

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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COGNEX CORPORATION; COGNEX	:
TECHNOLOGY & INVESTMENT LLC,	:
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Plaintiffs,	:
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-v-	:
	:
MICROSCAN SYSTEMS, INC.; THE CODE	:
CORPORATION,	:
	:
Defendants.	:
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6/30/14

13-cv-2027 (JSR)

MEMORANDUM ORDER

JED S. RAKOFF, U.S.D.J.

On April 30, 2014, after a six-day trial, a jury found that defendants Microscan Systems, Inc. ("Microscan") and The Code Corp. ("Code") infringed claims 1 and 30 of U.S. Patent No. 7,874,487 (the '487 patent) and that Microscan's infringement was willful. See Trial Transcript ("TT"), at 904:24-905:9, 905:14-:17. The jury awarded plaintiffs Cognex Corp. and Cognex Technology & Investment LLC ("CTI LLC") compensatory damages totaling \$2,578,286. See *id.* at 905:10-:13.

After trial, the Court granted permission for the parties to file the following six sets of motions. Plaintiffs move for: (1) a permanent injunction that prevents defendants from infringing, directly or indirectly, claims 1 and 30 of the '487 patent and from importing into, making in, and/or selling in the United States their Mobile Hawk direct part mark reader; (2) enhanced damages against Microscan, pursuant to 35 U.S.C. § 284, that

would double the jury's award; and (3) classification of this case as "exceptional" so as to warrant the award of attorneys' fees under 35 U.S.C. § 285. Defendants move for: (4) dismissal of plaintiff Cognex Corp., under Federal Rule of Civil Procedure 12(b)(1), for lack of standing; (5) judgment notwithstanding the verdict, under Rule 50(b), that Cognex Corp. is not entitled to lost-profits damages; and (6) either judgment notwithstanding the verdict under Rule 50(b) that the '487 patent was not infringed, that the '487 patent is invalid as anticipated, and that any infringement by Microscan was not willful, or alternatively a new trial on those issues under Rule 59(a).

Having fully considered the parties' briefing on these issues, the Court rules as follows:

(1) Plaintiffs' Injunction Motion. The Court grants in part plaintiffs' motion for a permanent injunction and enjoins defendant from infringing claims 1 and 30 of the '487 patent.

Under Section 283 of the Patent Act, courts "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. "The decision to grant or deny permanent injunctive relief is an act of equitable discretion . . . ." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). To establish entitlement to a permanent injunction, a plaintiff must show "that (1) it has

suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be 'diserved' by a permanent injunction." *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 861 (Fed. Cir. 2010) (quoting *eBay Inc.*, 547 U.S. at 391).

In this case, each of those elements is readily met.

First, plaintiffs face irreparable harm if infringing versions of the Mobile Hawk product are permitted to compete with Cognex products that utilize the inventions claimed in the '487 patent, both because Cognex and Microscan are competitors in this market, see TT at 124:1-:5, 625:4-:11, and because sufficient evidence demonstrates that Cognex faces a serious risk of at least price erosion and diminished market share if defendants are permitted to infringe plaintiffs' patent, see, e.g., TT at 472:2-473:3. Plaintiffs have also sufficiently demonstrated a nexus between the irreparable harm that plaintiffs face and defendants' infringing conduct, particularly through Dr. William Equitz's testimony, which described the reasons that a diffusive surface texture on the distal chamfered end of the claimed light pipe allowed the illumination assembly to produce both diffuse dark field and diffuse bright field illumination from a single pipe. See TT at 240:19-242:3.

Second, money damages would be insufficient to compensate plaintiffs for defendants' continued infringement of the patented claims at issue, particularly since the parties are direct competitors in a market that comprises only their products. See, e.g., TT at 122:17-123:13, 124:1-:5; see also *Douglas Dynamics, LLC v. Buyers Prods. Co.*, 717 F.3d 1336, 1345 (Fed. Cir. 2013). If plaintiffs were forced to accept only monetary damages for continued infringement, the Court would, in effect, grant to defendants a compulsory license, for which the Court has no basis. Furthermore, the evidence adduced at trial clearly demonstrates plaintiffs' policy of not licensing this technology to competitors, see TT at 133:5-:12, which further illustrates why monetary damages would not adequately remedy any harm caused by continued infringement.

