UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

CALIFORNIA EXPANDED METAL PRODUCTS COMPANY, et al.,

Plaintiffs,

v.

JAMES A. KLEIN, et al.,

Defendants.

CASE NO. C18-0659JLR

ORDER

PROVISIONALLY FILED UNDER SEAL

I. INTRODUCTION

Before the court is a report and recommendation (R&R (Dkt. # 310 (sealed)) issued by Special Master Mark Walters recommending that the court grant in part and deny in part Plaintiffs California Expanded Metal Company ("CEMCO") and Clarkwestern Dietrich Building Systems, LLC's ("ClarkDietrich") (collectively, "Plaintiffs") motion for contempt damages (12/2/22 Hage Decl. (Dkt. # 316) ¶ 2, Ex. A

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("Pls. Damages Mot.")[1]). Defendants James A. Klein, BlazeFrame Industries, Ltd. ("BlazeFrame"), and Safti-Seal, Inc.'s ("Safti-Seal") (collectively, "Defendants")[2] and Non-Party Seal4Safti, Inc.[3] ("S4S") object to portions of the report and recommendation. (Defs. Obj.; Defs. Reply; S4S Obj. (Dkt. # 314); S4S Reply (Dkt. # 327).) Plaintiffs oppose Defendants' and S4S's objections. (Pls. Resp. (Dkt. # 326).) The court has reviewed the report and recommendation, the objections to the report and recommendation, the submissions in support of and in opposition to those objections, the remainder of the record, and the applicable law. Being fully advised,[4] the court ADOPTS the report and recommendation in part and GRANTS in part and DENIES in part Plaintiffs' motion for contempt damages.

II. BACKGROUND

This matter concerns four underlying patents: U.S. Patent Nos. 7,681,365; 7,814,718; 8,136,314; and 8,151,526 (collectively, "the Patents" or "asserted Patents"), all of which cover head-of-wall assemblies that are used in commercial construction to

[1] Plaintiffs' motion for contempt damages is separately filed under seal at docket entry 317. (*See* Pls. Damages Mot. (Dkt. # 317 (sealed)).)

[2] Although BlazeFrame appears with its co-defendants on the pleadings submitted by Defendants in relation to the instant dispute, Plaintiffs' motion for contempt is not brought against BlazeFrame. (*See generally* Defs. Obj. (Dkt. # 313); Defs. Reply (Dkt. # 328); 2/16/22 Order (Dkt. # 301) at 2 n.2.)

[3] S4S is not a party to the underlying litigation, but it was added to these contempt proceedings on September 1, 2021. (*See* 9/1/21 Order (Dkt. # 251).)

[4] S4S, Plaintiffs, and Defendants request oral argument (*see* S4S Obj. at 1; Pls. Resp. at 1; Defs. Obj. at 1), but the court finds that oral argument would not be helpful to its review of Mr. Walters's report and recommendation and Plaintiffs' motion, *see* Local Rules W.D. Wash. LCR 7(b)(4).

prevent the spread of smoke and fire. (*See* 9/1/21 Order at 2; 12/27/21 Trojan Decl. (Dkt. # 274) ¶¶ 3-4, Exs. B.1-B.2 ("9/8/21 Trojan Decl.")[5] ¶¶ 2-5, Exs. 1-4 (the Patents).) The court has detailed the "tumultuous history" of this matter numerous times and adopts the background sections of those previous orders in addition to its summary here. (*See* 2/16/22 Order; 10/22/21 Order (Dkt. # 265); 9/1/21 Order; 10/19/20 Order (Dkt. # 190); *see also* 2/8/21 Order (Dkt. # 208); 11/22/19 MSJ Order (Dkt. # 135); 8/15/19 Order (Dkt. # 117); 11/29/18 Order (Dkt. # 91); 11/20/18 Order (Dkt. # 89).) Below, the court discusses only its ruling on Plaintiffs' motion for contempt and the instant motion for contempt damages, report and recommendation, and objections thereto.

A. The Parties' Settlement and These Contempt Proceedings

As part of the settlement in this case, Plaintiffs and Defendants agreed to a consent judgment and permanent injunction, which the court entered on January 3, 2020. (*See* Consent J. & Injunction (Dkt. # 164).) The court entered judgment "against Defendants . . . on Plaintiffs' claims that the Accused Products infringe the . . . Asserted Patents." (*Id.* at 2.) The "Accused Products" are defined as: "(1) Safti-Frame with an intumescent strip on the surface of a sidewall of a U-shaped track, and (2) Safti-Strip if applied to the outer surface of a sidewall of a U-shaped track." (*Id.*) The court enjoined Defendants, and "such other persons who are in active concert or participation or in

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[5] Mr. Trojan's declaration and exhibits 1-28 to it are separately filed under seal at docket entry 276 and exhibits 29-55 to his declaration are separately filed under seal at docket entry 277. (*See* 9/8/21 Trojan Decl. (Dkt. ## 276 (sealed), 277 (sealed)).)

privity" with any Defendant, from directly or indirectly infringing the Asserted Patents. (*Id.* at 3.)

After the parties entered into the Settlement Agreement, Mr. Klein and Safti-Seal designed, developed, and began to sell two categories of Fire Rated Gasket ("FRG") products: the FRG Strip and the FRG Frame. (7/30/21 Hovda Decl. (Dkt. # 224) ¶ 3, Ex. B ("5/13/21 Trojan Decl.")[6] ¶ 11, Ex. 10 ("Klein Interr.") at 3; 12/2/22 Hage Decl. ¶¶ 3-5, Exs. B.1-B.3 ("Schoen Decl.")[7] ¶ 2, Ex. 1 ("4/30/21 Klein Dep.") at 24:14-19, 29:12-30:7; 9/8/21 Trojan Decl. ¶¶ 21-22, 41, Exs. 20, 21, 40.) The FRG Strip was comprised of the same three basic components as the Safti-Strip and was sold as a roll for field application to U-shaped tracks, including for head-of-wall applications. (*See* 4/30/21 Klein Dep. at 34:17-22, 162:21-163:25, 240:20-21; 9/8/21 Trojan Decl. ¶¶ 22-23, 53, Exs. 21-22, 52; *see also id.* ¶ 10, Ex. 9: ("Tullis Dep.") at 54:13-55:21.) Like the Safti-Frame, the FRG Frame was a metal track product, sold in a variety of profile shapes, with a factory-applied FRG Strip. (*See* 12/27/21 Trojan Decl. ¶¶ 5-7, Exs. C.1-C.3 ("9/8/21 Pilz Decl.") ¶¶ 52, 116-27, Exs. 42, 103-14.)

On March 31, 2020, Mr. Klein and Safti-Seal sold the designs for the FRG products and all rights to make or sell the products to S4S (Klein Interr. at 3), and as part

[6] Mr. Trojan's declaration is separately filed under seal at docket entry 226. (*See* 5/13/21 Trojan Decl. (Dkt. # 226 (sealed)).)

[7] Ms. Schoen's declaration and exhibits 127 to it are separately filed under seal at docket entry 318; exhibits 28-65 to her declaration are separately filed under seal at docket entry 319; and exhibits 66-71 to her declaration are separately filed under seal at docket entry 320. (*See* Schoen Decl. (Dkt. ## 318 (sealed), 319 (sealed), 320 (sealed)).)

of the sale, Mr. Klein became a consultant for S4S (5/13/21 Trojan Decl. ¶¶ 5-6, Exs. 4-5 ("Sydry Dep.") at 16:1-7). Mr. Klein and Safti-Seal stopped selling FRG products after the sale,[8] and S4S began selling FRG products in April 2020. (4/30/21 Klein Dep. at 24:14-19, 29:12-30:15; 30:2-11, 164:14-167:9; *see also* 5/13/21 Trojan Decl. ¶ 38, Ex. 37 at 14-15.)

On June 22, 2020, Plaintiffs filed a motion to reopen this case to initiate contempt proceedings against Defendants and Non-Parties S4S, SteelTec Supply, Inc. ("SteelTec"), Jaroslaw Sydry, and Leszek Orszulak (collectively, "Non-Parties"). (Mot. to Reopen (Dkts. ## 173-1 (sealed), 166 (redacted)) at 1-2.) The court concluded that "contempt proceedings are warranted against Defendants" and granted the motion with respect to Defendants only. (*See* 10/19/20 Order at 9-15.) The court subsequently added Non-Party S4S to the contempt proceedings, finding S4S to be "legally identified" with an enjoined party, Safti-Seal. (*See* 7/20/21 R&R (Dkt. # 220 (sealed)); 9/1/21 Order at 14-22.)

