁶ Specifically, the Commission found that the respondent attempted to remanufacture its infringing product and comply for three months, although it was aware of legal issues with the remanufactured version and sold it anyway.⁴⁷ Further, the Commission concluded that the respondent did not know the origin of its infringing products, but prepared statements of compliance with ITC orders.⁴⁸ In *Ink Cartridges*, the Commission Opinion noted that all other *EPROMs* factors point to the maximum penalty, but on the basis of this minor attempt to comply, the penalty ultimately chosen was 54.2 percent of the maximum per diem penalty.⁴⁹ In *Marine Sonar*, which settled prior to the Commission issuing a final opinion, the ALJ wrote that the evidence indicated that the respondent attempted to design around the infringed patents, but evidence suggested that the respondent was aware the re-designed product still infringed.⁵⁰ Again the recommended penalty was half the total penalty allowable.⁵¹

In cases where respondents show substantial evidence of good faith, the penalties are often reduced significantly, even if other *EPROMs* factors weigh in favor of a substantial penalty. In the recent *Tapes* and *Blowers* cases, in 2019 and 2021 respectively, there was substantial and persuasive evidence that the respondents attempted to comply with the ITC orders and show good faith, leading to penalties that were 11.6 percent to 4.6 percent of the maximum.⁵² In the *Tapes* Enforcement Initial Determination, the ALJ noted that the respondent “took specific steps to ensure that it would

⁴⁴ See *id.* at 47-48.

⁴⁵ See *id.* at 34.

⁴⁶ *Ink Cartridges*, *supra* note 15 at 58 (Commission Opinion at 44).

⁴⁷ See *id.* at 33-34 (Commission Opinion at 19-20).

⁴⁸ See *id.* at 35 (Commission Opinion at 21).

⁴⁹ See *id.* at 40-41, 43-45, 47, 49-50, 52 (Commission Opinion at 26-27, 29-31, 33, 35-36, 38).

⁵⁰ See *Marine Sonar*, *supra* note 20 at 73-74.

⁵¹ See *id.*

⁵² See *Tapes*, *supra* note 22, at 67-69, 73 (Enforcement Initial Determination at 54-56, 60); see also *Blowers*, *supra* note 22 at 97-110.

not violate the CDOs,” questioned business affiliate shipments, filed reports required by the ITC in a “timely fashion,” and that although violations occurred, “there is no evidence that they were the result of an effort by Sony to evade the CDOs.”⁵³ In the *Blowers* Enforcement Initial Determination, the ALJ wrote that “[t]he totality of the evidence is persuasive that East West took numerous steps to voluntarily and ‘with vigilance’ comply with the Consent Order and to avoid infringing.”⁵⁴ Similarly, the Commission found substantial evidence of good faith in *Certain Dimmable Compact Fluorescent Lamps and Product Containing Same*, ITC Inv. No. 337-TA-830 (“*Lamps*”) in 2014, in agreement with the ALJ in the EID. In that opinion, the Commission wrote that “the evidence shows that the single shipment of CFL bulbs was inadvertent and that MaxLite’s actions in connection with this shipment did not exemplify bad faith.”⁵⁵

2. Opinion of the Commission and Counsel

Evaluations of a respondent’s good or bad faith also consider whether the respondent attempted to understand the Commission’s orders by obtaining advice from appropriate sources. In fact, evidence that respondents failed to understand the ITC orders is rarely accepted as mitigating evidence. The Commission expects respondents to seek clarification from the Commission and from outside counsel when there has been confusion or a lack of clarity about which sales and imports violate the ITC orders. In *Certain DC-DC Controllers and Products Containing the Same*, ITC Inv. No. 337-TA-698 (“*DC-DC Controllers*”), in 2013, the Commission found that the respondent’s choice to obtain opinion letters from counsel on compliance was evidence of good faith.⁵⁶ Ultimately, the ITC penalty was assessed at 10 percent of the allowable maximum. In contrast, in *EPRoMs*, in 1991, the Commission cited the respondent’s refusal “to provide any opinion of counsel indicating that it obtained competent legal advice before engaging in the acts underlying the charge of violation,” as evidence of bad faith.⁵⁷

In *Blowers* in 2021, the complainant argued that the respondent showed bad faith because it obtained an un-objective and unreliable non-infringement legal opinion covering its attempts to design around the patent. The ALJ wrote, however, that the fact that the respondent did seek an opinion based on the redesigned products reflects a good faith attempt to avoid infringement.⁵⁸ Similarly, later, the ALJ wrote that the respondent

⁵³ Tapes, *supra* note 22 at 67-68 (Enforcement Initial Determination at 54-55).

⁵⁴ *Blowers*, *supra* note 22 at 98, 108, and 110.

⁵⁵ *Lamps*, *supra* note 21 at 22-23.

⁵⁶ *DC-DC Controllers*, *supra* note 21 at 44.

⁵⁷ *EPRoMs*, *supra* note 14 at 28.

⁵⁸ *See Blowers*, *supra* note 22 at 108.

