



# PATENT HAPPENINGS®

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on recent significant developments in U.S. patent law

## HIGHLIGHTS

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## JUDICIAL HAPPENINGS

### False Patent Marking Roulette Wheel

Section 292 of the Patent Act provides that a person who falsely marks an unpatented article as being patented, where the false patent marking was done with an intent to deceive the public, "[s]hall be fined not more than \$500 for every such offense."<sup>1</sup> The statute permits a *qui tam* action whereby any private

citizen can sue to recover the penalty and retain for itself half of the penalty.<sup>2</sup> Over the last few years, the false marking statute has gained a modicum of popularity as plaintiffs, including in some cases private patent lawyers, have brought false marking claims against defendant patentees who have marked products with expired patent numbers.<sup>3</sup> Indeed, some commentators have described these plaintiffs as a new breed of troll, the "marking troll."<sup>4</sup> For a time the incentive to bring false marking claims was held in check by a limiting judicial construction of what constituted an "offense" for which the penalty could be quantitatively assessed. Following a hundred year old decision construing the predecessor statute to § 292,<sup>5</sup> the majority of district courts addressing the issue of what is an "offense" under § 292 held that a continuous act of false marking, e.g., marking an entire single production run, counted as only one "offense" regardless of how many products were improperly marked with a patent number during the continuous act.<sup>6</sup> Consequently, the financial

<sup>2</sup> 35 U.S.C. § 292(b); *see also* APD § 34:103 Anyone can Assert Violation.

<sup>3</sup> *E.g. Pequignot v. Solo Cup Co.*, 646 F. Supp.2d 790 (E.D. Va. Aug. 25, 2009). *See generally*, APD § 34:106 Marking Expired Patents.

<sup>4</sup> Accused infringers are also asserting false marking patent claims as affirmative counterclaims to a patentee's infringement suit.

<sup>5</sup> *London v. Everett H. Dunbar Corp.*, 179 F. 506, 507-09 (1st Cir. 1910).

<sup>6</sup> *See e.g., A.G. Design & Associates, LLC v. Trainman Lantern Co., Inc.*, 2009 WL 168544, \*3 (W.D. Wash. Jan. 23, 2009) (granting patentee summary judgment that while it may have falsely marked over 15,000 lanterns, that

<sup>1</sup> 35 U.S.C. § 292(a). *See generally*, Robert A. Matthews, Jr., *Annotated Patent Digest* §§ 34:97 thru 34:111 [*hereinafter* APD].

incentives for a plaintiff to bring a false marking suit were minimal under this construction of “offense.” That has now changed. The Federal Circuit’s opinion in *Forest Gp., Inc. v. Bon Tool Co.*, No. 2009-1044, 2009 WL 5064353 (Fed. Cir. Dec. 28, 2009), overrules these district court cases and holds that the penalty of § 292 must be assessed on a per article/product basis with the district court setting the amount of the penalty anywhere from a fraction of a penny to \$500 per falsely marked article.

In *Forest Group*, the patentee sued an accused infringer for patent infringement based on an accused product that was described as being an “exact replica” of the patentee’s commercial product. The patentee had marked its product with the patent number. During the lawsuit, the accused infringer obtained a summary judgment of noninfringement. After the summary judgment was handed down the patentee commissioned another production run of its commercial product and had the newly made products marked with the patent number. The district court found that the patentee committed false marking for this new production run because it clearly knew the

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marking constituted a single offense since it was part of one continuous marking); *accord Pequignot*, 646 F. Supp.2d at 801-04; *Forest Gp., Inc. v. Bon Tool Co.*, No. H-05-4127, 2008 WL 2962206, \*6 (S.D. Tex. July 29, 2008), *adhered to on subsequent proceedings*, 2008 WL 4376346, \*3 (S.D. Tex. Sept. 22, 2008); *Undersea Breathing Sys., Inc. v. Nitrox Techs., Inc.*, 985 F.Supp. 752, 782 (N.D. Ill. 1997), *appeal dismissed*, 155 F.3d 574 (Fed. Cir. July 13, 2008) (*nonprecedential*); *Icon Health & Fitness, Inc. v. The Nautilus Group, Inc.*, 2006 WL 753002, \*5-\*7 (D. Utah March 23, 2006); *Sadler-Cisar, Inc. v. Commercial Sales Network, Inc.*, 786 F. Supp. 1287, 1296 (N.D. Ohio 1991); *Hoyt v. Computing Scale Co.*, 96 F. 250 (S.D. Ohio 1899); *see also Bibow v. Am. Saw & Mfg. Co.*, 490 F. Supp. 2d 128, 129 n.1 (D. Mass. June 11, 2007) (“Plaintiff’s claim for \$200 million in damages seems to be anchored on his calculation of the number of times Defendants’ erroneous press release, or reports including the press release, might have been seen in some medium, such as an internet website. It is doubtful that the statute ever intended to create such a lucrative game of ‘gotcha!’”). *But see Enforcer Products, Inc. v. Birdsong*, 98 F.3d 1359 (Table), 40 USPQ2d 1958, 1959 n.1 (Fed. Cir. 1996) (*nonprecedential*) (noting, but not discussing whether it was correct, the district court’s assessing, pursuant to 35 U.S.C. § 292, “a \$ 50 fine for each flea trap product or product packaging of appellants falsely marked with U.S. Patent No. 5,142,815”). *See also*, APD § 34:102 Penalties for Violation.

commercial product did not meet the patent claims.<sup>7</sup> While finding a false marking violation, the district court held that there was only one continuous offense, and therefore assessed the total penalty at \$500.<sup>8</sup>