In October 2021, Plaintiffs filed their motion for contempt, alleging that Mr. Klein, Safti-Seal, and S4S violated the court's permanent injunction by making and selling FRG products[9] that are not more than colorably different from the enjoined Safti-Strip and Safti-Frame products. (*See generally* (12/27/21 Trojan Decl. ¶ 2, Ex. A

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[8] The January 3, 2020 permanent injunction became effective on April 1, 2020. (See Consent J. & Injunction.) Accordingly, S4S was the only party that sold FRG products after the effective date of the injunction. (*See generally* Contempt Liability R&R (Dkt. # 268) at 32.)

[9] These products consist of (1) the FRG Strip, including the FRG Flex Strip, and (2) the FRG Frame. (*See* Pls. Contempt Mot. at 1 n.1, 28, 33; 2/16/22 Order at 18.)

("Pls. Contempt Mot.")[10]; Consent J. & Injunction.) On February 16, 2022, the court granted Plaintiffs' motion for contempt in part, finding Mr. Klein and S4S in contempt of the court's permanent injunction based on induced infringement of claim 1 of the '718 Patent, claim 1 of the '314 Patent, claim 1 of the '365 Patent, and claim 1 of the '526 Patent. (2/16/22 Order at 54.) In reaching that conclusion, the court first found that the FRG Strip is not more than colorably different than the enjoined Safti-Strip when applied to the outer surface of the sidewall of a "U-shaped track."[11] (*Id.* at 38; *see id.* at 33-38.) The court then found that Mr. Klein and S4S "encourage[d] S4S's customers to apply the FRG Strip to the outer sidewall surface of a U-shaped track" "through their sales of the FRG Strip and, among other things, the statements and illustrations contained on S4S's website, in S4S's advertisements and promotional literature, and in Mr. Klein's emails and engineering judgments." (*Id.* at 43-44.) Finally, the court found that, considering certain S4S-sponsored Underwriter Laboratories ("UL") listings[12] and S4S's

[10] Plaintiffs' motion for contempt is separately filed under seal at docket entry 275. (*See* Pls. Contempt Mot. (Dkt. # 275 (sealed)).)

[11] In its order, the court construed the permanent injunction's limitation to products involving a "U-shaped track" to cover only the DL and DSL track profiles, concluding that those tracks "are in the shape of a U, as they include: a planar top (or bottom) and two equally tall planar legs that attach perpendicularly to the top (or bottom) at the widest point of the frame." (*See* 2/16/22 Order at 23-29; *see also id.* at 24 n.25 ("The[] [DL and DSL] tracks are two of the numerous FRG Frame, and Safti-Frame, track profiles.").)

[12] UL is a standards-setting organization that develops safety standards for building materials, and it evaluates and issues certifications, or listings, for products that it deems to have met that standard. (*See* 5/13/21 Trojan Decl. ¶ 13, Ex. 12 ("UL Report").) "Architects, specifiers, engineers, contractors, and code officials rely heavily on UL listings of building materials for demonstrating building code compliance." (12/27/21 Trojan Decl. ¶ 9, Ex. E ("Walke Decl.") ¶ 5, Ex. 1 at 2 (filing Mr. Walke's declaration separately under seal at docket entry 278 (*see* Walke Decl. (Dkt. # 278 (sealed))))).)

advertisements, instructions, illustrations, and recommendations showing the use of the FRG Strip on a U-shaped track, it was "highly probable" that at least one of S4S's customers directly infringed on the Asserted Patents by applying the FRG Strip to the outer sidewall surface of a U-shaped track to be used in a wall assembly.[13] (*Id.* at 46, 50-52.)

The court bifurcated these contempt proceedings (*see* 9/8/21 Order (Dkt. # 253)), and the parties, accordingly, engaged in damages discovery before Plaintiffs filed the instant motion for contempt damages (*see* 3/8/22 Order (Dkt. # 303) (adopting the parties' proposed schedule regarding the damages phase); 4/27/22 Order (Dkt. # 305) (extending certain damages phase deadlines)).

B. The Instant Motion for Contempt Damages, Report and Recommendation, and Objections Thereto

In their motion for contempt damages, Plaintiffs state that S4S sold 1,921,082 feet of FRG Strip from April 1, 2020, through May 16, 2022, and estimate that "[a]t least 66.4% of the FRG Strip" sold by S4S was applied to a U-shaped track. (*See* Pls. Damages Mot. at 12.) In connection with these sales, Plaintiffs seek lost profits, arguing that but for the infringement, Plaintiffs would have sold the equivalent BlazeFrame products to S4S's customers. (*See id.* at 12-14.) Alternatively, Plaintiffs seek a reasonable royalty on 66.4% of S4S's sales of FRG Strip and 100% of S4S's sales of

[13] A number of UL listings were issued for wall assemblies involving FRG products. (*See* 2/16/22 Order at 14-15; 9/8/21 Pilz Decl. ¶¶ 66, 100-03, 105-09, 112, Exs. 55, 87-90, 92-96, 99 (relevant UL listings).) In its February 16, 2022 order, the court discussed why a number of these UL listings supported a finding of induced infringement. (*See* 2/16/22 Order at 40, 44, 46, 51-52.)

U-shaped FRG Frame[14] or disgorgement of S4S's profits on sales of those same products. (*See id.* at 14-17.)

Plaintiffs also seek treble damages and attorney fees and ask the court to award prejudgment interest and hold Mr. Klein and S4S jointly and severally liable as to any monetary damages awarded. (*See id.* at 18-23, 26.) In addition to monetary damages, Plaintiffs seek injunctive relief in the form of an order directing S4S to (1) remove from its UL listings[15] any reference to or depiction of an FRG Strip applied to the outer sidewall surface of a U-shaped track and (2) explicitly reference that the UL listings do "not apply to FRG Strip on U-shaped track, but only applies to J-track, C-track, RC track or other agreed non-U-shaped track." (*See id.* at 24.) Plaintiffs further request that the court or Mr. Walters review any "modified" listings prepared by S4S prior to their release or publication by any third-party, such as UL, and that if Mr. Walters is appointed to conduct said review, that S4S be 100% responsible for his fees. (*Id.* at 24-25.) Finally, Plaintiffs seek a fine of $3,500 for each day S4S remains out of compliance with any order concerning the UL listings. (*Id.* at 25.)

[14] During the liability phase of this proceeding, the record lacked evidence that S4S had sold any metal framing products having a U-Shaped track with FRG Strip applied at the factory—i.e., the FRG Frame. (*See* Contempt Liability R&R at 32; 2/16/22 Order at 13 & n.16, 54.) However, after damages discovery, Plaintiffs identified evidence showing that a small portion (approximately 0.5%) of S4S's combined sales of FRG products since April 1, 2020, were for FRG Frames. (*See* Schoen Decl. ¶ 27, Ex. 26 ("Lindsay Rpt."), Schedule 3.) Thus, Plaintiffs include S4S's sales of U-shaped FRG Frames in their damage calculations. (*See* Pls. Damages Mot. at 14-17.)

[15] Plaintiffs use this phrase to encompass both S4S's UL listings and its other third-party certifications. (Pls. Damages Mot. at 24.)

Mr. Walters held a hearing with Plaintiffs, Defendants, and S4S regarding Plaintiffs' damages motion on October 27, 2022. (R&R at 2; *see also* 12/2/22 Hage Decl. ¶ 9, Ex. F ("Hr. Tr.").) Following the hearing, Mr. Walters issued a report and recommendation recommending that the court grant in part and deny in part Plaintiffs' motion for contempt damages. (*See* R&R at 34-35.) Specifically, Mr. Walters recommends that the court: (1) award Plaintiffs actual damages for contempt, in the form of disgorgement of S4S's profits, in the amount of $708,361.58; (2) award Plaintiffs treble damages pursuant to 35 U.S.C. § 284; (3) award Plaintiffs' their reasonable attorneys' fees and costs pursuant to 35 U.S.C. § 285; (4) award Plaintiffs prejudgment interest on the awards of actual damages and attorneys' fees; (5) hold Mr. Klein and S4S jointly and severally liable for any judgment; (6) enter an injunction requiring S4S to "withdraw all UL listings (and any other third-party certifications) depicting or suggesting the application of FRG Strip or any other intumescent strip not [more than] colorably different from FRG Strip on the sidewall of a U-shaped metal track"; (7) enter an injunction "restraining S4S from submitting any proposed modified listing or certification to a third-party publisher or certification entity (such as UL), where said proposed modified listing or certification depicts or suggests application of an intumescent strip on the sidewall of a metal track product for use in fire-stopping applications absent Plaintiffs' agreement or approval by the court"; (8) require "S4S to disclose to Plaintiffs all sales of FRG Strip and [U-shaped] FRG Frame after May 16, 2022, and through the last date that S4S's UL listings depicting or suggesting the use of FRG Strip on U-shaped track remain published by UL," and permit Plaintiffs to make an

appropriate motion to amend any judgment entered to add profits earned after May 16, 2022; and (9) impose a fine of $3,500 for every day S4S remains out of compliance with the court's injunctions. (*Id.*)

Defendants and S4S timely objected to portions of Mr. Walters's report and recommendation. (*See generally* Defs. Obj.; S4S Obj.)