“appropriately consulted outside counsel, and that its managers and technical employees did not take it upon themselves to decide which products were subject to the Consent Order without seeking legal advice.”⁵⁹ The ALJ concluded that the respondent showed evidence of good faith for this and other reasons and ultimately assessed a penalty that was 4.6 percent of the allowable maximum under the law.⁶⁰

In addition to outside and objective legal counsel, the Commission also considers respondents approaching the Commission itself for clarification. In *Marine Sonar* in 2017, after the respondents redesigned the accused products, they “did not seek an advisory opinion or clarification from the Commission” for their redesigned products.⁶¹ Ultimately, the ALJ summarized evidence under this factor as learning towards bad faith and supporting a substantial penalty (though not the maximum).⁶²

3. Other Evidence of Good Faith

The ITC considers other evidence of good faith beyond the categories of compliance, attempted compliance, and relying on counsel for compliance information. For example, one additional important aspect of good faith is on-time submission of compliance reports required by the ITC following the issuance of an exclusion order. In *Tapes*, the ALJ wrote that the respondents showed good faith when it filed reports required by the ITC in a “timely fashion.”⁶³ The requirement of submitting ITC reports in a timely manner also stems from the fifth subcategory of good faith, which asks whether a respondent “satisfied its reporting requirements under the relevant Commission order.”⁶⁴

B. The Injury to the Public

Factor 2, the injury to the public, has encompassed both harm to the relevant domestic industry and harm to the complainant, with the focus varying across ITC enforcement proceedings. In its 1991 *EPROMs* opinion, the Commission cited and agreed with the ALJ that there was no evidence of harm to the domestic industry, but the lack of evidence “was not controlling on the question of whether the violations were harmful.”⁶⁵ It also found that the respondent’s violations harmed the complainant “by the loss of unlicensed sales to which it was entitled by virtue of its patent right....”⁶⁶ Ultimately, the Commission wrote that this factor supported a

⁵⁹ *Id.* at 110.

⁶⁰ *See id.* at 98, 108, 110.

⁶¹ *Marine Sonar*, *supra* note 20 at 66.

⁶² *See id.*

⁶³ *Tapes*, *supra* note 22 at 68-70 (Enforcement Initial Determination at 55-57).

⁶⁴ *Blowers*, *supra* note 22 at 97.

⁶⁵ *EPROMs*, *supra* note 14 at 25-26.

⁶⁶ *Id.*

large penalty, even without substantial evidence of harm to the domestic industry.⁶⁷

In *Tractors*, in 1999, the primary focus was on harm to the domestic industry, but the Commission cited the ALJ who wrote that “harm to the domestic industry can generally be measured in terms of the respondents’ unlicensed sales.”⁶⁸ The Commission concluded on Factor 2 that, while the evidence showed that the respondents damaged the complainant’s reputation and traded on their goodwill, infringing sales by the respondent were not necessarily lost sales by the complainant. The fact that the violating sales were not lost sales “mitigates the harm to the domestic industry and thus this factor does not warrant imposition of the maximum allowable civil penalty.”⁶⁹

Beginning in 2013 with its opinion in *DC-DC Controllers*, the Commission shifted its Factor 2 primary focus to harm to the complainant. The Commission wrote there that, although the complainant may have had to reduce its prices, it did not suffer harm as a result of the respondent’s violation of the Commission’s orders.⁷⁰ Similarly, in the EID in *Marine Sonar* in 2017, the ALJ summed up his opinion on Factor 2 by writing that “[g]iven the \$[] in sales that violated the C&D Orders, ... the injury to complainants is substantial. This factor strongly supports the imposition of a substantial penalty.”⁷¹

Recent ITC EIDs and Opinions seem to have shifted back to a focus on harm to the domestic industry. For example in *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, ITC Inv. No. 337-TA-1012 (“*Tapes*”) in 2019, the EID considered injury to the domestic industry, the complainant, and the public.⁷² Ultimately the EID in *Tapes* found that “given the lack of record showing injury to the domestic industry or the public, this factor does not weigh heavily in favor of a large penalty.”⁷³ In 2021 in *Blowers*, the ALJ wrote that “the focus of this *EPRMs* factor is injury to the domestic industry which can be measured in terms of a respondent’s unlicensed sales. Injury to the public need not be quantified because the patentee has a monopoly for which exclusion is a remedy for its patent violation.”⁷⁴

C. *The Respondent’s Ability to Pay*

Factor 3, the respondent’s ability to pay, considers the respondent’s

⁶⁷ *See id.*

⁶⁸ *See Tractors*, *supra* note 17 at 55.

⁶⁹ *Id.*

⁷⁰ *See DC-DC Controllers*, *supra* note 21 at 46.

⁷¹ *Marine Sonar*, *supra* note 20 at 68-69.

⁷² *See Tapes*, *supra* note 22 at 70-71 (Enforcement Initial Determination at 57-58).

⁷³ *Id.*

⁷⁴ *Blowers*, *supra* note 22 at 111.

resources for paying a range of penalties up to the maximum penalty allowed under the law. This factor often supports imposing the maximum penalty, oftentimes through the finding that the respondent could pay the maximum penalty. For example, in *Satellite Communication Devices*, the Commission wrote that the respondent, DeLorme, had the ability to pay because its annual net sales revenue was over a certain amount.⁷⁵ Support for the maximum penalty under Factor 3 exists, according to the Commission, even when there is uncertainty or a lack of information about the respondent's finances on which to base a decision. For example, in *Ink Cartridges*, the Commission confirmed the ALJ's finding that "uncertainty in the evidence should be resolved against" certain respondents, "given their unwillingness to provide more specific financial information." The Commission then concluded that Factor 3 did not impose a limit on the appropriate penalty for these respondents.⁷⁶ Similarly, in *Tapes* in 2019, respondent Sony admitted that it could pay any penalty imposed, but the EID suggested that this fact did not weigh in favor of either an increased or reduced penalty.

