

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. CV 11-10280-GW(FMOx)

Date May 7, 2015

Title *Pentair Water Pool and Spa, Inc. v. Hayward Industries, Inc., et al.*

Present: The Honorable **GEORGE H. WU, UNITED STATES DISTRICT JUDGE**

Javier Gonzalez

Katie Thibodeaux

Deputy Clerk

Court Reporter / Recorder

Tape No.

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

John B. Scherling  
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Lee C. Bromberg  
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**PROCEEDINGS: PLAINTIFF'S MOTION FOR ATTORNEY FEES AND NONTAXABLE EXPENSES [300];**

**PLAINTIFF'S MOTION FOR COSTS [293]**

Court hears oral argument. The Tentative circulated and attached hereto, is adopted as the Court's Final Ruling. Plaintiff Motion for Attorneys Fees and Nontaxable Expenses is DENIED. Plaintiff's Motion for Costs is GRANTED.

Initials of Preparer JG

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*Pentair Water Pool and Spa, Inc. v. Hayward Industries, Inc. et al.*, Case No. CV-11-10280  
Tentative Rulings on: (1) Plaintiff's Motion for Attorney Fees and Nontaxable Expenses, Docket  
No. 300, and (2) Plaintiff's Motion for Costs, Docket No. 293

## **I. Background**

Plaintiff Pentair Water Pool and Spa, Inc. ("Plaintiff" or "Pentair") filed suit in this Court against Hayward Industries, Inc. and Hayward Pool Products, Inc. (collectively "Defendants" or "Hayward") in December 2011, alleging two causes of action: (1) declaratory judgment of patent non-infringement, and (2) declaratory judgment of patent invalidity. Compl., Docket No. 1. Previously, in August 2011, Pentair sued Hayward for patent infringement in the Eastern District of North Carolina. *Pentair Water Pool & Spa, Inc. v. Hayward Indus., Inc., et al.*, No. 5:11-cv-459-F, Docket No. 1 (August 31, 2011). In that suit, Hayward counterclaimed for infringement of U.S. Patent No. 6,026,804 (the "'804 Patent"). *Id.*, First Am. Answer, Docket No. 50 at 16. That counterclaim was severed and transferred to this Court and consolidated with the present action on March 22, 2012. Docket No. 29. Plaintiff then filed the First Amended Complaint ("FAC"), which asserted the two declaratory relief claims that had been pled in the original complaint, and added a third cause of action for declaratory relief of "Patent Unenforceability Based on Inequitable Conduct." FAC, Docket No. 31 at 16. Defendants moved to dismiss that third cause of action. Docket No. 41. The Court did so on June 21, 2012. Docket No. 66.

After claim construction briefing, a *Markman* hearing, and supplemental post-hearing briefing, the Court construed the disputed terms on December 12, 2012. Docket No. 99. The parties then stipulated five times between December 2012 and March 2014 to extend the pretrial schedule. Docket Nos. 101, 106, 121, 123, and 137. On March 17, 2014, the Court denied Pentair's motion to stay this case pending reexamination. Mins. of Pl.'s Mot. to Stay Pending Reexamination, Docket No. 141. On June 27, 2014, the United States Patent and Trademark Office ("USPTO") terminated the reexamination in Hayward's favor, confirming the patentability of all challenged claims. Ex Parte Reexamination Certificate No. US 6,026,804 C1.

On August 22, 2014, the parties filed cross-motions for summary judgment. Pentair filed five such motions. Docket Nos. 189-193. Hayward filed one. Docket No. 188. On August 26, 2014, the Court struck Pentair's motions, and required Pentair to file a single consolidated motion. Docket No. 196. Pentair did so on September 2, 2014. Docket No. 206. The parties filed their oppositions on September 22, 2014 and September 24, 2014. Docket Nos. 216, 228. The parties filed reply briefs on October 6, 2014 and October 10, 2014. Docket Nos. 236, 248. The parties also filed separate lengthy briefs which they styled "requests for rulings on evidentiary objections," and even briefs opposing those requests. Docket Nos. 218, 230, 237, 240. The Court granted partial summary judgment in favor of Pentair, holding, *inter alia*, that '804 Patent claims 43-45 and 47 are invalid, and that claim 46 is not infringed. Docket No. 272. The parties later stipulated to dismiss the remaining invalidity issue, and the Court entered Judgment in favor of Pentair on February 18, 2015. Docket Nos. 286 and 287.

