



# PATENT HAPPENINGS®

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## Case Spotlight

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

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>1</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>2</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>3</sup> Wisely, the

<sup>1</sup> *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007); *see generally*, Robert A. Matthews, Jr., *Annotated Patent Digest* § 32:161 "Ongoing" Royalty in Lieu of an Injunction; § 30:90.50 Ongoing Royalty for Future Infringement [*hereinafter* APD]

<sup>2</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>3</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

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 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>4</sup> A summary contempt proceeding is proper only if no "substantial open issues" of infringement are raised by the new device.<sup>5</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>6</sup> *i.e.*, the differences between them are "unrelated to the limitations in the claim of the patent."<sup>7</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>8</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>9</sup> Therefore, in the 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

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proof; it cannot be presumed."); *see generally*, APD § 9:8 Patentee's Burden of Proving Infringement.

<sup>4</sup> *See generally*, APD § 32:191 Propriety of Contempt Proceeding when Product Redesigned.

<sup>5</sup> *Additive Controls & Measurement Sys., Inc. v. Cotton*, 154 F.3d 1345, 1349 (Fed. Cir. 1998).

<sup>6</sup> *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 152 (Fed. Cir. 1986).

<sup>7</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>8</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.")

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<sup>9</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 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.")

product.<sup>10</sup> In such a case, the patentee would be left 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>11</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.*

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<sup>10</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 selling the product during the law suit). See also APD § 30:140 Infringing Acts Done After the Complaint is Filed.

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

## ABOUT THE AUTHOR

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