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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

WORDTECH SYSTEMS, INC.,
Plaintiff,
v.
INTEGRATED NETWORK SOLUTIONS,
INC., et al.,
Defendants.

No. 2:04-cv-01971-MCE-EFB

ORDER

Plaintiff Wordtech Systems, Inc. ("Wordtech"), filed this patent infringement action on September 22, 2004. A jury in this Court found Defendants Integrated Network Solutions, Inc. ("INSC"), Nasser Khatemi and Hamid Assadian (collectively, "Defendants") each liable to Wordtech for direct infringement, contributory infringement and inducement of infringement involving technology for automated duplication of compact discs. Defendants filed a post-trial motion for new trial, which was denied. As is relevant here, the individual Defendants appealed the liability verdicts against them, and all Defendants appealed the jury's verdict as to damages.

1 The Federal Circuit reversed the denial of Defendants' new trial
2 motion and remanded to this Court. Presently before the Court is
3 supplemental briefing filed by both Wordtech and individual
4 Defendants, who are now proceeding pro se, regarding those issues
5 to be tried on remand. For the following reasons, trial will be
6 had on the issues of whether: 1) the individual Defendants are
7 liable for contributory infringement; 2) the individual
8 Defendants are liable for inducement of infringement; and
9 3) damages.

11 **BACKGROUND¹**

13 In its operative First Amended Complaint ("FAC"), Wordtech
14 alleges that Defendants infringed three of its patents, which
15 cover "Programmable Self-Operating Compact Disk Duplication
16 Systems," by modifying and selling "Robocopiers." Robocopiers
17 are disc duplication devices that copy video files from computers
18 to multiple discs. According to Wordtech, INSC, Khatemi and
19 Assadian, among others, directly and contributorily infringed
20 Wordtech's patents and induced third parties to do the same.

21 At trial, Wordtech attempted to elicit testimony going to
22 the validity of INSC as a corporation and to the issue of
23 piercing the corporate veil. Defendants objected to that
24 evidence as irrelevant, and the evidence was eventually excluded
25 on the basis that Wordtech's arguments were not encompassed
26 within the Court's Final Pretrial Order ("FPTO").

27 ¹The following facts are taken primarily from Wordtech
28 Systems, Inc. v. INSC, 609 F.3d 1308 (Fed. Cir. 2010).

1 In addition, prior to closing arguments, Plaintiff moved to
2 amend its FAC to address "the identity of the corporation," and
3 that motion was denied. Finally, Defendants addressed Wordtech's
4 entity-related theories in their closing arguments, but the jury
5 was not instructed on these issues.

6 At the close of the trial, the jury found Defendants liable
7 on all infringement theories. The jury determined infringement
8 of each patent was willful and awarded Wordtech a total of
9 \$250,000 in damages. This Court subsequently found the case
10 "exceptional" under 35 U.S.C. § 285, trebled damages, and awarded
11 Wordtech attorneys' fees, interest and costs. Defendants
12 thereafter filed motions for judgment as a matter of law under
13 Rule 50 of the Federal Rules of Civil Procedure² and a motion for
14 new trial under Rule 59(a), all of which were denied.

15 On appeal, the individual Defendants challenged the
16 liability verdicts against them individually, and all Defendants
17 challenged the jury's damages award. That court remanded for
18 this Court to determine whether a new trial is warranted, stating
19 as follows:

20 [W]e reverse the denial of [Defendants'] Rule 59(a)
21 motion..., and remand for consideration of whether a
22 new trial is warranted on their individual liability
23 for direct infringement, inducement, and contributory
24 infringement. On remand, the district court should
25 address the issues of piercing INSC's corporate veil
and INSC's corporate status, whether Wordtech preserved
these arguments for trial, the law governing these
issues and whatever jury instructions might be
necessary.

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28 ²All further references to "Rule" or "Rules" are to the
Federal Rules of Civil Procedure³ unless otherwise noted.