III. ANALYSIS

While criminal contempt sanctions are punitive in nature, civil contempt sanctions are "wholly remedial." *Whittaker Corp. v. Execuair Corp.*, 953 F.2d 510, 517 (9th Cir. 1992).[16] "Sanctions for civil contempt may be imposed to coerce obedience to a court order, or to compensate the party pursuing the contempt action for injuries resulting from the contemptuous behavior, or both." *Gen. Signal Corp. v. Donallco, Inc.*, 787 F.2d 1376, 1380 (9th Cir. 1986); *United States v. Bright*, 596 F.3d 683, 695-96 (9th Cir. 2010). Accordingly, there are two types of civil contempt sanctions—compensatory and coercive—and the court may impose sanctions for either or both of these purposes. *Falstaff Brewing Corp. v. Miller Brewing Co.*, 702 F.2d 770, 778 (9th Cir. 1983); *United States v. United Mine Workers of Am.*, 330 U.S. 258, 303-04 (1947). Compensatory sanctions are intended to compensate the aggrieved party for actual loss resulting from the contemnor's noncompliance. *In re Crystal Palace Gambling Hall, Inc.*, 817 F.2d 1361, 1366 (9th Cir. 1987). On the other hand, coercive civil sanctions are "intended to

[16] Contempt proceedings that do not raise issues unique to patent law are governed by regional circuit law, *Minigrip Inc. v. Recpro Co.*, 168 F.3d 1322 (Fed. Cir. 1998), here the Ninth Circuit.

coerce the contemnor to comply with the court's orders in the future" and are therefore conditioned upon the contemnor's continued noncompliance. *Richmark Corp. v. Timber Falling Consultants*, 959 F.2d 1468, 1481 (9th Cir. 1992); *see also United Mine Workers of Am. v. Bagwell*, 512 U.S. 821, 829 (1994) (noting that the coercive sanction ceases upon the contemnor's compliance).

Courts have broad discretion to determine the appropriate civil contempt sanctions in a given case. *Bright*, 596 F.3d at 696. In exercising such discretion, courts should generally impose the "minimum sanction necessary to secure compliance." *Bright*, 596 F.3d at 696; *see also Spallone v. United States*, 493 U.S. 265, 276 (1990) ("[I]n selecting contempt sanctions, a court is obliged to use the 'least possible power adequate to the end proposed.'" (quoting *United States v. City of Yonkers*, 856 F.2d 444, 454 (2d Cir. 1988))). However, "when the least intrusive measures fail to rectify the problems, more intrusive measures are justifiable." *Stone v. City & Cnty. of San Francisco*, 968 F.2d 850, 861 (9th Cir. 1992), *as amended on denial of reh'g* (Aug. 25, 1992).

As a preliminary matter, the court determines what it must review de novo. Pursuant to Federal Rule of Civil Procedure 53(f), the court must decide de novo all objections to the findings of fact or conclusions of law made or recommended by a Special Master. Fed. R. Civ. P. 53(f)(3)-(4). Here, no party objects to Mr. Walters's recommendations that the court: (1) deny Plaintiffs' requests for an award of damages in the form of lost profits or a reasonable royalty (*see* R&R at 11-17); (2) order S4S to disclose "all sales of FRG Strip and [U-shaped] FRG Frame after May 16, 2022, and through the last date that S4S's UL listings depicting or suggesting the use of FRG Strip

on U-shaped track remain published by UL," and permit Plaintiffs to move to amend any damages award entered to add profits earned after May 16, 2022 (*see id.* at 25-26, 35); (3) grant Plaintiffs' request for injunctive relief in the form of an order directing S4S to withdraw its UL listings, and any other third-party certifications (collectively, "UL listings"), that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not more than colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track (*see id.* at 32-33)[17]; and (4) deny Plaintiffs' request for injunctive relief in the form of an order requiring S4S to "explicitly reference that the UL Listing does not apply to FRG Strip on U-shaped track, but only applies to J-track, C-track, RC track or other agreed non-U-shaped track" (*see id.* at 33-34). Thus, the court need not review the abovementioned recommendations de novo. *See* Fed. R. Civ. P. 53(f)(3)-(4); (*see also* R&R at 11-17; 32-34). Moreover, the court has examined the record before it and finds Mr. Walters's analysis pertaining to these issues persuasive in light of that record. Accordingly, the court ADOPTS these unchallenged portions of the report and recommendation. (*See* R&R at 11-17, 25-26, 32-34.)

The court now moves to the challenged recommendations. The court begins by addressing S4S's objections to Mr. Walters's recommendation that Plaintiffs have established actual loss and should be awarded damages in the form of disgorgement of

[17] Although no party challenged Mr. Walters's recommendation that the court should require S4S to remove these UL listings within 3 days of the effective date of the injunction (*see* R&R at 34), the court finds that a 30-day, rather than a 3-day, window affords S4S sufficient time to remove the UL listings and adopts his recommendation with that modification (*see infra* § IV).

profits. (*See* S4S Obj. at 2-7.) Next, the court discusses S4S and Defendants' objections to the recommendation that Plaintiffs should be awarded treble damages and attorneys' fees (*see id.* at 7-10; Defs. Obj. at 1-6, 9-12) before turning to S4S's objections to the recommendation that Plaintiffs should be awarded prejudgment interest on an award of attorneys' fees (*see* S4S Obj. at 7-10). The court then addresses Defendants' objections to the recommendation that Mr. Klein and S4S be held jointly and severally liable for an award of damages in the form of disgorgement of profits. (*See* Defs. Obj. at 6-9.) Finally, the court considers S4S's objections to the recommendations that S4S should be fined $3,500 for each day it is proven to be out of compliance with the injunction and that the court should enter an injunction requiring S4S to gain Plaintiffs' agreement or court approval for certain modified UL listings. (*See* S4S Obj. at 10-12.)

A. Disgorgement

In his report and recommendation, Mr. Walters recommended that the court award Plaintiffs compensatory damages, in the form of disgorgement of S4S's profits in connection with its sales of FRG products in violation of the permanent injunction, in the amount of $708,361.58. (*See* R&R at 25.) S4S objects to Mr. Walters's recommendation that Plaintiffs should be awarded disgorgement damages. (*See* S4S Obj. at 2-6.) Its objection takes two parts. First, S4S argues that Plaintiffs are not entitled to any compensatory damages, including disgorgement of S4S's profits, because "they have not demonstrated any actual harm resulting from S4S's actions." (*Id.* at 4; *see also id.* at 2-5.) Second, should the court decide to award disgorgement damages, S4S contends that

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it "is entitled to greater costs deductions than allowed by" Mr. Walters. (*Id.* at 5-6 & nn.4-6.)

To begin, the court rejects S4S's argument that Plaintiffs are not entitled to any compensatory damages in this proceeding. (*See* S4S Obj. at 2-5.) Mr. Walters concluded that Plaintiffs were entitled to compensatory damages because they sufficiently demonstrated that they suffered actual loss due to contemnors' infringement in the form of a reduction in BlazeFrame sales. (*See id.* at 10-11 ("[T]he evidence shows fewer BlazeFrame sales under circumstances that but for the infringement would have led to an increase in BlazeFrame sales or at least "relatively stable" sales over that same period."); *see also id.* at 17-18 (discussing why an award of compensatory damages in the form of disgorgement of profits is appropriate in a civil contempt proceeding).) In reaching this conclusion, Mr. Walters considered S4S's arguments regarding other factors that may have contributed to the reduction in Plaintiffs' sales of BlazeFrame products during the period in question but concluded that "the evidence is still persuasive to show damage as a factual matter." (*See* R&R at 11 & n.5; *see also* S4S Obj. at 3-4.) Based on the record in this case, the court finds Mr. Walters's reasoning persuasive with respect to the evidence of Plaintiffs' actual loss due to Mr. Klein and S4S's infringement and concludes that Plaintiffs are entitled to actual damages in the form of disgorgement of profits.[18]

[18] The court notes that this remedy would be available to Plaintiffs' even if they had not shown actual pecuniary loss. In *ePlus Inc. v. Lawson Software, Inc.* (*ePlus I*), the United States District Court for the Eastern District of Virginia addressed a similar issue: whether disgorgement of profits is an available compensatory remedy in a civil contempt case for patent infringement. 946 F. Supp. 2d 449, 453-57 (E.D. Va. 2013). There, the court examined the case law regarding contempt remedies and concluded that disgorgement of profits remains a viable

(*See* R&R at 10-11 (first citing Schoen Decl. ¶ 21, Ex. 20 ("Doan Rpt.") ¶¶ 42-45; and then citing Lindsay Rpt. ¶¶ 31-32).)