Third, the balance of hardships favors plaintiffs, at least with respect to an injunction that prevents future infringement of claims 1 and 30 of plaintiffs' '487 patent. Permitting competition between plaintiffs' patented product and defendants' infringing product would adversely affect plaintiffs and cause substantial hardship. Additionally, Microscan's status as a willful infringer militates in favor of granting at least some form of injunction, even if, as defendants note, such a conclusion is not compelled by any Federal Circuit precedent

cited by plaintiffs. See Defendants' Opposition to Plaintiffs' Motion for a Permanent Injunction, May 28, 2014, at 8-9.

Defendants also assert that they have developed a noninfringing alternative design for the Mobile Hawk, see Declaration of Andrew Zosel in Support of Defendants' Opposition to Plaintiffs' Motion for a Permanent Injunction, May 27, 2014, ¶¶ 7-11, which, if true, would further mitigate any hardship that defendants may have otherwise suffered as a result of an injunction prohibiting further infringement. Of course, the existence of an alternate noninfringing design would also mean that plaintiffs no longer suffer irreparable injury or hardship from defendants' importation, manufacture, and/or sale of the Mobile Hawk device itself. To the extent that defendants' modified Mobile Hawk device does not contain a distal end with "a diffusive surface texture" or its equivalent, the modified Mobile Hawk device would not infringe claim 1 or 30 of the '487 patent, and therefore the Court could not enjoin the importation, manufacture, or sale of all Mobile Hawk products. See '487 Patent, claims 1 & 30.

Fourth, an injunction with a narrowed scope would promote the public's interest in protecting plaintiffs' rights under the patent, while ensuring free and open competition where products in the market do not infringe plaintiffs' patent.

Therefore, the Court enjoins defendants, on pain of contempt, from infringing – either literally or under the doctrine of equivalents – claims 1 and 30 of the '487 patent, but does not enjoin defendants' importation, sale, and/or manufacture of *noninfringing* versions of the Mobile Hawk device.

(2) Plaintiffs' Enhanced Damages Motion. Turning to the next motion, the Court denies plaintiffs' request for enhanced damages against Microscan under 35 U.S.C. § 284, which is predicated on the jury's finding that Microscan willfully infringed the '487 patent.

In certain circumstances, a court, in its discretion, may award enhanced damages of up to three times the amount of the jury award. See 35 U.S.C. § 284. Although "[a] finding of willful infringement is a prerequisite to the award of enhanced damages," *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 858 (Fed. Cir. 2010), such a finding "does not mandate that damages be enhanced," *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). Whether – and how much – to enhance an award of damages is determined by "the egregiousness of the defendant's conduct based on all the facts and circumstances." *Id.* The *Read* Court elaborated on a number of factors that are relevant to this determination, including: "(1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the

scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; and (3) the infringer's behavior as a party to the litigation." *Id.* at 826-27 (internal quotation marks omitted).

In support of their motion for enhanced damages, plaintiffs argue that defendants lacked meritorious defenses, asserted their defenses without a good-faith basis, and engaged in litigation tactics that unnecessarily increased costs of litigation and evidenced bad faith. In most respects, the Court disagrees with those assertions. Although it is true that defendants' conduct posed an objectively high risk of infringement, see TT at 896:20-897:2; *see also infra*, defendants litigated in good faith during this proceeding. For example, defendants were able to substantially narrow the scope of claims asserted against them. *Compare, e.g.,* Declaration of Colin J. Garry in Support of Defendants' Opposition to Plaintiffs' Motion for Enhanced Damages, May 28, 2014, Ex. 3, at 2 (asserting infringement of 13 claims of the '487 patent), *with* Pretrial Consent Order, Apr. 21, 2014, at 1. Further, defendants prevailed on their motion for summary judgment to invalidate several claims of the '487 patent as anticipated by prior art. *See* Memorandum Order, Sept. 28, 2013, at 1, 7-9. While, more recently, defendants have engaged in some questionable motion practice, such as their numerous post-trial motions (see below) that re-litigate issues that were

already decided during trial, they have generally litigated in good faith and raised nonfrivolous claims.

Additionally, to the extent that defendants' actions, including their willful infringement of plaintiffs' patent and their sometimes-questionable litigation conduct, require specific or general deterrence, the jury's award of compensatory damages and the Court's eventual award of certain attorneys' fees, see *infra*, will more than adequately deter this defendant, as well as future defendants, from inappropriate litigation conduct. Therefore, defendants' conduct was not so egregious as to warrant any enhancement of damages under Section 284.