On appeal the Federal Circuit vacated the penalty award because the district court erred in ruling there was only one “offense” of false marking. Applying a *de novo* review of the district court’s construction of the statute, the Federal Circuit, in an opinion penned by Judge Moore, held that the text of “the statute clearly requires that each article that is falsely marked with intent to deceive constitutes an offense under 35 U.S.C. § 292.” *Id.* at \*3. The court also noted that “[u]nder the current statute, district courts have the discretion to assess the per article fine at any amount up to \$500 per article.” Indeed, the court explicitly instructed that “[i]n the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.” *Id.* at \*6. In view of this sliding scale approach to the amount of the penalty, the Federal Circuit noted that district courts have “the discretion to strike a balance between encouraging enforcement of an important public policy [*i.e.*, ensuring that acts of false marking do not stifle competition or innovation] and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.” *Id.*

In reaching its holding, the Federal Circuit rejected the patentee’s arguments that the per-article standard should not be adopted because it “would encourage ‘a new cottage industry’ of false marking litigation by plaintiffs who have not suffered any direct harm.” *Id.* at \*6.<sup>9</sup> Although acknowledging that “an *amicus* brief

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<sup>7</sup> The district court held, and the Federal Circuit affirmed, that there was no false marking for the earlier made products since the patentee “genuinely believed” its products were covered by its patent at the time of the marking. *Id.* at \*3.

<sup>8</sup> *Forest Gp., Inc. v. Bon Tool Co.*, No. H-05-4127, 2008 WL 2962206, \*6 (S.D. Tex. July 29, 2008), *adhered to on subsequent proceedings*, 2008 WL 4376346, \*3 (S.D. Tex. Sept. 22, 2008).

<sup>9</sup> Some courts have noted that plaintiffs asserting false marking claims must demonstrate an injury-in-fact to the government to have standing to assert a claim. *Stauffer v. Brooks Bros., Inc.*, 2009 WL 1357954, \*3-\*6 (S.D.N.Y. May 14, 2009). *See also* APD § 34:103 Anyone can Assert Violation (discussing *Stauffer* and other cases limiting recovery for *qui tam* suits). If accepted by other courts, this “injury-in-fact” standard may limit the ability to assert some false marking claims.

was filed in th[e] case by an individual who created a holding company to bring *qui tam* actions in false marking cases,” the Federal Circuit noted that “[r]ather than discourag[ing] such activities, the false marking statute explicitly permits *qui tam* actions.” *Id.* The court further justified its per-article standard by noting that “[p]enalizing false marking on a per decision basis would not provide sufficient financial motivation for plaintiffs—who would share in the penalty—to bring suit.” *Id.*

*Forest Group* gives a green light to opportunistic plaintiffs to assert false marking claims when they believe they can show deceptive intent or, more likely, where they believe they can at least articulate a basis to plead a claim that passes muster under Rule 11 and can survive a Rule 12(b)(6) motion to dismiss.<sup>10</sup> The per-article standard may give hope to these plaintiffs of a big payday (albeit one they must share with the federal government) if the defendant has mass produced the alleged falsely marked product.<sup>11</sup> It may also prompt more accused infringers to assert false marking claims as a routine counterclaim to an

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<sup>10</sup> The Federal Circuit has yet to address whether a false marking claim, with its requirement that the false marking be done with “the purpose of deceiving the public,” should be subject to the heightened pleading requirements of Rule 9(b), in the same way that inequitable conduct, with its requirement to show an intent to deceive the PTO, must meet the Rule 9(b) standards. See *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003) (“inequitable conduct, while a broader concept than fraud, must be pled with particularity.”). Some district courts considering the issue have held that Rule 9(b) does not apply to pleading § 292 claims. E.g. *Astec America, Inc. v. Power-One, Inc.*, 2008 WL 1734833, \*9 & \*12 (E.D. Tex. April 11, 2008); see also APD § 39:21 [Pleading] False Patent Marking Claims under § 292. Applying Rule 9(b) to false marking claims, and borrowing the pleading standards regarding deceptive intent for inequitable conduct set forth in *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1329-31 (Fed. Cir. 2009), might help deter frivolous and opportunistic false marking claims.

<sup>11</sup> The case law has yet to address whether a patentee who obligates its licensees to mark products under a patent license agreement can be held liable for false marking if the marked product is not actually covered by the product or if the marking obligations continued for an expired patent because a group of patents had been licensed and the license did not terminate until the last patent in the licensed group expired. With the new incentives to pursue false marking claims, it is only a matter of time before a patentee will be challenged on this basis.

infringement suit where the patentee markets a product allegedly covered by the asserted patent.

*Forest Group* makes clear that district courts have discretion in setting the rate of the penalty. However, other than stating that a district court should “strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities,” *Forest Group* does not provide any practical framework to guide district courts in setting the amount of the penalty. One court may determine that a penalty of one cent per article on one million falsely marked products is proper, while a second court, on the same facts, could find that one dollar is the proper rate, thereby imposing a penalty 100 times larger than the first court. Given the uncertainty in how district courts will set the penalty rate, plaintiffs may feel that they effectively have a chance to spin a “false marking” roulette wheel and may eagerly do so by filing questionable suits. Plaintiffs may also prey on the uncertainty defendants will face in assessing the possible financial magnitude of a penalty as a means to intimidate or harass defendants into settlements.