1 Wordtech, 609 F.3d at 1317-18. The circuit court also raised
2 concerns as to whether a new trial should properly encompass
3 Wordtech's inducement theory given that, though the verdict form
4 made clear the parties intended to litigate the claim, the word
5 "inducement" does not appear in the FPTO and the theory was not
6 specifically argued by either side at trial nor was it included
7 among the jury instructions.

8 On remand, this Court ordered supplemental briefing as to
9 which of the issues identified by the Federal Circuit should be
10 re-litigated. That supplemental briefing is complete. Having
11 reviewed the parties' arguments, the record in this case, and the
12 applicable law, the Court now holds that a new trial is required
13 on the individual Defendants' liability for contributory
14 infringement and inducement and on damages.

16 ANALYSIS

18 A. Direct Infringement.

19
20 Pursuant to 35 U.S.C. § 271(a), "whoever without authority
21 makes, uses, offers to sell, or sells any patented invention,
22 within the United States or imports into the United States any
23 patented invention during the term of the patent therefor,
24 infringes the patent." "Title 35 authorizes a finding that an
25 officer of a corporation is personally liable for the
26 corporation's acts of infringement." Al-Site Corp. v. VSI
27 Intern., Inc., 174 F.3d 1308, 1331 (Fed. Cir. 1999).

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1 "Personal liability under § 271(a), however, requires sufficient
2 evidence to justify piercing the corporate veil." Id. In order
3 to maintain a claim for direct infringement against corporate
4 officers for a corporation's infringement, Plaintiff must
5 therefore plead and prove, for example, that the corporate entity
6 is a sham or that the corporate veil should be pierced to impose
7 liability on the individual Defendants. See, e.g., Timeline,
8 Inc. v. Proclarity Corp., 2006 WL 2038255, *3-4, n.1 (W.D. Wash.)
9 (dismissing direct infringement claims for failure to plead
10 grounds to justify piercing the corporate veil) (citing P.N.A.
11 Constr. Techs., Inc. v. McTech Group, Inc., 2006 WL 738721, *2
12 n.2 (N.D. Ga.); St. Paul Furniture Mfg. Co. v. Bergman,
13 935 F. Supp. 1180, 1186 n.6 (D. Kan. 1996)).

14 The issue of whether the individual Defendants can be held
15 liable under § 271(a) was not preserved for trial in this case
16 because not only did Plaintiff not plead that INSC is a sham
17 entity or that its corporate veil should be pierced for any
18 reason, but that issue was also not included in the Court's Final
19 Pretrial Order ("FPTO") as a disputed question. See FAC (ECF No.
20 22); ECF No. 157 (FPTO), 3:5-4:7. The Ninth Circuit has stated
21 that:

22 Pretrial orders play a crucial role in implementing the
23 purposes of the Federal Rules of Civil Procedure "to
24 secure the just, speedy, and inexpensive determination
25 of every action." Fed. R. Civ. P. 1. Unless pretrial
26 orders are honored and enforced, the objectives of the
27 pretrial conference to simplify issues and avoid
28 unnecessary proof by obtaining admissions of fact will
be jeopardized if not entirely nullified. Accordingly,
a party need offer no proof at trial as to matters
agreed to in the order, nor may a party offer evidence
or advance theories at the trial which are not included
in the order or which contradict its terms.

1 United States v. First Nat. Bank of Circle, 652 F.2d 882,
2 886 (9th Cir. 1981). Indeed, the Court in this case advised
3 the parties during the course of Plaintiff's case-in-chief
4 that issues not included within the FPTO would not be
5 litigated. See Trial Transcript (ECF No. 260), 30:24-37:14
6 (November 10, 2008). The Court further pointed out that the
7 FPTO can only be amended "to prevent manifest injustice."
8 Id. (referring to Fed. R. Civ. P. 16(e)). No basis for
9 finding manifest injustice was presented during trial to
10 justify modifying the FPTO to include issues pertaining to
11 corporate validity, nor is any plausible argument presented
12 now. Accordingly, the Court now finds that Plaintiff waived
13 its right to attempt to pierce the corporate veil or, as a
14 consequence, to hold the individual Defendants' liable for
15 direct infringement.