On March 4, 2015, Pentair then filed a motion for attorney fees and nontaxable expenses

pursuant to 35 U.S.C. § 285, seeking \$4,780,811.95 in fees and \$765,388.08 in expenses, plus interest (the “Fees Motion”). Docket Nos. 296 and 300. The parties then stipulated on March 11, 2015 to extend the briefing schedule and continue the hearing date by about a month. Docket No. 309. Hayward filed its opposition on April 2, 2015, and Pentair filed its reply on April 23, 2015. Docket Nos. 321, 325 and 330.

Also on March 4, 2015, Pentair filed a motion for taxable costs of \$77,917.63 (the “Costs Motion”). Docket No. 293. On the same day, Pentair filed a bill of costs regarding the same costs with the clerk. Docket No. 292-1. “Pentair is aware that (1) a prevailing party is presumptively entitled to reasonable costs as incurred by the proceedings, (2) costs are ordinarily automatically taxed by the Clerk without considering equities, and (3) trial judges ordinarily do not take up the issue of costs. . . . Here however, defendants . . . have expressly indicated their intent to move the Court to exercise its discretion to deny costs based on unfounded allegations of ‘unclean hands.’” Docket No. 293-1 at 1. Hayward filed its opposition on April 2, 2015, and Pentair filed its reply on April 23, 2015. Docket Nos. 319 and 330.

## II. Legal Standard

### A. Attorney Fees

In patent cases, “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. “[A]n ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). “District courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.* In explaining this standard in patent cases, the Supreme Court noted that it previously held that “in determining whether to award fees under a similar provision in the Copyright Act, district courts could consider a ‘nonexclusive’ list of ‘factors,’ including ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.” *Id.* at 1756 n.6 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)). In patent cases, “[a]s in the comparable context of the Copyright Act, ‘[t]here is no precise rule or formula for making these determinations,’ but instead equitable discretion should be exercised ‘in light of the considerations we have identified.’” *Id.* at 1756 (some internal citations omitted).<sup>1</sup>

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<sup>1</sup> Before *Octane*, the Federal Circuit held that “a case is ‘exceptional’ only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both ‘brought in subjective bad faith’ and ‘objectively baseless.’” *Octane*, 134 S.Ct. at 1756 (quoting *Brooks Furniture Mfg., Inc. v. Dutilier Int’l, Inc.*, 393 F.3d 1378, 1381 (2005)). *Octane* abrogated that standard, *see id.*, and in a companion case, the Supreme Court held that “an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination. Although questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, ‘rooted in factual determinations.’” *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 (2014) (quoting *Cooter & Gell v. Hartmarx Corp.*, 110 S. Ct. 2447, 2450 (1990)).

## **B. Costs**

“Unless a federal statute, these rules, or a court order provides otherwise, costs – other than attorney’s fees – should be allowed to the prevailing party.” Fed. R. Civ. P. 54(d)(1). “The ‘prevailing party’ entitled to costs pursuant to F.R.Civ.P. 54(d) shall be the party in whose favor judgment is rendered, unless otherwise determined by the Court. When a case is dismissed or otherwise terminated voluntarily, the Court may, upon request, determine the prevailing party.” L.R. 54-1. “Applications to the Clerk to Tax Costs are reviewed by the Clerk’s designee and not the assigned district or magistrate judge.” C.D. Cal. Bill of Costs Handbook (rev. Jan. 8, 2015).