In addition to leaving open the question of how to set the per article penalty, the standard in *Forest Group* fails to address how the penalty should be assessed if the act of false marking does not involve a product that is falsely marked, but only involves an advertisement that falsely identifies the advertised product as being patented.<sup>12</sup> In that scenario should the court assess the penalty on each piece of advertising distributed or broadcasted to the public, on each unmarked product allegedly sold as a result of the improper advertising, on the number of people who saw the advertisement, or some other basis? What happens if the advertising is posted on a website: does the posting count as a single advertisement, or does each click on the webpage count as its own punishable act of false marking? Courts in other legal contexts have followed a “single publication” rule for such web-based claims. But the “single publication” rule appears similar to the continuous marking rule the Federal Circuit rejected

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<sup>12</sup> Section 292(a), in part, provides a person commits false marking if he “uses in advertising in connection with any unpatented article, the word ‘patent’ or any word or number importing that the same is patented for the purpose of deceiving the public...”

in *Forest Group*.<sup>13</sup> These and other questions will surely arise in the near future.

*Forest Group* does not change the substantive aspects of proving a false marking violation. But it likely changes the financial incentives for bringing false marking claims such that plaintiffs and accused infringers will assert these claims more often in litigation. Accordingly, those who counsel clients on patent matters should become intimately familiar with § 292, and be ready to advise their clients on how to avoid violating § 292 while complying with any duty the clients may have to mark under § 287(a) or having their licensees mark.<sup>14</sup>

### **On-going Royalty for Redesigned Product**

In 2007, the Federal Circuit ruled that, under their equity powers, district courts have the discretion to award a patentee an on-going royalty for post-judgment acts of infringement in lieu of entering a permanent injunction.<sup>15</sup> As with any new patent-law pronouncement, the case law regarding on-going royalties is seeing development as litigants test the bounds of this doctrine, both procedurally and substantively. Recently, in *Creative Internet Advertising Corp. v. Yahoo! Inc.*, No. 6:07cv354-JDL, 2009 WL 4730622 (E.D. Tex. Dec. 9, 2009), the Eastern District of Texas addressed the question of

whether to apply an on-going royalty to a newly redesigned version of an accused product.

In the case, after the jury had returned a verdict finding infringement, the accused infringer modified its adjudicated infringing software product and allegedly stopped selling and distributing the original version of the accused product. The accused infringer argued that the modifications made the redesigned product noninfringing, and therefore since it was no longer selling the originally accused product no on-going royalty should be awarded. The patentee argued that the redesigned product still infringed, and therefore the court should award the patentee on-going royalties on the redesigned product.

Noting it faced an issue of first impression, the district court tackled the procedural issue of how to address whether the redesigned product infringed the patent; a question not determined by the jury's verdict. The patentee argued that since it succeeded in proving that the original product infringed, the court should place the evidentiary burden on the accused infringer to prove that the redesigned product did not infringe. In effect, the patentee proposed that the accused infringer had to "overcome a presumption of continued infringement" to avoid paying on-going royalties. *Id.* at \*4. The patentee's position appears contrary to the generally accepted principle that each act of alleged patent infringement constitutes a separate tort,<sup>16</sup> and therefore when a patentee accuses different models of an accused product of infringing the patentee bears the burden of proving infringement for each individual accused model.<sup>17</sup> Wisely, the district court rejected the patentee's proposed "presumption of continued infringement." *Id.* at \*5.

To answer the question of how to procedurally determine whether the redesigned product infringed, the district court borrowed from the law of contempt. Under contempt law, when an accused infringer introduces a redesigned product that the patentee

<sup>13</sup> *Nationwide Bi-Weekly Admin., Inc. v. Belo Corp.*, 512 F.3d 137, 143-46 (5th Cir. 2007) (in the context of libel claims based on internet postings, applying a "single publication" rule to measure the statute of limitations as running from the first date of posting, and refusing to treat each individual hit as a new cause of action for purposes of the statute of limitations) (collecting cases applying single publication rule to internet postings). *Cf. Vantage Trailers, Inc. v. Beall Corp.*, 2008 WL 4746288, \*2 (S.D. Tex. Oct. 27, 2008) (denying defendant's Rule 12(b)(6) motion to dismiss plaintiff's false patent marking claim, where plaintiff pled that defendant falsely marked its website and that "each hit" of the website constituted a separate offense of false marking, the defendant challenging the "each hit" contention as being legally flawed, the court ruling that the "each hit" contention went to the amount of the penalty but not whether the plaintiff properly stated a claim of false marking).

<sup>14</sup> *See generally*, APD § 30:141 Duty to Mark Product with Patent Number Under 35 U.S.C. § 287.

<sup>15</sup> *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007); *see generally*, APD § 32:161 "Ongoing" Royalty in Lieu of an Injunction; § 30:90.50 Ongoing Royalty for Future Infringement [*hereinafter* APD]

<sup>16</sup> *Hazelquist v. Guchi Mochie Tackle Co.*, 437 F.3d 1178, 1180 (Fed. Cir. 2006) ("Our case law clearly states that each act of patent infringement gives rise to a separate cause of action."); *see generally*, APD § 9:2 Patent Infringement is a Continuing Tort

<sup>17</sup> *L&W, Inc. v. Shertech, Inc.*, 471 F.3d 1311, 1317-18 (Fed. Cir. 2006) (patentee bears the burden of proving infringement as to *each* specific accused product); *see also* *Lehigh Valley Railroad Co. v. Mellon*, 104 U.S.112, 119 (1881) ("Infringement must ... be shown by satisfactory proof; it cannot be presumed."); *see generally*, APD § 9:8 Patentee's Burden of Proving Infringement.

