UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No.	LA CV14-03653 JAK (AGRx)	Date	April 12, 2016
Title	SAWT, Inc., et al. v. Joe Moore Construction, Inc., et al.		

Present: The Honorable	JOHN A. KRONSTADT, UNITED STATES DISTRICT JUDGE

Andrea Keifer	Not Reported
Deputy Clerk	Court Reporter / Recorder
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: **(IN CHAMBERS) ORDER RE MOTION FOR DEFAULT JUDGMENT AGAINST COUNTER-DEFENDANTS (DKT. 112)**

I. Introduction

On May 13, 2014, SAWT Inc. ("SAWT") and Shanghai Aeolus Windpower Technology Co., Ltd. ("Aeolus") (collectively, "Plaintiffs") brought this action against Joe Moore Construction, Inc. d/b/a Wind Sun Energy Systems ("Joe Moore") and Urban Green Energy Inc. ("UGE") (collectively, "Defendants"). The Complaint alleges infringement of U.S. Patent No. 7,967,569 ("the '569 Patent, which is titled "Vertical Shaft Wind Turbine and Method of Installing Blades Therein." Compl., Dkt. 1. Plaintiffs allege that Defendants' UGE-9M, Vision Air 3, Vision Air 5, and HoYi wind turbine products (the "Accused Products") infringe the '569 Patent.

On July 28, 2014, Joe Moore and UGE each filed counterclaims for declaratory judgment of invalidity, unenforceability and non-infringement. *See* Dkt. 32, 33 (collectively, the "Counterclaims").

In April 2015, Plaintiffs requested a physical inspection of the Accused Products. Dkt. 68 at 1. Thereafter, Plaintiffs sought to resolve this matter with Defendants. Plaintiffs state that they did so after concluding that the cost of the litigation was not warranted given the limited damages that appeared available in light of Defendants' sales, and the limited value of obtaining injunctive relief. *Id.* at 4. The parties were unable to agree on the terms of a settlement.

Plaintiffs subsequently offered to dismiss the action voluntarily, without prejudice and with a stipulation not to renew any claims against Defendants. *Id.* Defendants objected, stating that a dismissal without prejudice would not preclude another action in which certain of the patent issues brought through this action might be renewed. *Id.* Plaintiffs then moved to dismiss their claims without prejudice. Dkt. 68. Defendants filed a motion for summary judgment seeking a determination of non-infringement of the patent-in-suit. Dkt. 72.

After Plaintiffs' motion to dismiss without prejudice was granted (Dkt. 96) and Defendants' motion for partial summary judgment was denied (Dkt. 95), Plaintiffs' counsel filed an application to withdraw. Dkt.

97. The application was granted. Dkt. 102. The corresponding Order noted that because Plaintiffs are entities they could not represent themselves in this civil proceeding, i.e., in defense of the counterclaims. *Id.* at 1.

Thereafter, Defendants requested that the clerk enter default as to the Counterclaims. Dkt. 107, 108. Default was entered. Dkt. 110. On February 29, 2016, Defendants filed this motion for the entry of default judgment against Plaintiffs ("Motion"). Dkt 112. A hearing on the Motion was held on April 4, 2015, and the matter was taken under submission. Dkt. 115. For the reasons stated in this Order, the Motion is **GRANTED IN PART and DENIED IN PART**.

II. Allegations in the Complaint and Counterclaims

A. Allegations in the Complaint

The Complaint alleges that Defendants have directly infringed one or more claims of the '569 Patent by making, using, selling and offering for sale wind turbines that embody the patented invention. Dkt. 1 ¶ 24. The Complaint further alleges that the acts of infringement were deliberate and willful. *Id*. ¶ 28, 32, 37. As a result of the infringement, Plaintiffs claimed to have suffered damages and to have been irreparably harmed. *Id*. ¶¶ 35-36.

B. Allegations in the Counterclaims

The Counterclaims seek declaratory relief on the issues of invalidity, unenforceability and non-infringement of the '569 Patent. Dkt. 32, 33. The prayer for relief in the Counterclaims seeks the following relief:

> A. That PLAINTIFFS take nothing by reason of their COMPLAINT and that judgment is rendered in favor of JOE MOORE;
> B. That the '569 Patent be declared invalid and unenforceable;
> C. That the '569 Patent be declared not infringed;
> D. That this case be declared exceptional under 35 U.S.§ 285, and that DEFENDANT/COUNTERCLAIMANT JOE MOORE be awarded the reasonable attorney fees and costs it incurred in connection with this award;
> E. That JOE MOORE be awarded its costs of suit, including reasonable attorney's fees, incurred in defense of this action; and
> F. For such other relief as the Court deems proper.

Dkt. 32 at 5.