In certain cases, the Commission has found mitigating evidence with regards to Factor 3, sometimes the only factor suggesting a penalty less than the maximum. In *Certain Lens-Fitted Film Packages*, ITC Inv. No 337-TA-406 (*Film Packages II*), the Commission wrote that respondent Jazz's and Mr. Benun's financial distress were relevant. For example, Jazz had status as a "debtor-in-possession" under protection of the U.S. bankruptcy code, and that the Commission had to consider the respondent's \$30 million "exposure from the judgment entered against it in the district court litigation."⁷⁷ The Commission concluded, on one hand, that "[t]he ability to pay is a mitigating factor in this case," and that "[b]ased on his assessment of the financial situation and assets of each respondent, the ALJ properly concluded that imposing the statutory maximum would be excessive."⁷⁸ On the other hand, the Commission stated that Jazz and Mr. Benun "point to no credible evidence in the record demonstrating an inability to pay a significant penalty."⁷⁹ Ultimately, largely based on this evidence around Factor 3, the penalty adopted was less than 10 percent of the maximum allowed.⁸⁰ In the same case, but referencing a different respondent, Mr. Cossentino, the Commission wrote that his "financial situation and assets ... are more limited."⁸¹ Combining this factor with other factors that also included mitigating evidence, the penalty adopted by the Commission for Mr. Cossentino was less than 1 percent of the

⁷⁵ *Satellites*, *supra* note 21 at 45-46.

⁷⁶ *See Ink Cartridges*, *supra* note 15, at 43-45 (Commission Opinion at 29-31).

⁷⁷ *Film Packages II*, *supra* note 20 at 21.

⁷⁸ *Id.* at 22.

⁷⁹ *Id.*

⁸⁰ *See id.* at 13-14, 29-30.

⁸¹ *Id.* at 22.

maximum allowed.⁸²

Generally, consideration of the respondent's finances is limited and, on occasion, has been omitted from an *EPROMs* analysis entirely. In *Lamps* the summary of Factor 3 evidence and analysis is only three sentences, and in *Tapes* the summary is four sentences.⁸³

D. Extent to Which Respondent has Benefited from the Violation

The goal of Factor 4, the extent to which the respondent has benefited from the violation, as the Commission explained in *Magnets*, is to ensure that the penalty amount is proportionate to the benefit the respondent derived by violating the orders.⁸⁴ In *EPROMs* the Commission wrote that respondent Atmel accrued "substantial competitive advantages" as a result of selling its infringing products.⁸⁵ Upon appeal, the Court of Appeals for the Federal Circuit wrote that part of the motivation behind factor 4 is to consider the effect of the infringing sales on the U.S. market.⁸⁶ Since then, however, Factor 4 has focused on the benefit to the respondent, and not effects on the U.S. market, in that all cases have centered on the respondent's financial and business gains.

Factor 4 considers both the financial gains as well as non-financial gains accruing to the respondent because of violating the Commission's orders. The financial gains considered here are generally the respondent's revenues as exemplified in the *San Huan* case. There, *San Huan* argued that the Commission should consider the benefit it realized based on the import value of the infringing products, which was lower than those products' ultimate sales value.⁸⁷ The Commission disagreed and determined that the sales value was the appropriate figure to consider. Since then, a respondent's financial gains have focused on revenues, or the sales value of infringing imports. In *Tractors* in 1999, the Commission wrote that "the relatively modest magnitude of respondents' revenues derived from infringing sales is a mitigating factor in setting the appropriate penalty in this case."⁸⁸ Similarly, in *Film Packages*, the Commission noted that one respondent generated more than \$65 million from the sale of infringing products.⁸⁹

Non-financial benefits considered in addition to revenues include harder-to-quantify intangible benefits. In the 2021 EID in the *Blowers*

⁸² See *id.* at 14, 30.

⁸³ See *Lamps*, *supra* note 21 at 23, 58; *Tapes*, *supra* note 22 at 70 (Commission Opinion at 57).

⁸⁴ See *Magnets*, *supra* note 7 at 28.

⁸⁵ See *EPROMs*, *supra* note 14 at 25.

⁸⁶ See *San Huan*, *supra* note 4, at 1362.

⁸⁷ *Id.*

⁸⁸ *Tractors*, *supra* note 17 at 62-63.