contends violates a permanent injunction, a court, as a threshold matter, determines if the infringing nature of the redesigned product can be decided in a summary contempt proceeding or whether it can only be decided in a separate law suit.<sup>18</sup> A summary contempt proceeding is proper only if no “substantial open issues” of infringement are raised by the new device.”<sup>19</sup> The Federal Circuit has further instructed that open issues of infringement normally do not exist if the differences between the original product and redesigned product “are merely colorable,”<sup>20</sup> *i.e.*, the differences between them are “unrelated to the limitations in the claim of the patent.”<sup>21</sup>

Applying this standard to the question of an on-going royalty, the district court held that “if a patentee intends to receive future damages for the continued violation of its right to exclude, the burden remains with the patentee to demonstrate that the product arising from the infringing product is no more than a ‘colorable variation’ of the adjudicated product.” *Id.* at \*6.<sup>22</sup> The court further explained that “the burden for establishing future royalties post-trial should be little different than the burden that would be in place for establishing a royalty at trial.”<sup>23</sup> Therefore, in the

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<sup>18</sup> See generally, APD § 32:191 Propriety of Contempt Proceeding when Product Redesigned.

<sup>19</sup> *Additive Controls & Measurement Sys., Inc. v. Cotton*, 154 F.3d 1345, 1349 (Fed. Cir. 1998).

<sup>20</sup> *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 152 (Fed. Cir. 1986).

<sup>21</sup> *Roche Palo Alto LLC v. Apotex, Inc.*, 531 F.3d 1372, 1379-80 (Fed. Cir. 2008) (applying “colorable” standard in the context of claim preclusion).

<sup>22</sup> *Cf. Power-One, Inc. v. Artesyn Technologies, Inc.*, No. 2:05-CV-463, 2008 WL 1746636, \*3-\*4 (E.D. Tex. April 11, 2008) (denying patentee’s request to extend the scope of a permanent injunction beyond the specific accused product and “colorable variations thereof” because “[t]he Federal Circuit has cautioned against including products in an injunction that a patent may cover but that have not been adjudicated and found to infringe.”)

<sup>23</sup> In a contempt proceeding a patentee must prove infringement by the redesigned product under the “clear and convincing” evidentiary standard due to the penal nature of a finding of contempt. See generally, APD § 32:193 Patentee Must Prove Infringement by Clear and Convincing Standard. For purposes of proving entitlement to an on-going royalty, however, the patentee need only show infringement by the redesigned product under the preponderance of the evidence standard as that is the standard that applies in proving infringement for the original product. See *Warner-Lambert Co. v. Teva*

absence of a permanent injunction, in order to establish future damages, the burden remains with the patentee to establish (1) that the products for which the royalty is based, are at least a ‘colorable variation’ of the adjudicated product, and (2) a reasonable royalty that accounts for changes in the parties’ bargaining positions and economic circumstances.” *Id.*

Addressing the issue of whether the redesigned product was merely a “colorable variation” of the adjudicated infringing product, the district court found that eliminating a graphical check box from the software product did not show that the redesigned product was more than colorably different from the original product since the graphical check box was an unclaimed feature. *Id.* at \*9. The court further found that the redesigned product “contains the same underlying ‘logic’ as the ‘old’ version, and the changes made to the graphical user-interface are insufficient to establish a non-infringing product outside the scope of prospective relief.” *Id.* Accordingly, it found that the patentee had met its burden in proving that the redesigned product should be subject to on-going royalties.

The approach adopted by the district court appears logical and fair where the redesigned product is first introduced after the jury had returned its verdict. But if the patentee had knowledge of the redesigned accused product at a time sufficient for the patentee to have sought leave to file a supplemental complaint to bring the redesigned product into the suit, and failed to do so, the equities might justify denying the patentee an on-going royalty on the redesigned product.<sup>24</sup> In such a case, the patentee would be left

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*Pharmaceuticals USA, Inc.*, 418 F.3d 1326, 1341 n.15 (Fed. Cir. 2005) (“A claim for patent infringement must be proven by a preponderance of the evidence, which simply requires proving that infringement was more likely than not to have occurred.”).

<sup>24</sup> See *Rosemount, Inc. v. Beckman Instruments*, 727 F.2d 1540, 1550 (Fed. Cir. 1984) (affirming denial of infringement damages in a contempt proceeding for a product the infringer disclosed to the patentee shortly after the start of the original infringement lawsuit, and the patentee never supplemented its complaint to include the product in the suit, but waited until a post-trial contempt proceeding to first assert that the product infringed, the court ruling that the three-year delay from the time the infringer disclosed the product to the patentee and the time the patentee asserted infringement in the contempt proceeding was unreasonable, inexcusable, and materially prejudiced the infringer since it lulled him into continuing

with having to file a separate suit to seek damages for the alleged infringement based on the redesigned product.