Having concluded that an award of damages in the form of disgorgement is appropriate, the court now turns to the portions of Mr. Walters's disgorgement calculation that are unchallenged. Mr. Walters first noted that only S4S's FRG Strip and U-shaped FRG Frame qualify as enjoined products, and thus, that the calculation should start from the gross revenue of those products from April 1, 2020, through May 16, 2022[19]—specifically, $3,231,133 for FRG Strip products and $16,551 for U-shaped FRG Frame products. (*See* R&R at 18-21; *see also* Doan Rpt., Ex. 1; Lindsay Rpt., Schedule 3.) Because the court held Mr. Klein and S4S in contempt based on the application of FRG Strip to U-shaped tracks, Mr. Walters recommended adopting Plaintiffs' expert's

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compensatory remedy in civil contempt proceedings, even when a plaintiff cannot demonstrate "actual pecuniary" loss. *Id.* (relying on *Leman* v. *Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 456, (1932), among other cases, to support this conclusion). This court is persuaded by the *ePlus* court's reasoning; thus, even if Plaintiffs had failed to sufficiently show actual loss, disgorgement would still be available as a compensatory civil contempt remedy.

[19] The period runs from April 1, 2020, the effective date of the court's permanent injunction. (*See* Consent J. & Injunction.) Although contemnors' conduct in violation of the permanent injunction continues (*see, e.g.*, *infra* § III.F), the parties' experts based their calculations on S4S's revenue through May 16, 2022, because that was the only data available to them at the time of expert's initial and reply reports (*see* Pls. Damages Mot. at 12 n.1). Accordingly, Mr. Walters calculated the disgorgement damages through May 16, 2022, and declined to use S4S's expert's supplemental report that runs the disgorgement calculations through June 2022. (*See* R&R at 17-25 (declining to cite to Mr. Lindsay's supplemental report); 12/2/22 Hage Decl. ¶ 7, Ex. D ("9/9/22 Hage Decl.") ¶ 6, Ex. 5 ("Supplemental Lindsay Rpt.") (filing Ms. Hage's September 9, 2022 declaration separately under seal at docket entry 318 (*see* 9/9/22 Hage Decl. (Dkt. # 322 (sealed))).) As discussed below, once contemnors' infringing conduct ceases with respect to its problematic UL listings, the court will order S4S to disclose its additional sales of FRG Strip and U-shaped FRG Frame products after May 16, 2022, so that Plaintiffs may also seek an award of disgorgement based on those additional profits. (*See* R&R at 25 (recommending the same); *supra* § III; *infra* § IV.)

estimate that 66.4% of all FRG Strip sales were applied to U-shaped track products. (*See id.* at 18-21 (citing Doan Rpt. ¶ 29).) Thus, the total sales of FRG Strip in violation of the permanent injunction from April 1, 2020, through May 16, 2022, were $2,145,472.31. (*See id*.) And because "the parties appear[ed] to agree that all S4S sales of U-shaped FRG Frame, i.e., U-shaped metal track products sold by S4S with FRG Strip applied at the factory on or after April 1, 2020, should be included in any disgorgement calculation," Mr. Walters recommended including 100% of S4S's sales of U-shaped FRG Frame in the disgorgement calculation; thus, for the period beginning on April 1, 2020, and ending May 16, 2022, the total sales of U-shaped FRG Frame in violation of the permanent injunction were $16,551. (*See id.* at 21 (first citing Schoen Decl. ¶ 18, Ex. 17 ("Doan Reply Rpt."), Ex. 3; and then citing Lindsay Rpt., Schedule 3).) The court ADOPTS Mr. Walters's unchallenged recommendations that the court should award a disgorgement remedy based on 66.4% of S4S's sales of FRG Strip from April 1, 2020, to May 16, 2022 ($3,231,133 x 66.4% = $2,145,472.31), and 100% of S4S's sales of U-shaped FRG Frame during that same period ($16,551). (*See* R&R at 21-22.)

The court now addresses S4S's objection regarding Mr. Walters's deductions from these gross revenue figures. Mr. Walters noted that S4S should be entitled to deduct the COGS for sales of FRG Strip and U-shaped FRG Frame, as well as any other "expenses proved to be of actual assistance in the production, distribution, or sale of the infringing products, which may include some portion of fixed costs upon sufficient proof that the costs were of actual assistance to the infringing conduct." (*Id.* at 22-23 (citing *Kamar Int'l, Inc. v. Russ Berrie and Co., Inc.*, 752 F.2d 1326, 1332 (9th Cir. 1984)); *id.* at 24-25;

see also id. at 23 (noting the categories of expenses that the parties agreed are permissibly deducted from gross revenue as expenses directly related to the sale, production, or distribution of FRG Strip and U-shaped FRG Frame).) For the COGS deduction, Mr. Walters adopted Plaintiffs' expert's calculation of the COGS "as a percentage of total sales for FRG Strip and U-shaped FRG Frame (including costs for freight and shipping) at 50.54%." (*Id.* at 24-25 (citing Doan Reply Rpt., Ex. 3) (stating that Plaintiffs' expert obtained this percentage from S4S's profit-and-loss statement for the period in question).) As to deductions for additional expenses that the parties agreed were directly related to the sale, production, or distribution of FRG Strip and U-shaped FRG Frame, Mr. Walters again adopted Plaintiffs' expert's calculation of an aggregate allowable deduction for all remaining costs at 16.7% of total sales for FRG Strip and U-shaped FRG Frame. (*Id.* (citing Doan Reply Rpt., Ex. 3) (stating that Plaintiffs' expert obtained this percentage by adding up each agreed-upon category's percentage of total sales, as listed in S4S's profit-and-loss statement for the period in question).)

S4S argues that the court should reject Mr. Walters's use of a 50.54% COGS figure because such a figure is based on S4S's profit-and-loss statement, which lists the COGS as a percentage of all S4S's revenue, rather than just that revenue related to the products at issue. (S4S Obj. at 5.) S4S argues that the COGS for FRG Strip and U-shaped FRG Frame were tracked by product and totaled at 55.1% for FRG Strip sales and 66.7% for U-shaped FRG Frame sales. (*Id.* at 5-6 & n.5 (citing Supplemental Lindsay Rpt., Schedules 3-6.1 Supplement).) Related to the COGS deduction, S4S also asks the court to apply an additional 3.4% deduction for freight and shipping costs for

FRG Strip and U-shaped FRG Frame, as well as a direct labor deduction of 2.3% for producing FRG Strip. (*See id.* at 5-6 & nn.4-5 (first citing Supplemental Lindsay Rpt., Schedules 3-6.1 Supplement; and then citing Lindsay Rpt. ¶ 24, Schedule 6).) As to the additional expenses that were "of actual assistance in the production, distribution, or sale of the infringing products," S4S argues that the court should reject Mr. Walters's use of a 16.7% additional expense figure and instead apply a 21.1% figure. (*See id.* at 6 & n.6 (listing percentage breakdowns for the roughly 26 categories of additional expenses that make up the total 21.1% figure).)