III. Analysis

A. Entry of Default Judgment

1. Legal Standards

a) Procedural Requirements

Local Rule 55-1 requires that a party moving for default judgment submit a declaration or include information with respect to the following: (i) when and against which party default was entered; (ii) the pleading as to which default was entered; (iii) whether the defaulting party is an infant or incompetent person, and if so, whether that person is represented by a general guardian, committee, conservator or other representative; (iv) whether the Servicemembers Civil Relief Act, 50 App. U.S.C. § 521, applies; and (v) whether notice has been served on the defaulting party, if required by Fed. R. Civ. P. 55(b)(2).

b) *Eitel* Factors

If foregoing procedural requirements are satisfied, whether to enter a default judgment is left to the discretion of the trial court. *Aldabe v. Aldabe*, 616 F. 2d 1089, 1092 (9th Cir. 1980). In exercising such discretion, the Ninth Circuit has held that district courts should consider the following seven factors ("the *Eitel* factors"): (i) the possibility of prejudice to the movant; (ii) the merits of the movant's substantive claim; (iii) the sufficiency of the complaint or counterclaim; (iv) the sum of money at stake in the action; (v) the possibility of a dispute concerning material facts; (vi) whether the default was due to excusable neglect; and (vii) the strong public policy favoring decisions on the merits. *Eitel v. McCool*, 782 F.2d 1470, 1471-72 (9th Cir. 1986).

2. Application

a) Procedural Requirements

Defendants have satisfied the procedural requirements of Local Rule 55-1. Defendants presented evidence that a default was entered against Plaintiffs on February 10, 2016 as to the Counterclaim. Dkt. 110. Defendants declare that Plaintiffs are not an infant nor incompetent person and that they are not subject to the Servicemembers Civil Relief Act. Dkt. 113 at ¶ 3. Finally, although notice is not required by Fed. R. Civ. P. 55(b)(2), Plaintiffs submitted a Proof of Service showing that Plaintiffs were served with the Motion, Dkt. 112 at 4.

b) *Eitel Factors*

(1) Possibility of Prejudice

As a result of Plaintiffs' failure to respond to the Counterclaims, Defendants may suffer prejudice if default is not entered. Defendants argue that Plaintiffs may seek to re-litigate their claims in a more favorable forum. Defendants also contend that, absent the entry of default judgment, they will be placed in an unjust "cloud of uncertainty." Dkt. 112-1 at 8. At present, based on the statements by Plaintiffs about the limited financial resources available to litigate this action, it appears unlikely that Plaintiffs would attempt to renew it, or a similar action, in the near future. However, there is no showing that Plaintiffs' financial conditions will not improve, or that infringement by another party may occur whose effect may cause greater damage to Plaintiffs than the conduct at issue here. Because there is no assurance that the claims will not be renewed, this factor favors the entry of default.

(2) Substantive Merits and Sufficiency of Complaint

The second and third *Eitel* factors assess the substantive merits of the movant's claims and the sufficiency of the pleadings. These factors "require that a [movant] state a claim on which [it] may recover." *PepsiCo, Inc. v. Cal. Sec. Cans*, 238 F. Supp. 2d 1172, 1175 (C.D. Cal. 2002) (internal quotation marks omitted).

As noted, there are two counterclaims at issue: (i) declaratory judgment of invalidity and unenforceability of the '569 Patent and (ii) declaratory judgment of non-infringement of the '569 Patent.

For the first counterclaim, Defendants simply allege that "[t]he '569 Patent, on information and belief, is invalid and unenforceable," without providing any specific reasons for this allegation. *See* Dkt. 32, 33. There is no recitation of prior art references to support an invalidity challenge under 35 U.S.C. §§ 102 or 103. Nor do Defendants set forth any particular theory that could plausibly give rise to relief as to the claims of invalidity or unenforceability. Thus, Counterclaimants have not shown that the first counterclaim is plausible.

In support of the second counterclaim of non-infringement, Defendants rely on the claim construction order. Dkt. 54. There, the phrase "each said blade is installed with only said convex surface facing the vertical shaft" was interpreted as requiring that "each said blade is installed with only a continuously convex surface contour facing the vertical shaft." *Id.* at 19. Defendants argue that, under this construction, the accused products cannot infringe because all of them have "more than a single surface type and a mix of convex and concave type surfaces facing the vertical shaft." Dkt. 112 at 5. Because factual allegations are taken as true, this factor favors default judgment for the second counterclaim.

(3) Sum of Money at Stake

Under the fourth *Eitel* factor, "the court must consider the amount of money at stake in relation to the seriousness of Defendant's conduct." *PepsiCo*, 238 F. Supp. 2d at 1176. Default judgment is discouraged when the amount of money at stake in the litigation is "too large or unreasonable in light of defendant's actions." *Truong Giang Corp. v. Twinstar Tea Corp*., C 06-03594 JSW, 2007 WL 1545173, at *12 (N.D. Cal. May 29, 2007); *Bd. of Trs.of the Sheet Metal Workers Health Care Plan v. Superhall Mech*., 2011 WL 2600898, at *2 (N.D. Cal. June 30, 2011).