The district court also addressed in its opinion an interesting issue regarding the applicability of on-going royalties to the continued use of the original product by the accused infringer's customers. The accused infringer argued that since the patentee had been awarded reasonable royalty damages on the original product distributed to the accused infringer's customers, the patent rights were effectively exhausted as to the software product in the customer's possession, and therefore the patentee had no entitlement to on-going royalty for the customer's continued use of the original product. *Id.* at \*8. At first blush, the accused infringer's position seems supportable under the theory that patentees may not obtain a double recovery for the same act of infringement, and therefore payment of a reasonable royalty that represents full compensation usually creates an implied license for all of the accused products included within the royalty base.<sup>25</sup> Distinguishing over this principle, however, the district court noted that in the case the accused infringer had the capability of disabling the infringing feature in the accused product held by the customers, but deliberately chose not to make this modification. Further, the accused infringer was allegedly receiving new revenues from the customer's post verdict uses of the original product. Because the accused infringer continued to bring in new revenues from the post-verdict uses by its customers of the original product, the court concluded that that new revenues were subject to the on-going royalty. *Id.*

### **Lessons from *i4i v. Microsoft***

Shortly before Christmas, the Federal Circuit handed down a 48-page opinion in *i4i Ltd. Partnership v. Microsoft Corp.*, No. 2009-1504, 2009 WL 4911950 (Fed. Cir. Dec. 22, 2009). The opinion is remarkable on several fronts. First, it affirms a finding of infringement and a limited permanent injunction against certain versions of a widely popular software product, Microsoft's Word. Second, the Federal Circuit handled the appeal with unusual promptness. The district court entered its order disposing of the post-trial motions and ordering the

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selling the product during the law suit). *See also* APD § 30:140 Infringing Acts Done After the Complaint is Filed.

<sup>25</sup> *See generally*, APD § 11:56 Implied License Arising from Damages for Infringement Paid in Prior Suit.

permanent injunction on August 11, 2009.<sup>26</sup> After granting a stay of the injunction during the pendency of the appeal on September 3, 2009, the Federal Circuit heard oral argument on the appeal in late September, and rendered its opinion on December 22, 2009; just over four months from the district court's entry of final judgment. Lastly, the opinion presents important lessons in the procedure of litigating patent cases that litigators ignore at their peril.

#### **a) Failure to Move for JMOL**

The most notable procedural lesson from *i4i* concerns the need to ensure that counsel properly moves for a judgment as a matter of law (JMOL) on *all* issues for which it may later hope to challenge on appeal the sufficiency of the opponent's evidence. To have the right to challenge on appeal the legal sufficiency of the evidence supporting a jury's verdict, the appealing party must have first made a proper pre-verdict JMOL motion under Rule 50(a) of the Federal Rules of Civil Procedure.<sup>27</sup> Second, the party must have also properly renewed its JMOL motion under Rule 50(b) after the entry of the jury's verdict.<sup>28</sup> A failure to make either motion will preclude a party from challenging the jury's verdict based on a lack of a sufficient evidentiary basis.<sup>29</sup> In two instances, the accused infringer painfully learned this lesson in *i4i*.

In the appeal, Microsoft sought to challenge the jury's general verdict that the asserted claims of the patent were not proven invalid. Microsoft attempted to argue that the claims were obvious over a combination of prior art references. During the trial, however, Microsoft's counsel, while making a pre-verdict JMOL motion on the issue of anticipation based on a first prior art reference, never made a JMOL motion on the issue of obviousness based on the combination of prior art references it contended on appeal invalidated the claims. The Federal Circuit held that Microsoft's failure to move for a JMOL on the issue of obviousness precluded the court from reviewing the sufficiency of the factual evidence

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<sup>26</sup> *i4i Ltd. Partnership v. Microsoft Corp.*, No. 6:07CV113, 2009 WL 2449024 (E.D. Tex. Aug. 11, 2009).

<sup>27</sup> *See generally*, APD § 43:8 Standards Applicable to a Motion for a JMOL.

<sup>28</sup> *See generally*, APD § 43:11 —Renewed Motion Must Have Support in Original Motion. Effective Dec. 1, 2009, Rule 50(b) was amended to set a 28-day deadline for filing renewed JMOL motions.

<sup>29</sup> *See generally*, APD § 43:10 Failure to Move for a JMOL at the Close of the Evidence.

supporting the jury's verdict that Microsoft had failed to prove the prior art invalidated the asserted claims. The Federal Circuit succinctly explained "Microsoft has waived its right to challenge the factual findings underlying the jury's implicit obviousness verdict because it did not file a pre-verdict JMOL on obviousness for the Rita, DeRose and Kugimiya references. ... Accordingly, we do not consider whether the evidence presented at trial was legally sufficient to support the jury's verdict." *Id.* at \*8.

Barred from reviewing the sufficiency of the evidence, the Federal Circuit explained that it could only review whether, in view of the jury's presumed factual findings, the district court's legal conclusion that the claims were not obvious was correct. *Id.* The court further found that Microsoft's challenge focused on several underlying disputed factual questions such as whether the prior art disclosed all of the claim limitations, what was the scope of the prior art, and whether a person of ordinary skill would have been motivated to combine the prior art to arrive at the claimed invention. As these were all questions of fact, and the Federal Circuit had to "view the evidence in the light most favorable to the verdict," it held that "all of these questions must be resolved against Microsoft, and in favor of i4i." *Id.* Consequently, the Federal Circuit affirmed the judgment that the claims were not proven invalid.

On the damage phase of the case, the jury awarded reasonable royalty damages of approximately \$ 200 million. In the appeal, Microsoft sought to challenge the reasonableness of the damage award arguing that the royalty rate offered by the patentee's damages expert was not reasonable. The Federal Circuit instructed that "[a]sking whether a damages award is 'reasonable,' 'grossly excessive or monstrous,' 'based only on speculation or guesswork,' or 'clearly not supported by the evidence,' are simply different ways of asking whether the jury's award is supported by the evidence." *Id.* at \*18. Because Microsoft had not made a pre-verdict JMOL motion on the issue of damages, the Federal Circuit held that it could not reach the question of whether sufficient evidence supported the jury's damage award. *Id.* The court further noted that "[h]ad Microsoft filed a pre-verdict JMOL, it is true that the outcome might have been different." *Id.* at \*19. Instead, the Federal Circuit held that "[w]e must affirm unless the appellant clearly shows there was *no* evidence to support the jury's verdict. ... On appeal, the question is not whether we would have awarded the same amount of

damages if we were the jury, but rather whether there is evidence to support what the jury decided." *Id.* Because there was at least some evidence in the trial record to support the amount of the jury's award, the Federal Circuit concluded that "[u]nder this highly deferential standard, we cannot say that Microsoft is entitled to a new trial on damages." *Id.*