The court agrees with S4S in part and ADOPTS IN PART Mr. Walters's deduction calculations. First, the court agrees with S4S's contention that the court should calculate the COGS deductions using the specific COGS percentages for FRG Strip and U-Shaped FRG Frame, rather than a general COGS deduction based on S4S's profit-and-losses sheet. (*See* Lindsay Rpt., Schedule 3.) Although the court understands why Mr. Walters used a COGS percentage that represented the average COGS for all of S4S's products given that S4S did not track their additional expenses by product (see R&R at 23 (noting that S4S did not keep track of additional expenses on a product-by-product basis (citing Lindsay Rpt. ¶ 26))), the court finds that it would be most accurate to use COGS percentages that represent the specific COGS for the FRG Strip and U-shaped FRG Frame. (*See* Lindsay Rpt., Schedule 3.) Accordingly, the court declines to adopt Mr. Walters's use of a 50.54% COGS figure and instead adopts a 55.1% COGS figure for FRG Strip and 66.7% COGS figure for U-shaped FRG Frame. (*See* Lindsay Rpt., Schedules 3-4.) As to S4S's request for separate freight and shipping and

direct labor deductions, in addition and relation to the COGS deduction, the court does not find that such deductions are warranted based on the evidence submitted. Because S4S's expert's report does not separately list out freight and shipping costs for the products at issue or any other costs related to the COGS, the court assumes that these costs are accounted for in the COGS figures in S4S's expert's report.[20] (*See id.*, Schedule 3.) Using these new COGS figures, the appropriate COGS deduction for FRG Strip products is $1,182,155.24 ($2,145,472.31 x 55.1%) and the COGS deduction for U-shaped FRG Frame products is $11,039.52 ($16,551 x 66.7%).[21]

Second, as to the additional expenses that were "of actual assistance in the production, distribution, or sale of the infringing products" (R&R at 22), the court rejects S4S's contention that the court should apply a 21.1%, instead of a 16.7%, deduction for additional expenses. S4S does not carry its burden to establish how each of the approximately 26 categories of additional expenses it includes as part of the 21.1% total additional expenses figure directly relate to the sale, production, or distribution of FRG Strip and U-shape FRG Frame. (*See generally* S4S Obj. at 6 & n.6 (lacking any such analysis)); *see also Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 514

[20] Although S4S cites to its expert's supplemental report to support all of its requested disgorgement deductions, the court will not rely on this report for the reasons discussed above—i.e., that it calculates the revenue and expense figures through June 2022 rather than May 16, 2022.

[21] The slight difference between these COGS number and the COGS numbers in Mr. Lindsay's report (*see* Lindsay Rpt., Schedule 3) is due to court's rounding of the decimals in the COGS figure for FRG Strip from 55.066969% to 55.1% and its rounding of the COGS figure for U-shaped FRG Frame from 66.654583% to 66.7%. The court rounded the decimals for ease of reference.

(9th Cir. 1985) ("In establishing the infringer's profits, the plaintiff is required to prove only the defendant's sales; the burden then shifts to the defendant to prove the elements of costs to be deducted from sales in arriving at profit."). The court finds Mr. Walters's reasoning persuasive as to why he used Plaintiffs' expert's 16.7% figure for the additional expense deduction and ADOPTS his recommendation regarding the same. Thus, the appropriate additional expense deduction for FRG Strip products is $358,293.88 ($2,145,472.31 x 16.7%) and the additional expense deduction for U-shaped FRG Frame products is $2,764.02 ($16,551 x 16.7%).

In sum, the court ADOPTS IN PART Mr. Walters's recommendation that the court award Plaintiffs' compensatory damages in the form of disgorgement of S4S's profits. The court AWARDS Plaintiffs' damages in the amount of $607,770.65. The following table summarizes the court's calculation for the compensatory damages award based on disgorgement of S4S's profits from April 1, 2020, to May 16, 2022:

Enjoined Product	Total Sales	Total Allowable Deductions	Profits Available for Disgorgement
FRG Strip Products	$3,231,133 x 66.4% = $2,145,472.31	$1,182,155.24 + $358,293.88 = $1,540,449.12	$605,023.19
U-shaped FRG Frame Products	$16,551	$11,039.52 + $2,764.02 = $13,803.54	$2,747.46
		Total:	$607,770.65

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B. Treble Damages

Mr. Walters recommended that the court award Plaintiffs treble damages for willful infringement pursuant to 35 U.S.C. § 284. (R&R at 26-27.) He stated that such damages are warranted because "the evidence clearly supports a finding that Mr. Klein and S4S willfully violated the injunction." (*See id.* (discussing examples).) According to Mr. Walters, "[c]ompletely absent from this case is any evidence supporting a belief reasonably held by contemnors that their conduct would not lead to the application of a product (FRG Strip) deemed not [more than] colorably different from the enjoined product (SaftiStrip) on the sidewall of a U-shaped track." (*See id.* ("The tort of willful infringement arises upon deliberate disregard for the property rights of the patentee." (quoting *Vulcan Eng'g Co. v. FATA Aluminium, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002)).)

S4S and Defendants object to Mr. Walters's recommendation regarding treble damages. (*See* S4S Obj. at 7-8; Defs. Obj. at 1-6.) They argue that treble damages under § 284 are punitive in nature, rather than coercive or compensatory, and are thus not available in a civil contempt proceeding. (*See* S4S Obj. at 7-8 (noting that although such remedies would have been available to Plaintiffs if they chose to pursue an original patent infringement action, they are not available in this civil contempt proceeding); Defs. Obj. at 1-2 (discussing why treble damages are neither remedial nor coercive).)

The court agrees with S4S and Defendants. It is well-settled, under both Supreme Court and Ninth Circuit precedent, that the court cannot impose a punitive sanction during a civil contempt proceeding. *See Bagwell*, 512 U.S. at 826-30; *Whittaker*, 953

F.2d at 517 ("Unlike the punitive nature of criminal sanctions, civil sanctions are wholly remedial."). In the court's view, the enhancement of damages for willful infringement, as contemplated in 35 U.S.C. § 284, is punitive in nature. *See, e.g.*, *ePlus Inc. v. Lawson Software, Inc.* (*ePlus II*), 946 F. Supp. 2d 472, 498-500 (E.D. Va. 2013) (examining cases regarding the punitive nature of enhanced damages and reaching the same conclusion), *vacated*, 760 F.3d 1350 (Fed. Cir. 2014), *opinion revised and superseded on other grounds*, 789 F.3d 1349 (Fed. Cir. 2015); *see also Troy Co. v. Prod. Rsch. Co.*, 339 F.2d 364, 368 (9th Cir. 1964) (referring to "treble damages . . . as permitted by 35 U.S.C. § 284" as "punitive damages"); *Ironburg Inventions Ltd. v. Valve Corp.*, No. C17-1182TSZ, 2021 WL 2137868, at *3 (W.D. Wash. May 26, 2021) ("The Supreme Court has interpreted this provision as authorizing 'punitive' damages . . . ."). "This is particularly true where, as here, the [c]ourt has employed disgorgement of profits as a compensatory remedy which is, in itself, inherently an estimate of damages." *ePlus II*, 946 F. Supp. 2d at 499-500. Under the circumstances of this action, at least, the court concludes that any enhancement of the disgorgement remedy would be punitive. Thus, treble damages under § 284 are not an appropriate remedy in this civil contempt proceeding. The court therefore DECLINES TO ADOPT Mr. Walters's recommendation that Plaintiffs be awarded treble damages pursuant to § 284.[22]

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[22] Having concluded that treble damages are not available in this proceeding, the court need not address Defendants' alternative argument regarding why the record does not support Mr. Walters's finding of willfulness under § 284. (*See* Defs. Obj. at 2-6.)

C. Attorneys' Fees

In his report and recommendation, Mr. Walters recommended that the court "find[] that this case is 'exceptional' within the meaning of § 285, and that Plaintiffs should be entitled to an award of their attorney[s'] fees." (R&R at 28-29.) According to Mr. Walters, an award of attorneys' fees is appropriate "in view of clear evidence of willful infringement in violation of the court's injunction, the history of the parties' decade-long dispute concerning the Asserted Patents, and the ongoing, open defiance of this court's finding of contempt in February 2022." (*See id.* (providing examples).)

Defendants and S4S object to this recommendation. (*See* S4S Obj. at 8-10; Defs. Obj. at 9-12.) They argue that that attorneys' fees under 35 U.S.C. § 285 are not available in this proceeding because this is a civil contempt action, rather than an original patent action, and is thus governed by the Ninth Circuit's damages scheme. (*See* S4S Obj. at 8-9; Defs. Obj. at 9.) Defendants and S4S also argue that an award of attorneys' fees in addition to disgorgement damages would impose far too great of a contempt sanction and would be inconsistent with the principle that the court should apply the "'least coercive sanction' necessary to win compliance with the underlying injunction." (*See* S4S Obj. at 9-10 (quoting *Beard v. Cnty. of Stanislaus*, No. 121CV00841ADASAB, 2022 WL 12073987, at *7 (E.D. Cal. Oct. 20, 2022)); Defs. Obj. at 9.) Even if attorneys' fees were available in this proceeding under § 285, Defendants argue that an award of fees would be unwarranted because this case is not "exceptional" under the factors listed in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 & n.6 (2014). (*See* Defs. Obj. at 10-12.)