⁸⁹ See *Film Packages II*, *supra* note 20, at 23-24.

matter, the ALJ wrote that intangible benefits such as customer retention, can be considered.⁹⁰ Harder-to-quantify benefits may include competitive advantages, reputation, and preservation of market share, which have been considered in various cases. For example, in *EPROMs*, the Commission wrote that the ALJ “found that substantial competitive advantages accrued to [the respondent] as a result of its sales of the infringing ... EPROMs.”⁹¹ Similarly, in *Satellite Communication Devices*, the Commission wrote that the respondent DeLorme earned reputational benefits from violating the Commission’s order: “DeLorme has also gained a reputation as a reliable resource for [the infringing product] by selling the infringing devices.”⁹² In *Marine Sonar* the Commission wrote that the respondent was able to preserve its market share by violating the Commission’s orders, and that share of the marketplace, combined with financial benefits, meant Factor 4 supported a significant penalty for the respondent.⁹³

The Commission has clarified that the benefits to the respondent, as described in factor 4, do not need to be quantified precisely. In *Ink Cartridges*, the Commission explained that “[w]e do not believe that this factor requires the Commission to establish with precision the amount of benefit derived by respondent.”⁹⁴ Rather, the analysis under factor 4 is merely intended to provide rough guidance as to the infringing benefits. The Commission wrote in *Ink Cartridges* that “we have considered this factor with a view to determine the general order of magnitude of the infringing conduct.”⁹⁵

E. The Need to Vindicate the Authority of the Commission

Factor 5, the need to vindicate the authority of the Commission, considers how the penalty imposed should (normatively) relate to the actions of the respondent. Generally, discussion of this factor is tied closely with discussion of the good or bad faith of the respondent. In *Certain Network Devices, Related Software and Components Thereof*, ITC Inv. No. 337-TA-944 (“*Certain Network Devices*”), the ALJ wrote in the Enforcement Initial Determination that “[t]he need to vindicate the Commission’s authority is an aggravating factor in cases where a respondent has acted in bad faith or has deliberately evaded the Commission’s orders.”⁹⁶ It is unclear what this factor considers beyond the good or bad faith of the respondent, and in fact was not a part of the FTC

⁹⁰ See Blowers, *supra* note 22 at 113.

⁹¹ EPROMs, *supra* note 14 at 25.

⁹² Satellites, *supra* note 21 at 44-45.

⁹³ See *Marine Sonar*, *supra* note 20 at 70.

⁹⁴ *Ink Cartridges*, *supra* note 15 at 46 (Commission Opinion at 32).

⁹⁵ *Id.*

⁹⁶ *Certain Network Devices, Related Software and Components Thereof (I)*, Inv. No. 337-TA-944, USITC Pub. 4909 at 204 (Jun. 2019) (Enforcement Initial Determination at 95).

set of factors the Commission considered in *EPRoMs*.

If the respondent showed bad faith and a willful determination to violate the Commission's authority, this factor reinforces the need for a significant penalty. For example, in *Tractors*, the Commission agreed with the ALJ's opinion that the need to vindicate the authority of the Commission existed in this case "particularly in light of respondents' manifest bad faith."⁹⁷ Similarly, in *Ink Cartridges*, the Commission wrote that one set of respondents "did not simply ignore or disregard the Commission's orders; they deliberately evaded the orders... Based on this record of bad faith, we find that the penalties should reflect ... a need to vindicate the Commission's authority."⁹⁸

Even when a respondent was found to have shown good faith, the Commission has found, on occasion, a need to vindicate its authority. In *Lamps*, the Commission noted that the respondent had shown good faith, and that its sale of twenty bulbs was accidental. However, the Commission went on to write that "the need to vindicate the Commission's authority to remediate a violation of its remedial orders is a serious concern."⁹⁹ Therefore, evidence of good faith may not mitigate away this factor in all cases.

In many cases, Factor 5 receives either very limited discussion, or no discussion at all. In *EPRoMs*, the Commission Opinion contained a very brief consideration of the need to vindicate the Commission's authority, and in *DC-DC Controllers*, there was no discussion of Factor 5 at all. Similarly, in *Satellite Communication Devices*, the Commission gave little attention to this factor, stating in its analysis merely that "[t]here is a need to vindicate the Commission's authority under these circumstances."¹⁰⁰

F. *The Public Interest*

Factor 6, the public interest, considers the benefits to the public of protecting intellectual property rights. In several Opinions, the Commission wrote that "[t]he public interest at issue in this case, as in most section 337 investigations, is the protection of intellectual property rights."¹⁰¹ Generally, if the investigation is at the enforcement stage, the respondent has been found to have violated the complainant's intellectual property rights. Thus, it follows that, generally, analysis of this factor results in support for a "significant penalty."¹⁰² However, there are cases where mitigating evidence for Factor 6 was found. For example, in *Tractors*, the

⁹⁷ *Tractors*, *supra* note 17 at 63-64.

⁹⁸ *Ink Cartridges*, *supra* note 15 at 49-50 (Commission Opinion at 35-36).

⁹⁹ *Lamps*, *supra* note 21 at 24-25.

¹⁰⁰ *Satellites*, *supra* note 21 at 44.

¹⁰¹ *Tractors*, *supra* note 17 at 66; *Ink Cartridges*, *supra* note 15 at 52 (Commission Opinion at 38).

¹⁰² *San Huan*, *supra* note 4 at 14.