16 The Court is cognizant that Plaintiff in this case believes
17 the FPTO was amended by consent of the parties to conform to the
18 proof offered at trial. Defendants, however, objected to the
19 presentation of evidence going to corporate invalidity, Trial
20 Transcript (ECF No. 258), 141:11-24 (November 4, 2008), and, as
21 stated above, the Court clarified that issues not included in the
22 FPTO would not be litigated, Trial Transcript (ECF No. 260),
23 30:24-37:14 (November 10, 2008). In keeping with the Court's
24 ruling, the jury was not instructed on the corporate issues.

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1 In sum, then, Defendants did not litigate by consent the issues
2 of whether INSC was a sham entity or whether the corporate veil
3 should be pierced.³ These issues will not be tried now, nor, as
4 a consequence, will the issue of the individual Defendants'
5 liability for direct infringement.

6
7 **B. Contributory Infringement.**
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9 According to the Federal Circuit, this Court's "legal error
10 in presenting the contributory infringement issue to the jury
11 requires a new trial." Wordtech, 609 F.3d at 1317. Accordingly,
12 the Court now finds that the issue of the individual Defendants'
13 personal liability for contributory infringement must be re-
14 tried.

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22 ³ The Court is also aware that Plaintiff takes issue with
23 the Court's statement that the individual Defendants were still
24 "on the line" despite the failure to include corporate validity
25 issues as triable questions within the FPTO. Trial Transcript
26 (ECF No. 60), 35:23-36:2 (November 10, 2008). The Court's
27 statement, however, is entirely consistent with its rejection of
28 Plaintiff's attempt to bring in the corporate issues at trial
because the individual Defendants were still individually "on the
line" for contributory infringement and for inducement without
regard to the validity of the corporate structure. See, e.g.,
Wordtech, 609 F.3d at 1316-17.

1 **C. Inducement of Infringement.**

2
3 Primarily based on the Federal Circuit's finding that
4 "Wordtech's counsel confirmed [that] inducement was not raised in
5 the Final Pretrial Order, in the jury instructions, or in the
6 closing arguments," the appellate court remanded to this Court to
7 determine whether a new trial should be had on the issue. Id. at
8 1316. The appellate court's assessment of the facts, however, is
9 not entirely accurate.

10 First, Wordtech's counsel did confirm that the word
11 "inducement" did not appear in the FPTO. Oral Arg. 27:42-28:16,
12 available at [http://oralarguments.cafc.uscourts.gov/mp3/2009-](http://oralarguments.cafc.uscourts.gov/mp3/2009-1454.mp3)
13 [1454.mp3](http://oralarguments.cafc.uscourts.gov/mp3/2009-1454.mp3). The Court finds, however, that, despite omission of
14 the word "inducement," this theory of liability was nonetheless
15 included within that Order. "A pretrial order...should be
16 liberally construed to permit any issues at trial that are
17 embraced within its language." Miller v. Safeco Title Ins. Co.,
18 758 F.2d 364 (9th Cir. 1985) (internal quotations and citations
19 omitted). In this case, the disputed factual issues incorporated
20 within the FPTO were taken verbatim from the parties' Joint
21 Pretrial Statement (ECF No. 154), which refers to all Defendants
22 collectively as "INSC," and states that the parties will litigate
23 whether "INSC has directly and contributorily infringed on the
24 Patents-In-Suit under 35 U.S.C. §271(a), (b), (c) and/or (f)."
25 Section 271(b) is the statutory section addressing inducement.
26 Accordingly, the individual Defendants' liability for inducement
27 was included within the FPTO.

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