#### **b) Invalidity Proof Burden When Prior Art Not Considered by the PTO**

Microsoft also argued that since the Patent Office had not considered during prosecution the prior art Microsoft asserted rendered the claims obvious, Microsoft should only have to prove invalidity by the preponderance of the evidence standard, rather than by a standard of clear and convincing evidence.<sup>30</sup> The Federal Circuit summarily rejected this argument, stating that *KSR* "did not change the burden of proving invalidity by clear and convincing evidence." *Id.* at \*9. The Federal Circuit's response is not surprising. It seems likely that Microsoft raised the argument to preserve the right to appeal this issue to the Supreme Court should it opt to pursue a further appeal.

#### **c) Opinions of Counsel and Enhancing Damages for Willful Infringement**

The jury also found that Microsoft willfully infringed the patent. Examining the *Read* factors,<sup>31</sup> the district court enhanced the damage award by 40%.<sup>32</sup> The district court found that Microsoft's failure to investigate the patent's scope and form a good faith belief of its invalidity or non-infringement, i.e., Microsoft's failure to obtain an opinion of counsel, before continuing with its accused activity, was one of the factors that supported enhancing the damage award. Although *Seagate* held that an accused infringer has no affirmative duty to obtain an opinion of counsel under penalty of automatically

<sup>30</sup> See generally, APD § 15:42 Burden When Prior Art Not Considered by PTO.

<sup>31</sup> *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992); see generally, APD § 31:26 Factors Relevant in Evaluating if Infringement is Willful.

<sup>32</sup> Enhancing damages for willful infringement involves a two-step process. First, the fact-finder must determine if the infringement was willful. Thereafter, the district court exercises its discretion and determines to what extent, if any, it will enhance the damage award due to the willful nature of the infringement. See generally, APD § 31:16 Two-Step Process on Whether to Award Enhanced Damages.

being found to have willfully infringed the patent,<sup>33</sup> the Federal Circuit held in *i4i* that the district court did not abuse its discretion in relying on Microsoft's failure to obtain an opinion of counsel as a factor that supported enhancing the damages. *Id.* at \*20. The Federal Circuit instructed that after a finding of willful infringement is made under *Seagate*, the district court must determine whether to enhance the damage award by applying the *Read* factors, and not reapply the willfulness standard set forth in *Seagate*. *Id.* ("the standard for deciding whether-and by how much-to enhance damages is set forth in *Read*, not *Seagate*"). The Federal Circuit concluded that "[u]nder the *Read* factors, the district court properly considered Microsoft's size and financial condition, as well as whether Microsoft investigated the scope of the patent." *Id.*

Consequently, while the failure to obtain an opinion of counsel will not necessarily result in a finding of willful infringement under *Seagate*, if a jury finds willful infringement based on *Seagate*'s objective recklessness standard, the district court can then take into consideration the accused infringer's failure to have obtained an opinion of counsel as a factor to support enhancing damages. Conversely, if the accused infringer had obtained a competent opinion of counsel, a district court should be able to consider that opinion of counsel, under the *Read* factors, to support a refusal to enhance damages even though the jury found willful infringement under *Seagate*.<sup>34</sup> *i4i* may prompt corporate counsel to re-evaluate their policy

<sup>33</sup> *In re Seagate Technology*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*) ("[T]here is no affirmative obligation to obtain opinion of counsel."); *see generally*, APD § 31:48 Duty to Obtain Legal Advice; *see also* APD § 31:22 "Objective Recklessness" Standard of *Seagate*.

<sup>34</sup> *Cf. Electro Scientific Industries, Inc. v. General Scanning, Inc.*, 247 F.3d 1341, 1353 (Fed. Cir. 2001) ("Although substantial evidence supports the jury verdict of willfulness, the district court retained authority to reweigh the competency of General Scanning's opinion of counsel and General Scanning's reliance on that opinion. A jury verdict of willfulness simply does not bar a district court from determining the egregiousness of a willful infringer's conduct." – affirming district court's denial of enhanced damages where accused infringer had obtained a written and oral opinion of counsel that infringed patent was invalid). *See also* § 31:11 Limitations on District Court's Reweighing of Evidence.

on whether to obtain opinion of counsel upon learning of a potentially relevant patent.<sup>35</sup>

#### d) Litigation Defenses and Willfulness

In the [September 2009](#) issue of *Patent Happenings*, I noted that Judge Davis made a controversial ruling in the *i4i* case that Microsoft could not rely on defenses it developed during the course of the litigation to show there was no objectively high risk of infringement under *Seagate*'s standard for proving willful infringement if those defenses would not have occurred to a reasonable person when the infringement first began.<sup>36</sup> Since then three district court judges, including one from the Eastern District of Texas, have subsequently refused to follow the position that defenses developed only during litigation may not be considered in assessing whether there was an objectively high risk of infringement.<sup>37</sup>

Unfortunately, in the appeal to the Federal Circuit, Microsoft opted not to challenge the jury's finding of willful infringement, the sufficiency of the evidence supporting the jury's verdict, or the instructions given to the jury on the issue of willful infringement. *Id.* at \*19. Microsoft only challenged the district court's enhancement of the damages, but not the jury's underlying finding of willful infringement. Hence, we are left with an enhancement of damages that has been affirmed by the Federal Circuit, but based in part on a questionable ruling excluding some litigation

<sup>35</sup> In considering whether to seek an opinion of counsel, corporate counsel should also keep in mind the Federal Circuit's opinion in *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 698-700 (Fed. Cir. 2008), where it held that an accused infringer's failure to obtain an opinion of counsel may be used as circumstantial evidence to prove the intent element of inducing infringement. *See Patent Happenings*, [Sept. 2008](#), at pp. 1-2; *see also* APD § 10:49 Applicability of Opinion of Counsel to Knowledge Requirement.