(3) Plaintiffs' Attorneys' Fees Motion. Next, the Court grants in part, pursuant to 35 U.S.C. § 285, plaintiffs' motion for attorneys' fees, the amount of which will be determined after plaintiffs provide further documentation and the parties have an opportunity submit supplemental briefing.

Section 285 of the Patent Act authorizes a district court to award attorneys' fees in patent litigation in "exceptional cases." 35 U.S.C. § 285. Recently, the Supreme Court, in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, defined an "exceptional case" as "one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." 134 S. Ct. 1749, 1756 (U.S. 2014). The *Octane Fitness*

Court also emphasized that district courts should determine whether a case is exceptional "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.*

Here, the defenses that were offered at trial were particularly weak and lacked support in the evidence presented to the jury and to the Court. Based on the weakness of these defenses, the Court concluded that there was an objectively high likelihood that defendants' conduct infringed plaintiffs' '487 patent, which in turn permitted the jury to consider and find against defendants on the subjective prong of willful infringement. See TT at 896:20-897:2, 905:14--:17; see also *infra*. In addition, at several points in this case, defendants have engaged in unreasonable litigation tactics that have wasted the Court's time and have required plaintiffs to expend significant resources. For example, defendants' post-trial motions simply re-litigate issues that had already been decided by this Court during trial. See TT at 575:10-583:20, 639:11-642:25, 793:6-797:19, 841:6-:7, 896:20-897:2. Defendants should be required to cover at least the portion of plaintiffs' attorneys' fees related to litigation tactics taken by defendants that have contributed unnecessarily to plaintiffs' expenses in defending its patent.

As a result, the Court finds that this case is "exceptional," at least in part, for purposes of 35 U.S.C. § 285

and will grant at least a portion of plaintiffs' request for attorneys' fees, subject to both parties' further briefing and plaintiffs' documentation of the fees that they have incurred. Plaintiffs will receive, at a minimum, their attorneys' fees for contesting any motions brought by defendants that have sought to reargue what was already decided by the Court previously. The parties are instructed to jointly call Chambers by no later than July 11, 2014 to set a schedule for submission of supplemental briefing and documentation relating to the award of attorneys' fees.

(4) Defendants' Three Motions. Finally, the Court denies defendants' Rule 12(b)(1) motion relating to Cognex Corp.'s standing to sue, Rule 50(b) motion on lost-profits damages, and Rule 50(b) and Rule 59(a) motions on noninfringement, willful infringement, and invalidity. The Court has previously denied motions on these same issues at various, and sometimes multiple, stages of trial. *See, e.g.,* TT at 582:7-583:20, 639:11-642:25, 793:6-797:19, 896:20-897:2. Defendants do not present any additional reasons for this Court to grant any of these motions, and that is sufficient in itself to deny them. Nevertheless, the Court briefly elaborates on the reasons it has already provided from the bench for denying these motions.

Defendants first move, pursuant to Rule 12(b)(1), to dismiss plaintiff Cognex Corp. on the ground that it lacks standing to

sue. To demonstrate standing to sue an alleged patent infringer, a plaintiff must prove that it is either the owner or exclusive licensee of the patent-in-suit. See *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995) (en banc). In turn, an exclusive licensee for standing purposes "must have received, not only the right to practice the invention within a given territory, but also the patentee's express or implied promise that others shall be excluded from practicing the invention within that territory as well." *Id.* at 1552. However, an exclusive license agreement need not be in writing. See, e.g., *Aspex Eyewear, Inc. v. Altair Eyewear, Inc.*, 288 F. App'x 697, 705-06 (Fed. Cir. 2008).

Defendants argue that Cognex Corp., which is not the owner of the patent, is also not its exclusive licensee because plaintiffs have failed to provide any evidence beyond merely conclusory testimony from Dr. Carl Gerst as to the existence of an implied license. Defendants then add that the Federal Circuit decision in *Spine Solutions, Inc. v. Medtronic Sofamor Danek, Inc.*, 620 F.3d 1305 (Fed. Cir. 2010), precludes the Court from finding that an exclusive license exists based upon the corporate structures of Cognex Corp. and CTI LLC. The Court addresses these arguments in turn.