The Counterclaims do not seek monetary relief. Therefore, this factor is neutral. *See Edelbrock LLC v. Genesis Grp. Int'l (USA), Inc.*, 119 F. Supp. 3d 1168, 1176 (C.D. Cal. 2015); *Baskin-Robbins Franchising LLC v. Morris*, 2011 WL 3734234, at *8 (D. Haw. Aug. 23, 2011).

(4) Possibility of Dispute Concerning Material Facts

It is clear that Plaintiffs dispute the material facts as to non-infringement. They presented evidence in support of this position in response to Defendants' motion for summary judgment. Dkt. 73. That motion was then denied. Dkt. 95. For these reasons, this factor weighs against granting the Motion.

(5) Excusable Neglect

This factor concerns whether the entry of default was the result of excusable neglect. There is no showing

of the traditional form of excusable neglect in which a party fails to respond at all to the claims that are subject to a motion for a default judgment. Here, the explanation offered by Plaintiffs for their failure to obtain new counsel and to continue to litigate this matter is that they lack sufficient financial resources to do so. Although this is a somewhat unusual form of neglect, given the resources invested by Plaintiffs in this action, their efforts to settle it with the Defendants, and their explanations as to why they cannot continue to pursue it, this factor weighs against granting the Motion.

(6) Public Policy

The final *Eitel* factor addresses the strong policy preference of deciding claims on their merits. This factor generally weighs against the entry of default judgment. That principle applies here. A determination of the validity of a patent is a matter best done through an adversarial process in which each side has an opportunity to present its positions. *See Microsoft Corp., v. i4i Ltd*., *P'ship*, 564 U.S. 91, 131 S.Ct. 2238, 2243, 180 L.Ed.2d 131 (2011) ("'[a] patent shall be presumed valid' and '[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity'[.]" (citations omitted)). This factor weighs against granting the Motion.

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A consideration and weighing of the *Eitel* factors favors **GRANTING IN PART and DENYING IN PART** the Motion. The Motion is **GRANTED** to the extent it seeks declaratory judgment as to Counterclaimants' non- infringement of the '569 Patent. The Motion is **DENIED** to the extent it seeks a declaration that the '569 Patent is invalid and unenforceable.

B. Attorney's Fees and Costs

1. Legal Standard

In patent cases, the court "may award reasonable attorney fees to the prevailing party" if the case is "exceptional." 35 U.S.C. § 285. The Federal Circuit defined an "exceptional" case as one that either involves "material inappropriate conduct" or is both "objectively baseless" and "brought in subjective bad faith." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc*., 393 F.3d 1378, 1381 (2005). That standard has since been construed as being "unduly rigid, and it impermissibly encumbers the statutory grant of discretion to the district courts." *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014).

In *Octane Fitness*, an "exceptional" case was defined as "simply one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Octane*, 134 S. Ct. at 1756. "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*. Relevant factors in making this determination include whether the claims are frivolous, whether the non-prevailing party had an improper motivation for asserting claims or defenses, whether the positions advanced by the non-prevailing party were objectively unreasonable, and whether the case presents circumstances that warrant compensation for the moving party and deterrence of the non-moving party. *Id*.

2. Application

A weighing of the foregoing factors leads clearly to the result that this is not an exceptional case. There is no showing that the positions advanced by Plaintiffs either in presenting their affirmative claims or in response to the counterclaims were frivolous or the result of some improper motive. Nor is there a showing of objective unreasonableness or unique circumstances that warrant compensation or deterrence. Instead, the claims and responses presented by Plaintiffs were reasonable. The default was the result of the lack of sufficient resources and financial incentives to pursue the claims and defenses. Moreover, after conducting certain discovery, which included a site visit, Plaintiffs made good faith proposals for the resolution of this action, which Defendants rejected. Among those proposals was one that offered a form of relief similar to what has been awarded in this Order. A consideration and balancing of all of these factors leads clearly to the conclusion stated above – this is not an exceptional case in which an award of attorney's fees is warranted.

IV. Conclusion

For the reasons set forth in this Order, the Motion is **GRANTED IN PART and DENIED IN PART**. The Motion is **GRANTED** as to the request for declaratory judgment as to Defendants' non infringement of the '569 Patent. The Motion is **DENIED** to the extent it seeks a declaration that the '569 Patent is invalid and unenforceable. Defendants' request for attorney's fees is **DENIED**. On or before April 19, 2016, Defendants shall lodge a proposed judgement consistent with the terms of this Order.

IT IS SO ORDERED.

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