## **III. Analysis**

### **A. Fees Motion: Pentair’s Arguments About Hayward’s Positions and Conduct**

Pentair asserts that this suit was “in retaliation for and to exert settlement leverage in another case” in which Pentair has sued Hayward. Mem. Supp. Fees Motion (“Memorandum”), Docket No. 303 at 2-3. Pentair argues that there are five main issues concerning the strength of Hayward’s position or Hayward’s manner of litigating it that render this case exceptional. Each is addressed in turn.

#### ***1. That Pentair Did Not Infringe ‘804 Patent Claim 46***

As to claim 46, which required a corrosion-resistant tubesheet, Pentair argues that Hayward negligently assumed that the accused tubesheets were made of stainless steel, and then refused to drop the claim when it learned that Pentair’s carbon steel material rusted in the same manner as the prior art that the ‘804 Patent disclosed and disclaimed. *Id.* at 1. Pentair argues that Hayward’s new argument that “corrosion resistant” merely means that the material “will functional as intended” – an argument the Court rejected – was especially meritless. *Id.* at 8. Pentair emphasizes that Hayward itself was in possession of samples of the accused heaters with visibly rusted tubesheets, and argues that such possession means that Hayward cannot have certified in good faith, as the governing Patent Rules require, that its infringement contentions were formed after a reasonable inquiry. *Id.* at 9-10.

Hayward responds that it relied in good faith on: (1) the opinion of its expert, who opined that a corrosion resistant material need not be impervious to corrosion – a position with which Pentair’s experts agreed, and (2) fact and expert testimony that carbon steel is corrosion resistant because it performed as intended. Fees Opp’n, Docket No. 325 at 9. The Court rejected Hayward’s position for the reasons stated in the Summary Judgment Order, but did not find that it was objectively baseless or otherwise exceptional.

#### ***2. That ‘804 Patent Claims 43-45 and 47 Were Invalid***

Pentair argues that Hayward’s infringement case was “built on a house of cards – five claims of the ‘804 patent added late in prosecution which differed markedly from the alleged invention as filed,” leading to a judgment of invalidity for lack of written description. Mem., Docket No. 303 at 1. Although the Court ultimately found for Pentair on this question, the issue required careful analysis. *See* Summ. J. Order, Docket No. 272-1 at 23-29. It is true that Hayward “misrepresent[ed] the specification” in connection with this issue, arguing that the specification taught that a stainless steel tubesheet could not be used with copper pipes, when in fact, “the ‘804 Patent teaches the

precise opposite of what Hayward argues: the configuration taught by the patent allows copper tubes to be used with a thin stainless steel tubesheet because the tubes and tubesheets can be joined without soldering or welding.” *Id.* at 26-27.

That misrepresentation was disappointing. However, particularly in the context of these summary judgment motions, which also contained many disappointing and complicating positions on Pentair’s part, the Court would not view this issue as sufficient to support an exceptional case finding, although it might have done so in conjunction with other circumstances not present here.

### ***3. That Hayward Inflated Its Damages Calculation and Failed to Mark Its Products***

Pentair argues that Hayward inflated its damages calculation to around \$13 million, while withholding “until the 11th hour” a prior license agreement that valued the ‘804 Patent at \$100,000, requiring a “massive” defense of the case and “precluding any rational settlement.” Mem., Docket No 303 at 1. If the amount Hayward sought was “incredible,” as Pentair argues, it is hard to see why it “required substantial opposition through complex damages discovery.” Mem., Docket No 303 at 13. Nor is it at all clear, or even likely, that earlier disclosure of the \$100,000 Raypack license would have avoided this work, since Hayward does not accept Pentair’s view of the significance of the license. Nor is it necessarily true, as Pentair argues, that “Hayward knew or should have known that when it chose to grant Raypak a paid-up license under the ‘804 patent in 2002, it was foregoing any opportunity to ever try to extract much more significant damages from other competitors in the future.” *Id.* at 14. While the Raypack license was a data point, and perhaps a significant one, it was in no sense the be-all-and-end-all that Pentair argues, particularly given the fact that it is a single license that arose out of litigation. *See Fees Opp’n*, Docket No. 325 at 12.