First, Dr. Gerst's testimony was not merely conclusory, nor was it the only evidence introduced at trial that supported the

existence of an exclusive, albeit implied, license between CTI LLC and Cognex Corp. For example, the decision to bring this lawsuit was made within Cognex Corp., see TT at 133:13-:15, 134:13-:10, and, even more importantly, Dr. Gerst testified that Cognex Corp. sets the licensing policy for CTI LLC's intellectual property, including the '487 patent, see TT at 133:3-:12, 188:9-189:21. Moreover, while defendants are correct that use of the term "exclusive" in describing a license does not automatically create exclusivity, see *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998), defendants failed to introduce evidence that actually cast doubt on the ample evidence supporting the existence of an exclusive license for the '487 patent.

Second, defendants read far too much into the *Spine Solutions* decision when they argue that the corporate relationship between CTI LLC and Cognex Corp. in this case – that of a patent-owning subsidiary and a patent-licensing parent – is not relevant evidence of exclusivity. In *Spine Solutions*, the owner and licensee of the patent-in-suit had a different relationship that would be far less suggestive of exclusivity; they were sister corporations that were both subsidiaries of a parent. See 620 F.3d at 1318. Furthermore, in *Spine Solutions*, there was no evidence that the licensee set and controlled the

patent's licensing policy, another fact that readily distinguishes the instant situation.

In short, it is clear, based on the evidence admitted at trial, that Cognex Corp. is the exclusive licensee of the '487 patent and therefore has standing to sue the defendants for infringement.

The Court also denies defendants' Rule 50(b) motion relating to lost-profit damages as a result of its denial of defendants' Rule 12(b)(1) motion. Defendants concede that this Rule 50(b) motion is entirely dependent on the Court's decision as to defendants' motion on Cognex Corp.'s standing to sue. *See, e.g.*, TT at 579:4-:14. Because Cognex Corp. has standing to sue as an exclusive licensee, plaintiffs can collect damages for lost profits based on Cognex Corp.'s production of its DataMan products.

Turning to the issue of noninfringement, defendants argue that they are entitled either to judgment as a matter of law that defendants' Mobile Hawk product does not infringe the '487 patent or to a new trial. While defendants offer three arguments in support of this motion, they all turn on one issue – whether a product that is otherwise in all respects a hollow cylinder or tube ceases to be one if it is chamfered, or angled, throughout its entire length. For reasons already described from the bench at trial, the Court finds that such a hollow cylinder or tube

meets the requirements of the claim as long as its end is chamfered, even if the rest of the cylinder or tube is chamfered as well. The jury reasonably could have concluded that the Mobile Hawk device's light prism was a hollow cylinder or tube, that light could be internally reflected along the prism, and that the prism had a chamfered distal end. Therefore, the inquiry is complete, and there is no independent requirement in the claim that the light pipe have a non-chamfered portion that ends in a chamfered distal end. Therefore, defendants' arguments fail as a matter of claim construction and as a matter of law, and defendants are not entitled to judgment as a matter of law or to a new trial on this issue.

On the issue of willful infringement, Microscan argues that the Court should enter judgment in its favor both because it did not act in the face of an objectively high likelihood of infringement and because plaintiffs failed to demonstrate Microscan's subjective intent to infringe.

However, before addressing the merits of defendants' motion, the Court observes that this motion now appears moot in light of the Court's decision not to award enhanced damages under 35 U.S.C. § 284. *See supra*. The determination of enhanced damages was the only issue directly predicated on a finding of willfulness. Furthermore, while it is true that the Court has considered the nature of Microscan's conduct, including the

degree to which its infringement was willful, in determining plaintiffs' entitlement to both attorneys' fees and injunctive relief, the Court relies on a number of other adequate and independent bases for those conclusions. This is particularly true because the Court cannot award attorneys' fees or issue an injunction against Code on the basis of willful infringement because the jury did not even consider whether Code willfully infringed. See TT at 685:11-:19. Nevertheless, the Court also concludes that defendants are not entitled to either judgment as a matter of law or a new trial on willful infringement.