Based on the record, the court finds that an award of attorneys' fees is appropriate in this matter. To begin, "because this is a civil contempt action, § 285 does not apply and the civil contempt damages scheme of the regional circuit controls." *ePlus II*, 946 F. Supp. 2d at 500-02 (addressing this same question and discussing cases supporting this conclusion).[23] "Thus, if attorneys' fees are to be awarded in this case, they must be awarded under the court's inherent authority and consistent with the law of the" Ninth Circuit. *Id.* The Ninth Circuit has stated that "the cost of bringing the [contempt] to the attention of the court is part of the damages suffered by the prevailing party and those costs would reduce any benefits gained by the prevailing party from the court's violated order." *Inst. of Cetacean Rsch. v. Sea Shepherd Conservation Soc'y*, 774 F.3d 935, 958 (9th Cir. 2014) (quoting *Perry v. O'Donnell*, 759 F.2d 702, 705 (9th Cir. 1985)) (awarding plaintiffs the attorneys' fees and costs they incurred in bringing and prosecuting contempt action). Accordingly, a trial court has discretion to "decide whether an award of fees and expenses is appropriate as a remedial measure" in a contempt case. *Perry*, 759 F.2d at 704-05 (holding that "civil contempt need not be willful to justify a discretionary award of fees and expenses as a remedial measure" in a civil contempt proceeding); *In re Dyer*, 322 F.3d 1178, 1195 (9th Cir. 2003)

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[23] *See also Webb v. Trailer City, Inc.*, No. 3:11-CV-00747BR, 2017 WL 2079649, at *2 (D. Or. May 15, 2017) ("In a civil contempt proceeding based on a patent-infringement case the district court is free to exercise its inherent discretion to correct willful violations of the court's orders when determining an award of damages. The court is not bound by provisions of the patent-infringement statute.").

("[A]ttorneys' fees [awarded under the court's civil contempt authority] are an appropriate component of a civil contempt award.").[24]

Had Mr. Klein and S4S fully complied with the court's permanent injunction, these contempt proceedings would have been unnecessary, and Plaintiffs would not have incurred attorneys' fees and costs in bringing and prosecuting these proceedings. For that reason and considering contemnors' reoffending conduct and clear disregard of the court's permanent injunction (*see generally* 2/16/22 Order), as well as their conduct following the court's finding of contempt (*see generally* R&R at 28-29),[25] the court finds that that an award of reasonable attorneys' fees is an appropriate compensatory civil contempt sanction in this case.

Accordingly, ADOPTS IN PART Mr. Walters's recommendation regarding attorneys' fees. The court finds it appropriate to award Plaintiffs their attorneys' fees as a compensatory civil contempt sanction but does so pursuant to its inherent authority rather than § 285. *See ePlus II*, 946 F. Supp. 2d at 500-02; *Webb*, 2017 WL 2079649, at *2. Plaintiffs may seek an award of attorneys' fees and costs reasonably and necessarily

[24] *See, e.g.*, *Toyo Tire & Rubber Co. v. Hong Kong Tri-Ace Tire Co.*, 281 F. Supp. 3d 967, 993 (C.D. Cal. 2017) (awarding damages in the form disgorgement of profits and attorneys' fees in a civil contempt proceeding); *Black Lives Matter Seattle-King Cnty. v. City of Seattle, Seattle Police Dep't*, No. C20-0887RAJ, 2021 WL 289334 (W.D. Wash. Jan. 28, 2021) (awarding attorneys' fees as a compensatory civil contempt sanction); *HM Elecs., Inc. v. R.F. Techs., Inc.*, No. 12-CV-2884MMA (JLB), 2014 WL 12059031, at *6 (S.D. Cal. Apr. 18, 2014) (finding appropriate an award of compensatory civil contempt sanctions in the form of reasonable attorneys' fees and disgorgement of contemnor's profits).

[25] However, as discussed in greater detail below, the court acknowledges that S4S has taken some steps to comply with the court's permanent injunction following the finding of contempt. (*See infra* § III.F; *see also* Sydry Decl. (Dkt. # 315) ¶¶ 3-6.)

incurred in their attempt to enforce compliance with the court's permanent injunction and should file the appropriate motion with the court after the remaining damages issues are resolved. (*See infra* § IV.)

D. Prejudgment Interest

Mr. Walters recommended that the court award prejudgment interest on the disgorgement of profits damages,[26] as well as on the award of attorneys' fees. (R&R at 30-31.) S4S objects to his recommendation that the court award prejudgment interest on the award of attorneys' fees, arguing that such an award would not be compensatory. (S4S Obj. at 10 ("Plaintiffs have not demonstrated any delay in payment of attorney fees that would justify an award of prejudgment interest.").)

Considering the other damages that the court intends to award Plaintiffs in this case (*see supra* §§ III.B-C), the court concludes that an award of prejudgment interest on a fee award is not necessary to sufficiently compensate Plaintiffs for Mr. Klein and S4S's contemptuous conduct. *See, e.g.*, *Fendi Adele S.r.l. v. Burlington Coat Factory Warehouse Corp.*, No. 06CIV0085LBSMHD, 2010 WL 11586698, at *15-16 (S.D.N.Y. Aug. 9, 2010) (declining to award prejudgment interest on the fee award in a civil contempt trademark action in light of, among other things, the other compensatory

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[26] No party objects to, and thus the court need not review de novo, this portion of Mr. Walters's prejudgment interest analysis. *See* Fed. R. Civ. P. 53(f)(3)-(4); (*see also* R&R at 30-31; S4S Obj. at 10). Accordingly, the court adopts this unchallenged portion of the report and recommendation and awards prejudgment interest on the award for disgorgement of profits. (*See* R&R at 30-31.)

damages awarded).[27] This conclusion is consistent with the principle that courts should, in selecting civil contempt sanctions, generally impose the minimum sanctions necessary to compensate the movant for contemnors' conduct. *See Whittaker*, 953 F.2d at 517 ("Generally, the minimum sanction necessary to obtain compliance is to be imposed."); *Spallone*, 493 U.S. at 276, 280 ("[I]n selecting contempt sanctions, a court is obliged to use the 'least possible power adequate to the end proposed.'" (quoting *City of Yonkers*, 856 F.2d at 454)). Accordingly, the court DECLINES TO ADOPT Mr. Walters's recommendation that prejudgment interest be awarded on the award of attorneys' fees.

E. Joint and Several Liability

In his report and recommendation, Mr. Walters recommended that "Mr. Klein be held jointly [and] severally liable along with S4S for any judgment entered."[28] (R&R at 29-30.) In finding that Mr. Klein and S4S "were jointly involved in tortious conduct to their mutual benefit," Mr. Walters noted that "Mr. Klein was not just involved in the conduct found to be in contempt, in many cases he was the main actor." (*Id.* at 30.) He also rejected Mr. Klein's argument that he should not be jointly and severally liable for

[27] The court also notes that the cases the parties and Mr. Walters refer to regarding whether prejudgment interest should be awarded on fee awards involve either original patent proceedings or original patent proceedings that also include a finding of contempt. (*See generally* R&R at 31; S4S Obj. at 10; Pls. Resp. at 12.) However, no party provides Ninth Circuit case law regarding whether an award of prejudgment interest on a fee award is, or could be, an appropriate compensatory remedy in a civil contempt proceeding.

[28] No party objects to, and thus the court need not review de novo, Mr. Walters's recommendation regarding joint and several liability for any award of attorneys' fees. *See* Fed. R. Civ. P. 53(f)(3)-(4); (*see also* R&R at 29-30; Defs. Obj. at 6-9). Accordingly, the court ADOPTS this unchallenged portion of the report and recommendation and holds Mr. Klein and S4S jointly and severally liable for any award of attorneys' fees. (*See* R&R at 29-30.)

disgorgement because he was only an independent consultant at S4S, stating that "it is difficult to imagine how S4S could have been in the business of selling FRG Strip or FRG Frame at all without Mr. Klein's technical assistance." (*Id.* at 29-30.)