Hayward responds that its damages theory was “based on expert evaluation of the available evidence, which showed that Pentair saved millions of dollars – more than \$29.00 per heater – during the damages period,” and that calculating damages based on cost savings “is a well settled method of determining a reasonable royalty.” *Id.* at 11 (quoting *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1080-81 (Fed. Cir. 1983)). Pentair has not shown that Hayward’s damages theory renders the case exceptional.

As to Hayward’s failure to mark its products during large portions of the potential damages period in this case, thus precluding it from recovering damages for those portions of the time, such periods would indeed have substantially reduced the damages to which Hayward was entitled. However, Pentair ignores the fact that the Court did not accept Pentair’s position that Hayward’s failure to mark at certain times barred all damages even during the periods that Hayward had properly marked its products. *Summ. J. Order*, Docket No. 272-1 at 33-34.

### ***4. That Pentair Asserted a Weak Willfulness Claim***

Pentair argues that Hayward pursued an exceptionally weak willful infringement claim, despite no evidence of pre-suit knowledge. Mem., Docket No. 303 at 1. It is true that the Court found Pentair’s written description defense reasonable – and in fact correct – thus precluding a finding of willfulness. *Summ. J. Order*, Docket No. 272-1 at 36. But Hayward’s maintenance of its willfulness claim until the court ruled on the reasonableness of Pentair’s defense does not “stand out” from other cases.

### **5. That Hayward Increased the Cost of the Proceedings**

Pentair argues that it was somehow improper for Hayward to sue Raypack for infringing the '804 Patent in 2002, but not to sue Pentair on it until asserting it as a counter-offensive in Pentair's patent litigation against Hayward nine years later. Mem., Docket No. 303 at 2-3. The vast majority of patents are not litigated, and there is nothing exceptional about Hayward reserving the '804 Patent for defensive use after its 2002 litigation with another party. As the Godfather of Soul put it, "don't start none, won't be none." James Brown & Full Force, *Static*, on *I'm Real* (Scotti Bros. Records 1988). Pentair's characterization of this as a "fundamental abuse of the judicial process," *id.* at 16, is pure hyperbole. And Pentair puzzlingly cites to *Eon-Net LP v. Flagstar Bancorp.*, 653 F.3d 1314, 1326-27 (Fed. Cir. 2011), which, according to Pentair's own parenthetical, affirmed an "exceptional case finding where [the] district court found 'indicia of extortion,' and 'Eon-Net acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement from Flagstar.'" *Id.* at 18. Here, Pentair's complaint is that Hayward was not seeking a nuisance value settlement, but rather, that Hayward was seeking real money. This does not accord with the reasoning in *Eon-Net*.

Pentair argues that Hayward "inundat[ed]" it with untimely motions to compel, submitted over 400 pages of evidentiary objections in the summary judgment proceedings, made late productions of documents, and in other ways frustrated Pentair's defense of the case. Mem., Docket No 303 at 2, 19. The "vexatious" tactics identified by Pentair do not stand out from those in other cases. Hayward has not been sanctioned for any of them, and indeed, Pentair does not even state that it sought sanctions for any of them. The parties had numerous discovery disputes, the majority of which they resolved without court intervention. As to the volume of filings, the Court previously observed, as reflected in the Court's order requiring Pentair to consolidate its summary judgment briefing, that Pentair's submissions were also unnecessarily voluminous.