The Federal Circuit has established a two-pronged test for establishing the recklessness required to show willfulness. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc). First, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* Second, and only after the "objective prong" is satisfied, the finder of fact must consider the "subjective prong," which requires the patentee to prove by clear and convincing evidence that the objectively high risk of infringement "was either known or so obvious that it should have been known to the accused infringer." *Id.*

Microscan argues, regarding the objective prong, that this Court's denial of plaintiffs' motions for summary judgment on

invalidity and for judgment as a matter of law on infringement and invalidity means that its defenses to infringement were reasonable. But those prior motions were governed by a different standard, one that does not permit the Court to weigh the relative strength of competing evidence or determine whether there is an objectively high likelihood that the jury will eventually find in favor of a particular party. Therefore, it is quite conceivable – as is the case here – that a party whose actions pose a substantial risk of infringement and whose defenses are objectively unlikely to prevail may still successfully oppose the other party's motion for judgment as a matter of law because it has presented evidence, however weak, that creates genuine factual disputes.<sup>1</sup>

Additionally, the Court finds several other arguments raised by defendants irrelevant. For example, in determining the objective component of willfulness, the Court will not examine the reasons for *plaintiffs'* strategic decisions to move to exclude the prior art HawkEye device or to not move for summary judgment on the issue of invalidity. Furthermore, the fact that defendants were able to narrow the claims against them significantly is not relevant to whether Microscan had

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<sup>1</sup> For similar reasons, the Court finds irrelevant its statement that "there [were] arguments both ways" on the issue of infringement, TT at 820:3-:4, because that comment related to plaintiffs' motion for judgment as a matter of law.

objectively reasonable defenses to the remaining claims against it. Therefore, the Court finds that, as a matter of law, plaintiffs have met the objective prong of the willfulness inquiry.

In addition, abundant evidence supports the jury's finding of subjective willfulness. A reasonable juror could readily have inferred that Microscan willfully continued to infringe the '487 patent based on its conduct after formally being made aware of infringement. *See, e.g.*, TT at 628:15-:19, 628:22-629:7, 631:14-633:7. Therefore, the Court cannot conclude that, as a matter of law, plaintiffs failed to show that Microscan willfully infringed the '487 patent.

Finally, defendants contend that they are entitled to judgment as a matter of law that claims 1 and 30 of the '487 patent are invalid as anticipated, or to a new trial on the issue of validity.<sup>2</sup> Plaintiffs presented ample testimony supporting

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<sup>2</sup> On April 4, 2014, this Court issued a Memorandum Order that denied defendants' motion for summary judgment in their favor that claims 1 and 30 of the '487 patent are invalid as indefinite. Then, on June 2, 2014, the Supreme Court issued a decision in *Nautilus, Inc. v. Biosig Instruments, Inc.*, which clarified the standard governing indefiniteness. *See* 134 S. Ct. 2120 (U.S. 2014). The *Nautilus* Court concluded that the Patent Act "require[s] that a patent's claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty." *Id.* at 2129. Although defendants have not requested reconsideration of this Court's April 4 Memorandum Order, which had referred to the previously governing Federal Circuit standard on indefiniteness, the Court reaffirms that, even under the newly articulated standard, there is no doubt that the term "light

their argument that the outer surface texture on the prior art HawkEye device's dark field light pipe was "structured," as opposed to "frosted." See, e.g., TT at 381:2-:5, 384:17-:25. Given their burden to prove invalidity by clear and convincing evidence, see *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2246 (U.S. 2011), defendants have failed to show that they are entitled to judgment notwithstanding the verdict or to a new trial on this issue.

For the foregoing reasons, the Court hereby permanently enjoins defendants from infringing – either literally or under the doctrine of equivalents – claims 1 and 30 of the '487 patent, grants plaintiffs' motion for attorneys' fees that are to be determined in further proceedings, and denies the remaining pending motions. The Court also hereby directs the parties to jointly call Chambers by no later than July 11, 2014 to schedule further proceedings relating to the award of attorneys' fees. The Clerk of the Court is directed to close documents numbered 204, 207, 210, 213, 216, and 244 in the docket of this case.

SO ORDERED.

Dated: New York, New York  
June 29, 2014

  
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JEB S. RAKOFF, U.S.D.J.

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pipe" in the claims of the '487 patent can inform one of skill in the art about the scope of the invention with reasonable certainty. Moreover, several central aspects of the Court's reasoning apply with equal force under the new standard governing indefiniteness. See Memorandum Order, Apr. 4, 2014, at 5-7.