Defendants object to the recommendation that Mr. Klein be held jointly and severally liable with S4S for disgorgement of profits. (*See* Defs. Obj. at 6-9.) According to Defendants, "it is undisputed that S4S made each infringing sale—not Mr. Klein—and each FRG product in this case was manufactured by S4S, sold by S4S, and shipped by S4S, and each customer paid money to S4S (not Mr. Klein). (*Id.* at 8; *see also id.* at 7 ("[T]he recommended remedy—disgorgement of profit—cannot possibly or fairly apply to Mr. Klein because he has none.").) Defendants also state that it is undisputed "that Mr. Klein is paid a flat monthly fee for his services without regard to S4S's sales or profits from infringing products, and that Mr. Klein is not an owner of S4S and has no right to control S4S or its operations." (*Id.* at 8; *see also id.* at 7 n.4 (stating that no party has ever argued "that this flat fee is [a] 'profit' from infringement, conditional on infringement, or tied to infringement in any way").) Thus, although Mr. Klein engaged in various acts on behalf of S4S, including acts that led to infringement, Defendants argue that Mr. Klein did not mutually "profit or benefit from infringement," and thus, that he should not be held jointly and severally liable for the disgorgement award. (*Id.* at 7.)

The court agrees with Defendants. The court does not intend to discount Mr. Klein's infringing conduct that formed the basis for the court's order holding both Mr. Klein and S4S in contempt of the permanent injunction. (*See generally* 2/16/22 Order at 54.) However, "[t]he rule against joint-and-several liability for profits that have accrued

to another appears throughout the equity cases awarding profits." *Liu v. Sec. & Exch. Comm'n*, 140 S. Ct. 1936, 1945, 207 L. Ed. 2d 401 (2020) (collecting cases). "The rule of several liability for [disgorgement of] profits applies, at least, where defendants do not act as partners, or 'practically partners.'" *Frank Music Corp.*, 772 F.2d at 519. The court "should consider whether [defendant] was an employee or an independent contractor rather than a partner"; "relevant to this determination . . . are such factors as whether [defendant] received a fixed salary or a percentage of profits and whether he bore any of the risk of loss on the production." *Id.*

It is undisputed that the infringing FRG products were manufactured by S4S, sold by S4S, and shipped by S4S, and each customer paid money to S4S for the products. (*See generally* 2/16/22 Order at 10-16; Schoen Decl. ¶ 4, Ex. 3 ("7/26/22 Klein Dep.") (discussing S4S's financials); Lindsay Rpt., Schedule 4 (table of S4S's sales of FRG products from April 1, 2020, to May 16, 2022).) As Mr. Walters noted in his report and recommendation, Mr. Klein is an independent consultant for S4S, rather than an owner, and is paid a salary of $10,000 per month for his work. (*See* R&R at 30; 7/26/22 Klein Dep. at 13:2-15, 263:10-20; Schoen Decl. ¶ 50, Ex. 49 (documenting Mr. Klein's consultant fee); Sydry Dep. at 44:7-10 (stating that S4S's only business relationship with Mr. Klein is the consulting relationship).) His salary does not change based on the number of products he sells or how many products get sold. (*See* 7/26/22 Klein Dep. at 13:2-14:17, 264:13-16.) Moreover, the record is devoid of any evidence that Mr. Klein retained any portion of the profits S4S made on its sales of the infringing FRG products. *See, e.g.*, *Frank Music Corp.*, 772 F.2d at 519 ("Arden may be liable for profits he earned

in connection with the production of *Hallelujah Hollywood*, but amounts paid to him as salary are not to be considered as profits."). Accordingly, the court DECLINES TO ADOPT Mr. Walters's recommendation that Mr. Klein and S4S be held jointly and severally liable for the disgorgement award. Because the wrongfully obtained profits appear to have flowed only to S4S, the court holds S4S alone liable for the disgorgement award.

F. Daily Fine

Mr. Walters recommended that S4S "be fined $3,500 for each day following the effective date of the injunction where it is proven to be out of compliance."[29] (R&R at 32-33). S4S objects to Mr. Walters's recommendation of a daily fine, arguing that although conditional fines are available in a contempt proceeding, Mr. Walters adopted Plaintiffs' "arbitrarily requested" fine without providing any "reasoned analysis regarding the propriety of such a fine." (*See* S4S Obj. at 10-12; *id.* at 11 (discussing the criteria to be considered before imposing a conditional fine).)

It is well within the court's authority to impose coercive civil sanctions as part of a civil contempt proceeding. *See United States v. Ayres*, 166 F.3d 991, 995 (9th Cir. 1999) ("One of the paradigmatic civil contempt sanctions is a per diem fine imposed for each day a contemnor fails to comply with an affirmative court order."). Coercive sanctions

[29] This recommendation is tied to Mr. Walter's other, unchallenged recommendation that the court enter an injunction directing S4S to "withdraw its UL listings, and any other third-party certifications, that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not [more than] colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track." (*See supra* § III; *infra* § IV, ¶ 1(a).)

are payable to the court, rather than the movant. *Gen. Signal Corp.*, 787 F.2d at 1380 ("If the fine, or any portion of the fine, is coercive, it should be payable to the court, not General Signal."). Coercive sanctions usually take the form of a conditional daily fine, and the contemnor should be afforded an opportunity to avoid the fine by complying with the court's orders. *See, e.g.*, *Shell Offshore Inc. v. Greenpeace, Inc.*, 815 F.3d 623, 629 (9th Cir. 2016) ("[T]he ability to purge is perhaps the most definitive characteristic of coercive civil contempt."); *Koninklijke Philips Elecs. N.V. v. KXD Tech., Inc.*, 539 F.3d 1039, 1042-43 (9th Cir. 2008) ("Because the per diem fine allowed the defendants the opportunity to purge the contempt before payment became due, it was a civil sanction."). In determining the appropriate coercive fine, the court should "consider the character and magnitude of the harm threatened by continued contumacy, and the probable effectiveness of any suggested sanction in bringing about the result desired," *Whittaker*, 953 F.2d at 516 (quoting *United Mine Workers of Am.*, 330 U.S. at 304), as well as "the amount of defendant's financial resources and the consequent seriousness of the burden to that particular defendant," *United Mine Workers of Am.*, 330 U.S. at 304.

At this juncture, the court finds that a $3,500 daily fine is appropriate to coerce S4S to comply with the permanent injunction, which enjoins Mr. Klein and S4S[30] from directly or indirectly infringing the Asserted Patents. (*See* Consent J. & Injunction.) The daily fine will operate to bring S4S into compliance with the permanent injunction by

[30] The court previously found that S4S is legally identified with Safti-Seal, and thus, that S4S is also subject to the permanent injunction. (*See* 9/1/21 Order at 17-22; *see also supra* § II.A.)

requiring S4S to comply with the related injunction contained herein—i.e., the injunction requiring S4S to "withdraw its UL listings, and any other third-party certifications, that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not [more than] colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track" (*see infra* § IV, ¶ 1(a); *supra* § III).[31] Although Mr. Walters did not specifically address the criteria discussed above when he recommended the imposition of this coercive civil sanction (*see generally* R&R at 32-33), the court finds his proposed fine appropriate in light of such criteria.

First, a conditional fine to coerce S4S into compliance with the court's permanent injunction is warranted given S4S's offending conduct and clear disregard of the court's permanent injunction and because S4S has failed to cease all of its offending conduct even after the court's finding of contempt.[32] For example, although S4S submits a

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[31] Because the UL listings were a large part of the court's contempt finding (*see, e.g.*, 2/16/22 Order at 43-46, 50-52), the court finds it appropriate to tie the daily fine to the removal of the UL listings at issue, given that the removal of such listings will work to bring S4S into compliance with the court's permanent injunction.

[32] Additionally, the court notes that the emails in the record between S4S's employees and customers indicate an intent not to comply with the court's permanent injunction. As Mr. Walters stated,

> [T]he evidence includes several emails providing assurances to S4S customers that contemnors would continue to offer FRG Strip and that their business was not (and would not be) affected by this court's orders. (Schoen Decl., Ex. [9] ("Again, Seal4Safti has not received a cease-and-desist order and there will not ever be one per the Federal Court judge in Washington"); *see also id.*, Exs. 8, 10, 11, 42, 66, 67, 68, 69, and 70.) In one email, S4S misinforms a customer regarding the risk of direct infringement through the use of FRG Strip in head-of-wall applications as depicted in S4S's UL listings. (*See id.*, Ex. 70 (asking "[h]ow can BlazeFrame [or] any Federal Court Judge rule that they are the same product?").)

(R&R at 29.)

declaration stating that it has taken steps to comply with the court's permanent injunction (*see* Sydry Decl. ¶¶ 3-6 (stating that S4S removed drawings, animation videos, and photographs that depicted the FRG Strip on a U-shaped track from its website and that S4S's outgoing engineering judgments will only "depict a track that is J-shaped and not U-shaped")), S4S does not represent that it has withdrawn its UL listings that were, in part, a basis for the court's finding of contempt (*see id.* ¶ 5 (stating only that S4S is working to modify the UL listings at issue)). (*See also* 2/16/22 Order at 43-46, 50-52 (discussing how the UL listings at issue contributed to the court's contempt finding).)

