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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 06-984 JVS (ANx) Date September 28, 2007

Title Vertical Doors, Inc. v. Howitt

Present: The Honorable James V. Selna

Karla J. Tunis

Not Present

Deputy Clerk

Court Reporter

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

DOCKETED ON CM
OCT - 3 2007
BY [Signature]

Proceedings: (In Chambers) Order Re: Second Application for Entry of Default Judgment

Plaintiff Vertical Doors, Inc. ("Vertical Doors") submits a second application for default judgement against Defendants Car Door Conversion ("CDC"), Initrobe Systems ("Initrobe"), and Rafael Melendez (collectively, "CDC Defendants"). Vertical Doors is seeking monetary damages, injunctive relief and attorney fees. The CDC Defendants have submitted no opposition to the application.

I. LEGAL STANDARD

Under Federal Rule of Civil Procedure 55(a), entry of default is appropriate when a party fails to plead or otherwise defend as required by the Federal Rules of Civil Procedure. Granting a motion for default judgment pursuant to Rule 55(b)(2) is within the discretion of the Court. Eitel v. McCool, 782 F.2d 1470, 1471 (9th Cir. 1986); Yew v. Dulles, 236 F.2d 415, 416 (9th Cir. 1956).

On an application for a default judgment, the factual allegations in the Complaint are taken as true, with the exception of those regarding damages. See Pope v. United States, 323 U.S. 1, 12 (1944); Geddes v. United Financial Group, 559 F.2d 557, 560 (9th Cir. 1977). The Court may base its determination upon the affidavits and declarations Vertical Doors has submitted. Fed. R. Civ. Pro. 55(b)(2); L.R. 55-2; Davis v. Fendler, 650 F.2d 1154, 1161-62 (9th Cir. 1981).

II. DISCUSSION

A. Background

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In its Order of April 10, 2007, this Court granted Vertical Doors' first Application for Default Judgment with respect to liability on claims 1 and 7 of the First Amended Complaint. Order, April 10, 2007. It further held that there was insufficient information to grant the application regarding damages, attorney's fees and costs and a permanent injunction. Id.

With respect to monetary relief, Vertical Doors now seeks \$603,240 in actual damages, \$1,206,480 in enhanced damages, \$120,648 in pre-judgment interest, \$11,610 in attorneys' fees, and \$264.25 in costs, for a total of \$1,942,242.25, pursuant to 35 U.S.C. §§ 284 and 285.

Vertical Doors also seeks various injunctive relief. First, Vertical Doors seeks a permanent injunction prohibiting the CDC Defendants from manufacturing, using, selling, or offering to sell, within the United States, or importing into the United States, and from contributing to or actively inducing others to do same, any: (a) vertical door hinges; (b) vertical door conversion kits; or (c) component parts of vertical door hinges or vertical door conversion kits not capable of substantial non-infringing use. Second, it seeks an injunction requiring the CDC Defendants to cease all sales, offers for sale, manufacture, and importation of their infringing products, including the cessation of such related activity on all websites registered, owned, maintained or operated by or on behalf of the CDC Defendants, including the website cardoorconversion.com. Third, Vertical Doors seeks an order requiring the CDC Defendants to transfer the domain name "www.cardoorconversion.com," so that Vertical Doors may control that name and post a notice on the website stating that the site has been shut down per court order.

Vertical Doors also request sanctions in the amount of \$1,000 per day, up to \$365,000, for each day after this Order is entered, until the CDC Defendants allow inspection of their books as ordered by this Court on April 10, 2007. (See Order, April 10, 2007.)

B. Monetary Damages

Upon a finding of infringement, the court shall award damages adequate to compensate, but in no event less than a reasonable royalty for the use made of the invention, together with interest and costs. 35 U.S.C. § 284. Even though the fact of infringement, established here by the default judgment, establishes the fact of damage

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“because the patentee’s right to exclude has been violated,” Vertical Doors must nevertheless prove the amount of actual damage. Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co., 895 F.2d 1403, 1406 (Fed. Cir. 1990). There are two measures of damages: 1) a showing of lost profits; or 2) an estimate of a reasonable royalty. Id.

In order to “recover lost profits, . . . the patentee must show a reasonable probability that ‘but for’ the infringing activity, the patentee would have made the infringer’s sales.” Ericsson, Inc. v. Harris Corp., 352 F.3d 1369, 1377 (Fed. Cir. 2003). This requires the patent owner to “reconstruct the market to determine what profits the patentee would have made had the market developed absent the infringing product.” Id. A patent owner may not prove lost profits by adding “vague estimation and gross extrapolation to unsupported presumption” but instead must put forth “evidence of actual sales combined with reliable economic analysis of demand, supply, and price over time.” Oiness v. Walgreen Co., 88 F. 3d 1025, 1030-31 (Fed Cir. 1996). Moreover, where, as here, there are non-infringing alternatives in the market, Vertical Doors may not simply assume that each sale of an infringing product is a sale that Vertical Doors otherwise would have made. Grain Processing Corp. v. Am. Maize-Prods. Co., 185 F.3d 1341, 1350-51 (Fed. Cir. 1999).