<sup>36</sup> *Patent Happenings*, [Sept. 2009](#), at pp 1-5. *See generally*, APD § 31:40 Litigation Defenses and Good Faith and Substantial Challenges to the Patent.

<sup>37</sup> *OPTi Inc. v. Apple, Inc.*, 2009 WL 4727912, \*2-\*3 (E.D. Tex. Dec. 3, 2009) (Everingham, M.J.) (rejecting patentee's contention that only pre-litigation defenses could be relied on by an accused infringer to defend against the charge of willful infringement); *Henrob Ltd. v. Bollhoff Systemtechnik GMBH & Co.*, 2009 WL 4042627, \*3-\*5 (E.D. Mich. Nov. 19, 2009) (expressly refusing to follow *i4i* and temporally limit the litigation defenses that would be considered on the issue of willful infringement); *Uniloc USA, Inc. v. Microsoft Corp.*, 640 F. Supp.2d 150, 177 n.33 (D.R.I. Sept. 29, 2009) (same).

defenses, which ruling the Federal Circuit did not review. Future litigants should take note of this unusual procedural posture when considering the precedential nature, if any, of Judge Davis's ruling applying a temporal restriction on litigation defenses that may be relied on in defending against a charge of willful infringement.

### **Transfer & Factual Connection with Forum**

In last month's issue of *Patent Happenings*, I noted that the Eastern District of Texas (E.D.Tex.) now appears to be following a more main-stream approach to transferring patent infringement actions, and as a result is granting more motions to transfer.<sup>38</sup> That trend will likely continue given the Federal Circuit's recent opinions in *In re Hoffman-La Roche Inc.*, 587 F.3d 1333, 92 USPQ2d 1861 (Fed. Cir. Dec. 2, 2009) and *In re Nintendo Co., Ltd.*, Misc. Dkt. No. 914, 2009 WL 4842589 (Fed. Cir. Dec. 17, 2009), where the Federal Circuit, yet again, granted petitions for mandamus to overturn denials by the E.D.Tex. of an accused infringer's motion to transfer a patent infringement action.

In *Hoffman*, a patentee, who resided in California, brought an infringement action in the Eastern District of Texas against a drug product developer, its manufacturing licensee, and its distributor. The accused infringer had developed the accused drug product in its corporate facilities located in the proposed transferee forum, the Eastern District of North Carolina (E.D.N.C.). The accused infringer's exclusive licensee commercially manufactured the accused product in its facilities in Colorado, Michigan and Switzerland. The distributor of the accused drug product packaged and distributed the drug product nationwide from its facilities in New Jersey. Other than the patentee transmitting about 75,000 documents in electronic form to its local counsel's office in the E.D.Tex. forum, and that the accused product was sold in the forum as part of its nation-wide distribution, the E.D.Tex. forum had no other connections with the suit.

Relying on the fact that the majority of documents and witnesses involved in the development of the drug product were located in the E.D.N.C., the accused infringers moved to transfer the case to that forum. On February 3, 2009, the district court denied the

transfer motion.<sup>39</sup> The district court determined that the E.D.Tex. was "centrally located" among the various locations of likely sources of evidence, i.e., California, Michigan, Colorado, North Carolina, and Switzerland, and that neither the Texas court, nor the E.D.N.C. court would have absolute subpoena power over all possible witnesses. With these findings, the district court concluded that the motion to transfer should be denied because the accused infringers had failed to "clearly demonstrate" that transferring the action to the E.D.N.C. would be more convenient.

On a mandamus petition, the Federal Circuit overturned the denial of the motion to transfer. The Federal Circuit heavily focused its analysis on whether the E.D.Tex. forum had a meaningful connection with the suit. The court stated that "[w]hile the sale of an accused product offered nationwide does not give rise to a substantial interest in any single venue, if there are significant connections between a particular venue and the events that gave rise to a suit, this factor should be weighed in that venue's favor." *Id.*, 587 F.3d at 1338. Applying this principle, the Federal Circuit found that since the accused product was developed in the E.D.N.C., that forum's interest in the dispute was "self-evident," *id.* and "remains strong because the cause of action calls into question the work and reputation of several individuals residing in or near that district who presumably conduct business in that community," *id.* at 1336. In contrast, the E.D.Tex. forum, just like in *TS Tech* and *Genentech*,<sup>40</sup> undisputably had no "relevant factual connection" to the infringement action. *Id.* at 1338. The Federal Circuit criticized the district court's weighing of the totality of the *forum non conveniens* factors in a manner that essentially made the locale's connection to the cause of action meaningless. *Id.* The Federal Circuit concluded that "because the Eastern District of North Carolina has a meaningful local interest in adjudicating the dispute and no meaningful connection exists with the Eastern District of Texas, this factor also favors transfer." *Id.*

Weighing the factors that the E.D.N.C. had a relevant factual connection to the events that gave rise to the infringement action and the E.D.Tex. did not,

<sup>38</sup> *Patent Happenings*, [Dec. 2009](#) at pp. 4-7.