Further, Pentair again grossly overreaches in trying to paint Hayward's presentation of a highly-credentialed claim construction expert as an "offense." *Id.* at 18. While the Court decided that the expert was not situated to provide helpful testimony on the precise question presented during claim construction, the issue was much closer than Pentair maintains, and in no sense whatsoever was an attempt by Hayward to abuse the litigation process. *See Claim Construction Order*, Docket No. 99 at 12-15. Thus, Pentair once again demonstrates that its own unwillingness to efficiently focus on its strong points seems to have been at least as responsible for the protracted course of this litigation as similar failings on Hayward's part.

### **B. Fees Motion: Pentair's Own Positions and Conduct**

"[T]he relevant considerations for a determination of whether a case is 'exceptional' may include the conduct of the winning party . . . . As the Supreme Court emphasized in *Octane*, the decision to award attorney's fees is one of 'equitable discretion.' . . . The equitable force of bad conduct of the losing party may be diminished depending on the conduct of the winning party." *Stragent, LLC v. Intel Corp.*, No. 6:11-CV-421, 2014 WL 6756304, at \*4 (E.D. Tex. Aug. 6, 2014) (Dyk, J., sitting by designation) (internal citations omitted).

Pentair's own manner of litigating weighs against an exceptional case finding. Pentair presents the issues upon which it prevailed as very simple in retrospect, but it ignores that it initially filed five separate summary judgment motions to address them. While the issues, at bottom, may

not have been particularly complex, Pentair certainly treated them that way. This suggests that, at least to Pentair, the issues were in fact not as straightforward as Pentair now argues.

Pentair also ignores that the Court found much to criticize even in the consolidated summary judgment motion Pentair re-filed. The Court noted that many of Pentair's purported "genuine disputes" were improper attempts to deny factual statements on the grounds that they were legal conclusions. *See, e.g.,* Sum. J. Order, Docket No. 272-1 at 7. Regarding claim 43, Pentair ignores that the Court denied partial summary judgment on the location of the "combustion chamber" in certain accused heaters, and in fact granted summary judgment in Hayward's favor on that point as to other accused heaters. *Id.* at 9-10. Likewise concerning claim 43, Pentair ignores that the Court held in favor of Hayward on the "at least partially exposed to heat," "conducting it to a fluid to be heated," "plurality of spaced conduits," "tube sheet with a plurality of apertures therethrough," "proximate said apertures," and "plastic header with an inlet and an outlet" limitations, repeatedly noting that Pentair's position was not only wrong, but improper. *Id.* at 10-16. Pentair also ignores that the Court granted partial summary judgment in Hayward's favor regarding the presence in the accused product of the "sealingly attached" limitation in claim 47. *Id.* at 22-23.

Hayward also marshals the same kinds of complaints that Pentair lodges against Hayward: that Pentair baselessly refused to produce damages-relevant documents from before November 2011, that on nine separate occasions, Pentair produced documents on the eve of, or during, depositions, that Pentair wrongfully withheld product samples, and that Pentair brought a wasteful motion to stay after waiting two years after the litigation began to seek reexamination of the patent. Fees Opp'n, Docket No. 325 at 19-20.

In short, it appears that Pentair unnecessarily complicated the case just as much as Hayward did. Unfortunately, neither side in this case made the concessions necessary to allow them to focus on contesting the contestable.

### **C. Fees Motion: Conclusion**

The Court would DENY the Fee Motion. "Exceptional cases are, by definition, the exception. But since *Octane's* change in the standard, the rule seems to be for prevailing parties to bring an exceptional case motion. This case is no exception. And it is not exceptional." *Collectors Universe, Inc. v. Blake*, SACV14-0333 AG, Docket No. 101 at 1 (March 16, 2015).

### **D. Costs Motion**

The Court entered Judgment in favor of Pentair, specifically stating that "Pentair is the prevailing party in this action." Judgment, Docket No. 287. Pentair therefore did not need to file a motion to be awarded its costs. *See* Fed. R. Civ. P. 54(d), L.R. 54-1, *Stanley v. Univ. of S. Cal.*, 178 F.3d 1069, 1079-80 (9th Cir. 1999) ("it is incumbent upon the losing party to demonstrate why the costs should not be awarded").