Commission found that a civil penalty was appropriate, “but not necessarily the maximum civil penalty.”¹⁰³ Similarly, in *Lamps*, the Commission considered the fact that no evidence showed that the respondent “flaunted the Commission’s order” or that the infringing sales “is indicative of an intentional disregard of the consent order.”¹⁰⁴

Other factors, beyond the significance of respecting intellectual property rights, that have been considered by the Commission in the context of Factor 6 include the ability of other firms to satisfy the demand for the product. Specifically, in *Satellite Communication Devices*, the Commission found support for a penalty that was proportional to the violation in the lack of evidence that “another third-party cannot fill the need in the marketplace for two-way global satellite communication devices.”¹⁰⁵

Recently in *Blowers*, respondent East West pointed to both consumer prices and market concentration, arguing that the penalty may remove East West from the market, decrease competition, and increase prices that consumers pay. However, the respondent arguments were not persuasive and ultimately the ALJ found the appeal to prices “contrary to Commission precedent,” and the claims regarding East West being pushed from the market to lack evidence.¹⁰⁶

IV. PENALTIES IMPOSED

Penalties have been assessed, either through Commission or ALJ decisions, for 17 different sets of respondents since the *EPROMs* factors were first introduced to the ITC in 1991. Three of these respondents received penalties in an EID but a Commission Opinion never issued either because the parties settled the case after the EID issued or because the case is still pending.¹⁰⁷

These 17 respondents span twelve different ITC investigations. Multiple respondents existed in *Ink Cartridges*, and multiple respondents

¹⁰³ *Tractors*, *supra* note 17 at 66.

¹⁰⁴ *Lamps*, *supra* note 21 at 25.

¹⁰⁵ *Satellites*, *supra* note 21 at 41. Scholarly work has debated the ITC’s commitment to enforcing intellectual property rights and its commitment to protecting domestic industry from unfair trade practices, and found that “the ITC does not blindly and automatically enforce IP rights.” Taras M. Czebiniak, Note, *When Congress Gives You Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in § 337 Investigations*, 26 BERKELEY TECH. L. J. 93, 119 (2011). (reminding the reader that the ITC, and its predecessor, the Tariff Commission, was “originally designed to protect domestic industry by excluding articles from entry that used methods such as IP rights infringement to compete unfairly against domestic articles.” However, in the enforcement phase of section § 337 investigations, the ITC does not seem to prioritize the domestic industry considerations, and instead, focuses on the protection of intellectual property rights).

¹⁰⁶ *Blowers*, *supra* note 22 at 115.

¹⁰⁷ See generally *Marine Sonar*, *supra* note 20; *Tapes*, *supra* note 22; *Blowers*, *supra* note 22.

were divided into two separate enforcement proceedings in *Film Packages*, leading to *Film Packages (I)* and *Film Packages (II)*. Several respondents in Table 1 defaulted or chose not to contest the ITC rulings. These are Ad-Tek, Mipo, and Apex. The relevance of the *EPROMs* factors varies when respondents default. In the Commission Opinion for *Ink Cartridges*, there was no analysis of the *EPROMs* factors for the Mipo and Apex respondents. However, in *Film Packages*, the Commission Opinion did include an abbreviated analysis of the *EPROMs* factors. Regardless of the length of *EPROMs* analysis, the maximum penalty was imposed for all respondents who defaulted.

Penalties shown in Table 1 exhibit wide variation across investigations and respondents. They range from 0.3 percent, or \$250 per day, as imposed on Mr. Cossentino in *Film Packages II*, to 100 percent, or the \$100,000 per day penalty, imposed on Atmel in *EPROMs*.¹⁰⁸ As shown in Table 1, the distribution is heavily weighted to less than 50 percent of the maximum penalty, with the median being 27.5 percent of the maximum penalty. Excluding *EPROMs* and all respondents who defaulted, the penalties issued, as percentage of the maximum allowable, range from 0.3 to 54.2 percent, with a median of 22.5 percent.

The broad range of penalties as a percentage of the maximum allowable, in addition to the fact that almost all penalties are less than or near 30 percent of the maximum allowable, further supports the understanding that the six *EPROMs* factors have the potential to play a large role in reducing a penalty from the maximum. Taken more broadly, this evidence also shows that while exclusion orders draw a fairly hard line as to what companies can do, make, import, and sell, the penalties that result from violating those exclusion orders are not a one-size-fits-all solution. The ITC will consider the circumstances and temper the penalty if the respondent's conduct indicates it is appropriate, according to the *EPROMs* factors.

V. SIGNIFICANCE OF THE *EPROMS* FACTORS

Collectively, the *EPROMs* factors matter. They have been cited and relied upon in every enforcement action at the ITC since 1991 when a penalty has been determined and when the respondent has not defaulted. No penalty has been imposed or denied without consideration of the *EPROMs* factors. Despite their collective importance, the individual factors appear to carry very different weights. To measure the individual weights, we scored each *EPROMs* factor in all ITC enforcement investigations that concluded in a penalty decision. We then analyzed the importance of the individual factors to the penalty using statistical techniques.

¹⁰⁸ *EPROMs*, *supra* note 14, at 29.; *Film Packages II*, *supra* note 20 at 31.

A. Data Collection and Sample

To determine our sample of ITC penalty matters to consider, we first collected all Commission Opinions or Enforcement Initial Determinations from all cases where a penalty had been determined and / or imposed. Within this sample, however, are several respondents who defaulted, and ceased to engage in the ITC investigation. For these respondents, the Commission applied the maximum penalty and there was no *EPRoMs* analysis, therefore we exclude these respondents from our sample. This accounted for respondents Mipo and Apex. For the Ad-Tek respondents who defaulted, we included their results, as there was an *EPRoMs* analysis that helped to determine their penalty in the Commission Opinion. The final dataset included data for the opinions associated with each of the 17 cases that involved one or more of the respondents.