<sup>39</sup> *Novartis Vaccines and Diagnostics, Inc. v. Hoffman-La Roche Inc.*, 597 F. Supp. 2d 706, 711-14 (E.D. Tex. Feb. 3, 2009), *reconsideration denied* (Aug. 2009).

<sup>40</sup> *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

that the E.D.N.C. had a less congested docket than the E.D.Tex.,<sup>41</sup> and that the E.D.N.C. would have subpoena power over four non-party witnesses, while the E.D.Tex. may have had power over only one non-party witness for purposes of trial, the Federal Circuit ordered that the case be transferred.

The Federal Circuit also noted that the patentee's transmitting in electronic form documents relevant to the litigation to the E.D.Tex. forum appeared to be an attempt to "manipulate the propriety of venue" by creating a ground to argue that sources of proof were located in the forum. The court characterized this as being a "fiction" because "if not for th[e] litigation, it appear[ed] that the documents would have remained a source of proof in California." *Id.* at 1337. Quoting the Supreme Court, the Federal Circuit instructed that § 1404(a) "should be construed to prevent parties who are opposed to a change of venue from defeating a transfer which, but for their own deliberate acts or omissions, would be proper, convenient and just." *Id.* Accordingly, "[a] plaintiff's attempts to manipulate venue in anticipation of litigation or a motion to transfer falls squarely within these prohibited activities." *Id.*

*Hoffman's* focus on whether the original forum and the proposed transferee forum have a "relevant factual connection" to the infringement action may bring a resurgence in the use of the "center of gravity" doctrine in transfer analysis for patent infringement actions. Under this doctrine, where a patentee brings an infringement suit outside of its home forum, as did the patentee in *Hoffman*, the case should be transferred to the forum having the "center of gravity" of the infringing activity, i.e., where the accused product was developed, made, or where decisions about how to distribute the product were made, rather than merely a locale in which the accused product had been sold.<sup>42</sup> As can be seen from *Hoffman*, it is possible to have several locations that may qualify as the "center of gravity" of infringing activity. Indeed, in *Hoffman*, the product was designed and developed in one locale, made in second locale, and the distribution decision made in a third locale. Consequently, when evaluating possible centers of gravity it may be necessary to assess which forum yields the greatest convenience based on sources of proof and local interest. Had the patentee in *Hoffman*

brought suit in Colorado, where the accused product was made, the Federal Circuit might have reached a different outcome.

*Hoffman's* criticism of attempts to "manipulate venue in anticipation of litigation," *id.* at 1337, may have relevance to suits brought by non-practicing patent holding companies. Where a patent holding company forms itself in a specific forum, and shortly thereafter brings suit in that forum, courts have treated such tactics as being an improper attempt to manufacture venue. Accordingly, these courts have denied the patent holding company the status of having brought suit in its home forum, when considering whether to grant a motion to transfer.<sup>43</sup> *Hoffman*, arguably further supports, the rationale these courts have employed.

For similar reasons relied on in *Hoffman*, the Federal Circuit granted mandamus overturning the denial of a motion to transfer in *Nintendo*.<sup>44</sup> Again, the Federal Circuit found that the E.D.Tex. forum had no meaningful connection with infringement action, while the proposed transferee forum, the Western District of Washington, had a high local interest in the case, as one of the accused infringers resided in the forum. More specifically, in *Nintendo*, the patentee resided in Ohio, a first accused infringer resided in Seattle, and the second accused infringer, the parent corporation of the first accused infringer, resided in Japan. In ruling that the district court "clearly abused its discretion" by refusing to transfer the case, the Federal Circuit instructed "that in a case featuring most witnesses and evidence closer to the transferee venue with few or no convenience factors favoring the venue chosen by the plaintiff, the trial court should grant a motion to transfer." *Id.*, 2009 WL 4842589, at \*3. Noting that "[n]o parties, witnesses, or evidence

<sup>41</sup> See generally, APD § 36:177 Court Congestion.

<sup>42</sup> See generally, APD § 36:171 "Center of Gravity of the Infringing Activity".

<sup>43</sup> E.g., *Information Protection and Authentication of West Virginia, LLC v. McAfee, Inc.*, 2009 WL 3672861, \*1-\*3 (N.D. W.Va. Oct. 30, 2009); *SOC-USA, LLC v. Office Depot, Inc.*, 2009 WL 2365863, \*2-\*4 (S.D. Fla. July 30, 2009); *Surfer Internet Broadcasting of Mississippi, LLC v. XM Satellite Radio Inc.*, 2008 WL 1868426, \*2-\*4 (N.D. Miss. Apr. 24, 2008); *Gemini IP Technology, LLC v. Hewlett-Packard Co.*, 2007 WL 2050983, \*1-\*2 (W.D. Wis. July 16, 2007); *Broadcast Data Retrieval Corp. v. Sirius Satellite Radio Inc.*, 79 USPQ2d 1603, 1605-06 (C.D. Cal. 2006). See generally, APD § 36:168.40 Patent-Holding Company Bringing Suit in Its Home Forum.

<sup>44</sup> The district court's original denial of the transfer motion is reported at *Motiva LLC v. Nintendo Co Ltd.*, 2009 WL 1882836 (E.D. Tex. June 30, 2009).

have any material connection to the venue chosen by the plaintiff,” the Federal Circuit found that “the record leaves only the conclusion that the local interest in Washington clearly favors transfer.” *Id.*

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