Hayward argues that in view of the Court's "split" decision on summary judgment, Pentair did not "prevail[ ] sufficiently to require an award of costs." Costs Opp'n, Docket No. 319 at 1 (quoting *Ruiz v. A.B. Chance Co.*, 234 F.3d 654, 670 (Fed. Cir. 2000)). Hayward argues that "this was a close and complex case further exacerbated by Pentair's vexatious conduct." *Id.* at 2. This case was complex only insofar as the parties made it so, and this dispute over costs is a good example of that. Pentair clearly prevailed. The only ultimate question in the case was whether

Pentair was liable for patent infringement, and the Court's summary judgment order held that the answer was "no." That the basis for that holding was not both non-infringement and invalidity for every single asserted claim does not make Pentair any less free from liability. "Determination of the prevailing party is based on the relation of the litigation result to the overall objective of the litigation, and not on a count of the number of claims and defenses." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (holding that when declaratory judgment plaintiff established its non-infringement of the asserted patent, it prevailed in the litigation, notwithstanding "[t]hat other defenses, such as invalidity of the patent, were unsuccessful or withdrawn"), *abrogated on other grounds, Octane*, 134 S. Ct. at 1756-58.

That Hayward may have "had a good faith basis to believe that it would prevail," Costs Opp'n, Docket No. 319 at 3, is immaterial. Hayward's argument would mean that costs should be denied in any case that the Court does not find exceptional enough to award fees. That is not the rule, nor should it be. The Court therefore would GRANT Pentair's Costs Motion.<sup>2</sup> The Court would order that the award of costs determination be made by the Clerk in the ordinary course, and deny Hayward's request that the costs award be stayed pending the outcome of the Federal Circuit appeal.

#### **IV. Conclusion**

The Court would DENY Pentair's Motion for Attorney Fees and Nontaxable Expenses. The Court would GRANT Pentair's Motion for Costs.

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<sup>2</sup> Hayward also again complains about Pentair's litigation conduct, raising issues that could have been, and in fact, were, litigated earlier. For example, Hayward begins its "unclean hands" argument that by complaining that Pentair filed this (meritorious) declaratory judgment action "over 2,000 miles from the jurisdiction where this dispute was initiated," Costs Opp'n, Docket No. 319 at 4-5, ignoring that it litigated, and lost, the issue of the location of this suit before the District of North Carolina:

[T]he '804 heater patent infringement claim Hayward injected into this variable speed pump patent litigation on the last day it could amend without consent or leave, does not belong in this case. Rather, the record supports Pentair's argument that "[n]ot only is the technology of the '804 Patent unrelated [to the issues concerning the patents-in-issue], but involves entirely different operative facts, experts, witnesses, markets, timeframes and geographical location. Thus, adding the '804 patent to this action not only would complicate the logistics for both the parties and the Court, but would present a high risk of incurable jury confusion." For the reasons set forth in Pentair's Memorandum [DE-73] and Reply [DE-120] in support of the instant motion, and in the interests of justice, Pentair's alternative Motion to Sever and to Transfer the '804 Patent Counterclaim contained in [DE-50] is ALLOWED. Hayward will have its opportunity to prosecute the '804 Patent infringement allegations in the Central District of California where litigation already is pending, where the accused products purportedly are manufactured, and where access to "separate fact and expert discovery and claim construction and the great weight of the evidence and witnesses pertinent to defending the '804 [Patent] Counterclaim are located . . ."

*Pentair Water Pool & Spa, Inc. v. Hayward Indus., Inc. et. al.*, No. 5:11-cv-459-F, Order, Docket No. 124 at 3-4 (E.D.N.C. Jan. 30, 2012). In light of this prior adjudication of this question, Hayward's argument here is frivolous. To the extent Pentair's other litigation conduct is relevant, it has been addressed above in connection with the fees discussion, and the Court would hold that it does not warrant denying Pentair costs.