Our next step was to score each *EPRoMs* factor for each respondent on a scale of 1 through 5, with 1 being the score if the Commission determined that the evidence provided minimal to no support for a penalty and 5 being the score if evidence provided support for the maximum penalty. A score of 3 indicated that the evidence on that factor did not suggest a reduced penalty or an increased penalty. This determination was based on a qualitative review of the Commission Opinion or Enforcement Initial Determination, and the language contained therein. The scoring process was then repeated by two other sets of individuals. When there was disagreement about any single score, the scorers met to discuss and together they agreed upon the correct score.

B. Data Analysis

We then compared the scores for each of the *EPRoMs* factors with the penalty chosen by the Commission. The primary penalty score we examined was the actual penalty as a percentage of the maximum, or what penalty the Commission chose compared with what they could have chosen. This penalty score captures the discretionary authority of the Commission, and its analysis of the *EPRoMs* factors, as it relates to a reduced or maximum penalty. This penalty score also circumvents the challenge of comparing respondents whose maximum violations vary by the scale of the company or are the result of products varying in value.

To explore the effect each *EPRoMs* factor has on the actual penalty as a percentage of the maximum penalty, we analyzed the correlations of the specific factors with the penalty using regression analysis. Each of the three regression models that we analyzed evaluated the actual penalty as a percentage of the maximum penalty as the dependent variable and the six *EPRoMs* factors as the independent variables.¹⁰⁹ We used standard

¹⁰⁹ Regression analysis is a well-established technique that uses data to model the relationship between a dependent variable (e.g., test score) and an independent or explanatory variable (e.g., time studying). See, e.g., JAMES H. STOCK & MARK W. WATSON,

ordinary least squares (“OLS”) regressions given that we hypothesized a linear relationship between factors and the penalties and given that the resulting estimates produce easily interpretable results.¹¹⁰

Given that most penalties as a percentage of the maximum penalties were below 50 percent, with most penalties clustered at the low-end of 0 to 50 percent, the penalty scores we relied on were skewed.¹¹¹ When dependent variables are non-negative and skewed, a log transformation can be appropriate, hence we rely on the natural log of the penalty as a percent of the maximum.¹¹²

In three regression models, we analyzed the individual contributions from the six *EPROMs* factors to the penalty. In the simplest model, Model 1, the six *EPROMs* factors are regressed on the penalty. In Models 2 and 3, we add potential omitted variables to explain the variation in penalties. One potential omitted variable is the number of days that the respondent violated the exclusion order. Arguably, the Commission might consider an additional violating day more seriously after two days of violating the Commission’s orders as compared with 400 days. (Not every violation day may have the same effect.) These marginal effects are potentially separate from the evidence of good and bad faith, for example, as the evidence for good and bad faith captures a greater breadth of evidence, beyond simply the number of violating days. However, the mechanism should be similar. Respondents who violate the Commission’s orders accidentally may have fewer numbers of violating days, while respondents who violate the Commission’s orders intentionally, or through carelessness, may have a greater number of violating days. Therefore, including a control variable for *Number of Violation Days* should capture the unique effect of increasing violating days on the penalty.¹¹³ As a result, in Model 2, we added the

INTRODUCTION TO ECONOMETRICS 111-147 (2d. ed. 2007). Multivariate regression analysis is used when there are several explanatory variables. *See id.* at 186-219. Regression analysis, or more generally, econometrics, is widely used in legal proceedings and courtrooms. *See e.g.*, Franklin M. Fisher, *Multiple Regression in Legal Proceedings*, 80 COLUM. L. REV. 702 (1980); Daniel L. Rubinfeld, *Econometrics in the Courtroom*, 85 COLUM. L. REV. 1048 (1985).

¹¹⁰ Ordinary least squares regression is a common way to identify the relationship between a dependent variable and independent variables and involves determining a linear relationship that matches the observed data as closely as possible by minimizing the squared distances between the observed data and the linear prediction, or the line mapping the change in the dependent variable. *See* STOCK & WATSON, *supra* note 109 at 117-118.

¹¹¹ Skewness “measures the lack of symmetry of a distribution.” *See id.* at 26-27.

¹¹² *See id.* at 267-270. The natural logarithm is the inverse of the exponential function and the base is e. The logarithm function has a slope that is steep at first then flattens out, similar to the log of the actual penalty as a percentage of the maximum penalty.

¹¹³ Although we lacked information on the number of violation days for two respondents, given that the Commission Orders were redacted, we coded the missing days for these respondents as zero and included a dummy variable to control for having missing violation days. This approach allows us to continue to include these observations in our analysis, while removing any bias this coding would create in our regression coefficients. This

number of days the Commission concluded that the respondent violated the exclusion order, or *Number of Violation Days*.

Another potential omitted variable in Model 1 is whether respondents defaulted. As mentioned above, all respondents who defaulted were ordered to pay the maximum penalty and the Commission’s application of the *EPROMs* analysis is inconsistent for defaulting respondents. In short, the individual factors may not be relevant to the penalty determination. Thus, to control for respondents who defaulted, Model 3 includes the *Defaulted* variable which is a dummy control variable that is 1 if respondents defaulted and 0 otherwise.