Second, a conditional fine is warranted because Plaintiffs' business will continue to be damaged, and its patent rights will continue to be interfered with, until S4S removes such listings and comes into compliance with the court's permanent injunction. Third, a $3,500 conditional fine, in light of S4S's revenue from its sales of the FRG products and continued contempt, is sufficiently large to coerce S4S's compliance with the court's permanent injunction but not so large as to unduly burden S4S. Finally, the fine is a permissible conditional fine because it affords S4S the opportunity to purge itself of the fine by complying with the permanent injunction—specifically, by withdrawing the UL listings at issue in accordance with the injunction contained herein. (*See infra* § IV; *see also* 9/9/22 Hage Decl. ¶ 8, Ex. 7 (letter from counsel for UL explaining that S4S "can withdraw its joint system certifications at any time, at which time UL will remove them from its website").)

In sum, the court finds that a coercive civil sanction in the form of a conditional daily fine in the amount of $3,500, payable to the court, is appropriate and ADOPTS Mr.

Walters's recommendation to impose such a fine. *See Gen. Signal Corp.*, 787 F.2d at 1380. Accordingly, S4S must pay a daily fine of $3,500, beginning on February 28, 2023, for every day S4S fails to withdraw its UL listings that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not more than colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track. The daily fine will cease once S4S submits a declaration to the court evidencing that it has withdrawn such UL listings.[33] (*See infra* § IV.)

G. Injunctive Relief Regarding Proposed Modified UL Listings

Mr. Walters recommended that the court enter an injunction "restraining S4S from submitting any proposed modified listing or certification to a third-party publisher or certification entity (such as UL), where said proposed modified listing or certification depicts or suggests application of an intumescent strip on the sidewall of a metal track product for use in fire-stopping applications absent Plaintiffs' agreement or approval by the court." (R&R at 34-35; *see also id.* at 33 (describing a recommended procedure for evaluating modified listings).) S4S objects to this recommendation, taking issue with the scope of the recommended injunction. (S4S Obj. at 12.) Specifically, S4S argues that "the proposed injunctive relief exceeds the scope of the original injunction and imposes new restrictions on Defendants that are incongruent with the limited nature of the original injunction" because it requires S4S to gain approval for UL listings involving the

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[33] S4S can avoid the fine entirely by withdrawing such UL listings before February 28, 2023.

"application of intumescent strip on the sidewall of a *metal track*" rather than just those involving a U-shaped track. (*Id.*)

The court agrees with S4S. In its order finding Mr. Klein and S4S in contempt, the court rejected Plaintiffs' argument "that the term 'U-shaped track' used in the permanent injunction was intended by the parties to cover 'any metal track designed to receive a stud.'" (2/16/22 Order at 28.) The court construed the permanent injunction's limitation to products involving a "U-shaped track" to cover only the DL and DSL track profiles, concluding that those tracks "are in the shape of a U, as they include: a planar top (or bottom) and two equally tall planar legs that attach perpendicularly to the top (or bottom) at the widest point of the frame." (*See id.* at 23-29; *see also id.* at 24 n.25 ("The[] [DL and DSL] tracks are two of the numerous FRG Frame, and Safti-Frame, track profiles.").) Accordingly, the UL listings that supported this court's finding of contempt based on induced infringement were those involving U-shaped tracks, not just any "metal track product." (*See id.* at 44, 46, 51-52; *see also id.* at 43-46, 50-52 (discussing Mr. Klein and S4S's infringing conduct with respect to the application of the FRG Strip on the outer sidewall surface of a U-shaped track).)

Therefore, the court ADOPTS IN PART Mr. Walters's recommendation to enjoin S4S with respect to modified UL listings, modifying the language of his proposed injunction to account for the permanent injunction's limitation regarding U-shaped tracks. The court thus enjoins S4S from submitting any proposed modified listing or certification to a third-party publisher or certification entity (such as UL), where said proposed modified listing or certification depicts or suggests application of an

intumescent strip on the outer sidewall surface of a U-shaped track for use in fire-stopping applications absent Plaintiffs' agreement or approval by the court. Additionally, the court agrees with, and ADOPTS, Mr. Walters's unchallenged recommendations that S4S should (1) meet and confer with Plaintiffs regarding any proposed modified UL listing covered by this injunction, and (2) if the parties are unable to agree regarding whether the modified listing complies with the permanent injunction, "either party may approach the court for a ruling on the proposed modified listing and the court may decide to refer any dispute to the Special Master." (R&R at 33.) The court further agrees with, and ADOPTS, Mr. Walters's unchallenged recommendation "against an order that S4S be 100% responsible for the Special Master's fees" in the event the court "refers any dispute regarding a modified listing to the Special Master." (*Id.*)

IV. CONCLUSION

For the foregoing reasons, the court ADOPTS the report and recommendation (Dkt. # 310) in part and GRANTS in part and DENIES in part Plaintiffs' motion for contempt damages (Dkt. # 317). Specifically, the court ORDERS as follows:

(1) The court GRANTS the following injunctive relief:

a. S4S shall, by February 27, 2023, withdraw its UL listings, and any other third-party certifications (collectively, "UL listings"), that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not more than colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track; and

b. S4S is enjoined from submitting any proposed modified listing or certification to a third-party publisher or certification entity (such as UL), where said proposed modified listing or certification depicts, describes, or suggests the application of an intumescent strip to the outer sidewall surface of a U-shaped track for use in fire-stopping applications, absent Plaintiffs' agreement or approval by the court;

c. The restraints imposed by paragraphs 1(a) and (b) shall automatically dissolve upon expiration of the last of the Asserted Patents;

(2) The court ORDERS S4S to pay a daily fine of $3,500, beginning on February 28, 2023, for every day S4S fails to withdraw its UL listings that reference, depict, or suggest the application of an FRG Strip (or any other intumescent strip not more than colorably different from FRG Strip) on the outer sidewall surface of a U-shaped track. The daily fine will cease once S4S submits a declaration to the court evidencing that it has withdrawn such UL listings. The fine shall be payable to the court;

(3) The court AWARDS Plaintiffs actual damages in the form of disgorgement of S4S's profits from April 1, 2020, to May 16, 2022, in the amount of $607,770.65;

a. Once S4S withdraws the UL listings at issue (*see supra* ¶¶ 1(a), 2), the court ORDERS S4S to disclose its sales of FRG Strip and any additional sales of U-shaped FRG Frame from May 16, 2022, through the last date that S4S's UL listings depicting or suggesting the

application of an FRG Strip on the outer sidewall surface of a U-shaped track remain published by UL. After S4S discloses such sales, the court DIRECTS Plaintiffs and S4S to meet and confer and submit a joint statement to Mr. Walters regarding the gross revenue on S4S's sales of FRG Strip and U-shaped FRG Frame products, as well as any evidence of such gross revenue. If the parties have any disagreement regarding the gross revenue, they shall include separate statements containing the gross revenue figure(s) that they believe are appropriate. The court DIRECTS Mr. Walters to resolve any disagreements as to S4S's gross revenue during this period and to then apply the same disgorgement calculations and deductions discussed above (*see supra* § III.A), to the gross revenue figure(s) in order to calculate the total amount to be disgorged.

(4) The court AWARDS Plaintiffs prejudgment interest on the actual damages ultimately awarded in this proceeding. Because the court has yet to finalize the total amount of actual damages in this matter (*see supra* ¶ 3(a)), and because the court will not enter a final judgment until it does so, the court will not calculate the prejudgment interest award at this time;

(5) The court AWARDS Plaintiffs their reasonable attorneys' fees and costs in pursuing the instant contempt proceedings. Plaintiffs may file a motion for their reasonable attorneys' fees and costs with the court after the remaining damages issues are resolved (*see supra* ¶ 3(a)); and

(6) The court HOLDS Mr. Klein and S4S jointly and severally liable for any award of attorneys' fees and costs and HOLDS S4S severally liable for Plaintiffs' actual damages and the prejudgment interest on actual damages.

The court will not enter a final judgment until it has resolved the remaining issues with respect to actual damages accruing after May 16, 2022, and attorneys' fees. The court further DIRECTS the Clerk to provisionally file this order under seal and ORDERS the parties to meet and confer regarding the need for redaction of this order and the report and recommendation (Dkt. # 310) and file, by February 15, 2023, a joint statement indicating any such need.

Dated this 26th day of January, 2023.

JAMES L. ROBART
United States District Judge