The results of those regressions are displayed below in Table 2.

Table 2: Regression Results

	Dependent Variable=Ln(Actual Penalty as a Percent of Maximum)		
	(Model 1)	(Model 2)	(Model 3)
Factor 1: Good/Bad Faith	0.96** (0.29)	0.96** (0.29)	0.97** (0.33)
Factor 2: Injury Due to the Violation	0.16 (0.16)	0.09 (0.16)	0.09 (0.18)
Factor 3: Defendant's Ability to Pay	1.10*** (0.27)	0.68 (0.48)	0.66 (0.55)
Factor 4: Extent to which Defendant Benefited	0.62 (0.38)	0.71 (0.42)	0.72 (0.47)
Factor 5: Need to Vindicate Commission's Authority	-1.04*** (0.31)	-0.78* (0.39)	-0.78 (0.43)
Factor 6: Public Interest	-1.04* (0.55)	-1.07 (0.56)	-1.08 (0.63)
Number of Violation Days		0.00 (0.00)	0.00 (0.00)
Defaulted			-0.11 (0.90)
Constant	-3.81* (1.78)	-2.86 (2.02)	-2.81 (2.25)
Observations	15	15	15
R-Squared	0.88	0.91	0.91
Adjusted R-Squared	0.80	0.80	0.76
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1			

As shown in Table 2, the regressions in Models 1 through 3 found that several of the *EPROMs* factors were significantly correlated with the

approach is appropriate as it can be safely assumed that the missing violation days in the redacted reports are random.

penalty. While our original sample included 17 respondents, our regression analysis included only 15 respondents because there was no *EPROMs* analysis for 2 of the 17 respondents, so there are no factor scores to assess.

In the simplest model, Model 1, the 6 *EPROMs* factors explain much of the variance in the penalty, with a 0.885 R-squared, as well as an adjusted R-squared of 0.798.¹¹⁴ Results in Model 1 suggest that four factors are significantly correlated with the penalty.¹¹⁵ First, Factor 1, or the Good or Bad Faith of the respondent, is positively correlated with the penalty, or as evidence increases for bad faith, the penalty increases towards the maximum. Similarly, Factor 3, or the respondent's ability to pay, is positively correlated with the penalty, indicating that as the respondent's ability to pay increases so does the penalty. Counterintuitively, results for Factor 5 and Factor 6 suggest that as the need to vindicate the Commission's authority increases and as the impact on the public impact worsens, the penalty decreases. However, as discussed above, Model 1 may suffer from omitted variable bias, or the results may not reflect the true relationship between a factor and the penalties adopted because other influences are omitted. Specifically, the model should consider the number of violation days and whether the respondent defaulted.

Model 2 adds the variable *Number of Violation Days* to the basic Model 1, keeping all six of the *EPROMs* factors. The R-squared and the adjusted R-squared suggest that there may be modest improvements in the variance explained by the independent variables, as the R-squared increased from 0.885 to 0.914 and the adjusted R-squared increased from 0.798 to 0.799. The results in Model 2 continue to suggest that the good or bad faith of a respondent is an important determinant of the penalty. In fact, Model 2 indicates that the good or bad faith of the respondent is the most significant influence on the penalty, with penalties increasing towards the maximum as evidence increases of the respondent's bad faith. Again, surprisingly, Model 2 indicates that as the need to vindicate the Commission's authority increases, the penalty decreases, however, the effect is only significant at the 5 percent level.¹¹⁶

¹¹⁴ Like R-squared, adjusted R-squared measures the percentage of variation in the dependent variable (penalty as a percent of maximum) that is explained by variation in the independent variables. R-squared, however, increases as the number of independent variables are added to the model, while adjusted R-squared corrects for this increase by dividing the residual mean square error by the total mean square error (the variance) and then subtracting this amount from 1. See STOCK & WATSON, *supra* note 109 at 123.

¹¹⁵ "Significance" means we can reject null hypothesis that the relationship between the factor and the penalty is zero, with at least 95 percent confidence, or, in other words, we are at least 95 percent confident that the true relationship between a factor and the penalty lies within two standard deviations and that this interval does not overlap with zero. See STOCK & WATSON, *supra* note 109 at 156.

¹¹⁶ Significant at the 5 percent level means that the regression results indicate that we are 95 percent confident that the true relationship between the factor and the penalty is different from zero, but we are not 99 percent confident. Significant at the 1 percent level means 99

Model 3 keeps all variables in Model 2 and adds the *Defaulted* control variable. The R-squared of Model 3 is the same as it was in Model 2, while the adjusted R-squared dropped slightly from 0.799 to 0.759. Results in Model 3 indicate that, when controlling for both *Number of Violation Days* and *Defaulted*, only Factor 1, the good or bad faith of the respondent, is significantly correlated with the penalty and highly significant at the 5 percent level. In Model 3, no other variables are significantly correlated with the penalty, suggesting that some of the significant results found in Models 1 and 2 may be due to omitted variable bias that is corrected with the *Number of Violation Days* and *Defaulted* are included in the analysis.

C. Discussion

Across all three models, the analysis indicates that as the record shows increasing evidence of bad faith, the penalty increases. This result is consistent with the intuition that the good or bad faith of the respondent is a critical factor in the Commission's determination. It also fits with evidence discussed earlier that the respondent's intentions (and corresponding actions) bear heavily on the ITC penalty and that evidence of good faith can strongly affect the actual penalty determination. This result, and this intuition, also fit with anecdotes from specific cases. For example, in *Ink Cartridges*, despite evidence that the respondents violated the Commission's order for 202 days and was aware that there were legal issues with the product it was importing, the penalty was set at approximately 54.2 percent of the maximum allowed, based largely on some evidence of good faith.¹¹⁷ Other Commission Opinions, such as those in *Magnets* and *Marine Sonar*, similarly describe situations where respondents had a minimal evidence of good faith and where either the Commission determined that penalties at half, or less, of the maximum penalty were warranted.¹¹⁸

The importance of the respondent's good or bad faith is also considered in the three "overarching considerations [of the statute] enumerated by Congress," specifically, "the desire to deter violations, the intentional or unintentional nature of any violations, and the public interest."¹¹⁹ The intentional or unintentional nature of any violations runs in parallel with the good or bad faith of the respondent. Other Commission opinions similarly support this. For example, in *DC-DC Controllers*, the Commission cited these three considerations and noted 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

percent confidence and significant at the 0.1 percent level means 99.9 percent confidence.

¹¹⁷ See *Ink Cartridges*, *supra* note 15 at 38-39 (Commission Opinion, at 24-25). See also, Table 1.

¹¹⁸ See *Magnets*, *supra* note 7 at 23, 47-48; *Marine Sonar*, *supra* note 20 at 73-74.

¹¹⁹ *San Huan*, *supra* note 4 at 1362.

vigilant posture.”¹²⁰

However, the good or bad faith of the respondent is not the only important factor, or the only factor that can lead to a reduced penalty. For example, in *Satellite Communication Devices*, the Commission noted only evidence of bad faith, including selling the covered products for months after the consent order issued, selling new products with infringing components and failing to get the opinion of outside counsel on questions about the consent order.¹²¹ However, the penalty imposed on the respondent DeLorme was 27.5 percent of the maximum penalty allowed, largely based on evidence that the infringing sales did not harm the complainant.¹²² Similarly, in *Film Packages (II)*, the Commission imposed a 0.3 percent penalty on respondent Mr. Cossentino, the CEO of another respondent, Jazz. The Commission found that Mr. Cossentino “took insufficient steps to” ensure compliance, among other evidence of bad faith, however, the Commission also noted that “Mr. Cossentino’s financial situation and assets, in contrast, are more limited.”¹²³ This suggests that the respondent’s ability to pay played a substantial role in the ultimate penalty determination.

These results must be taken as suggestive evidence, as the final sample was small -- only 15 ITC penalty cases. The limited number of data points constrained both the explanatory power as well as the robustness of our overall model generally. As additional ITC enforcement proceedings occur, the regressions and relationships modeled here may be updated to incorporate new data. However, the evidence to date suggests that participants and observers of ITC enforcement proceedings focus much of their attention on the good or bad faith evidence of the respondent.

VI. CONCLUSION

While the process to evaluate the merits of imposing enforcement penalties on respondents who have violated an ITC exclusion order was initially drawn from enforcement in other areas of the law, and likely written with the expectation that an alternative, or modified, version may replace it, the *EPRoMs* factors have been established as a workable and sensible set of guideposts. Given that the ITC has grown as a venue for prosecuting intellectual property and other violations of the law, the importance of analyzing the *EPRoMs* factors has grown as well.

This article is a first attempt at a careful and objective analysis of the ITC application of the *EPRoMs* factors. Based on the text of the Commission’s written opinions as well as quantitative analysis of the actual penalties as a percentage of the maximum penalties, we find that the good or bad faith of respondents is a significant factor for respondents and

¹²⁰ DC-DC Controllers, *supra* note 21 at 36-37.

¹²¹ See Satellites, *supra* note 21 at 43-44.

¹²² See Satellites, *supra* note 21 at 48 (Commission Opinion at 48).

¹²³ Film Packages (II), *supra* note 20 at 16, 22.

counsel to consider in determining the size of an enforcement penalty. The need to vindicate the Commission's authority may also matter. However, the precise meaning of this factor is a bit unclear, and the factor may, in fact, be closely related to the good or bad faith of the respondent. The respondent's ability to pay may matter, but its significance drops substantially when the Commission explicitly considers the number of violation days and whether the respondent has defaulted.

Respondents and counsel can be comforted that if they indeed attempt to comply with the ITC order using all available resources, but small violations of the ITC order occur inadvertently, the penalties imposed are likely to be small. The penalties are also likely to be small when the respondent is facing financial distress because of the ITC order or other reasons and cannot pay a large penalty. Taken together, this finding indicates that while an ITC exclusion order is a powerful tool that can affect businesses, industries, and potentially be a deterrent effect to intellectual property infringement, the tool may not always pack the punch allowed by the law. Some may find this evidence that exclusion orders are less powerful than previously understood.

Future research can expand on these findings by incorporating additional ITC enforcement penalty data. In addition, scholars should monitor the ITC enforcement process, as it may change over time as the nature of ITC actions inevitably shifts.