Vertical Doors seeks lost profits but does not put forth sufficient evidence of the CDC Defendants’ actual sales. Nor does it provide evidence to support a finding that absent the infringement of the CDC Defendants, Vertical Doors would have made those sales.¹ In its second application for default judgment, Vertical Doors reduces its initial estimate of number of infringing door hinges sold from 2,568 to 1,320 without explanation or apparent evidentiary basis. It bases both figures on the Baum Declaration and on sales information available on cardoorconversion.com, and attaches seemingly identical pages from that website as support for each of the divergent estimates. (Cf. Cohen Decl. in Support of App. for Default Judgment, Exhs. 4-6 with Cohen Decl. in Support of Second App. for Default Judgment, Exhs. 4, 8-9.)

The Baum Declaration attached to the Second Application, includes an assertion

¹ Vertical Doors has stipulated in a related case that KW Automotive’s competing hinge does not infringe. (Vertical Doors Inc. v. JT Bonn, Inc., et al., C.D. Cal., Case No. SACV 05-905 JVS (ANx), Docket No. 234, pp. 3-4.)

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that, according to Vertical Doors' sales representatives, "Vertical Doors has lost at least 6 to 8 orders for door hinge kits to [the CDC Defendants] in the past 1 to 2 months." (Baum Decl. ¶ 4.) This statement reflects the correct theory on which lost profits should be measured, namely sales the patentee would have made but for the infringement. However, since the Declaration is based entirely on information and belief, it is of little value in determining either when the CDC Defendants began selling their products or how many sales Vertical Doors has lost due to the infringement.

The unexplained reduction in Vertical Doors' estimate of infringing hinges sold by the CDC Defendants underscores the speculative nature of Vertical Doors' proposed calculation of damages and the necessity, as expressed by this Court in its Order of April 10, 2007, of gathering evidence of actual sales in order to make an appropriate damages award.

Vertical Doors argues that it should be awarded damages based on its estimate because the CDC Defendants have not granted Vertical Doors access to their financial records, despite the fact that they were ordered to do so in this Court's Order of April 10, 2007. The Court addresses the CDC Defendants' noncompliance with the order by issuance of an Order to Show Cause, see Section F, below.

For the reasons outlined here and in the Order of April 10, 2007, the Court finds that Vertical Doors has provided insufficient evidence from which the Court may examine the validity of Vertical Doors' damages allegations. Accordingly, this portion of the application is denied without prejudice.

C. Attorney fees and costs

Vertical Doors also seeks attorneys' fees pursuant to 35 U.S.C. § 285. Attorneys' fees are compensatory rather than punitive. Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1347 (Fed. Cir. 2004). A prevailing party is entitled to attorneys' fees only in exceptional cases. Waner v. Ford Motor Co., 331 F.3d 851, 857 (Fed. Cir. 2003). The prevailing party must establish that the case was exceptional by clear and convincing evidence. Machinery Corp. of Am. v. Gullfiber AB, 774 F.2d , 467, 470-72 (Fed. Cir. 1985); see also McNeil-PPC, Inc. v. L. Perrigo Co., 337 F.3d 1362, 1371 (Fed. Cir. 2003). Though attorneys' fees are not necessarily automatic upon a finding of willful infringement, Cybor Corp. v. FAS Techs. Inc., 138

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F.3d 1448, 1461 (Fed. Cir. 1998) (en banc), willful infringement is a common sufficient basis upon which to grant attorneys' fees. See, e.g., Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH, 408 F.3d 1374, 1377-79 (Fed. Cir. 2005); Golight, Inc. v. Wal-Mart Stores, Inc., 355 F.3d 1327, 1339-40 (Fed. Cir. 2004).

Vertical Doors argues that this case is exceptional based on its allegation of the CDC Defendants' willful infringement and litigation misconduct.

1. Willful Infringement

The Federal Circuit recently introduced "objective recklessness" as the new standard for willful infringement, whereby the "patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." In re Seagate Tech., LLC, ___ F.3d ___, 2007 WL 2358677, *5 (Fed. Cir. 2007).

In this case, Vertical Doors alleges that the CDC Defendants continue to market and sell their infringing hinges, even though they are on notice of the default judgment establishing the fact of infringement. Under these circumstances, the CDC Defendants are acting in spite of "an objectively high likelihood," indeed, an objective certainty, that their actions constitute infringement. Accordingly, for the purpose of awarding attorneys fees to Vertical Doors,² the Court finds that the CDC Defendants have willfully infringed.

2. Litigation Misconduct

"Litigation misconduct and unprofessional behavior are relevant to the award of attorney fees, and may suffice, by themselves, to make a case exceptional." Epcon Gas Sys. Inc. v. Bauer Compressors, Inc., 279 F.3d 1022, 1034 (Fed. Cir. 2002) (internal citations omitted).

² While the Court makes a finding of willfulness for the purposes of awarding attorneys fees, that finding does not necessarily affect any potential future inquiry into whether Vertical Doors is entitled to enhanced damages based on willfulness. Jurgens v. CBK, Ltd., 80 F.3d 1566, 1573 n. 4 (Fed. Cir. 1996).

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Vertical Doors points to various instances of misconduct and unprofessional behavior in connection with this litigation, including their refusal to allow inspection of financial records as directed in this Court's Order of April 10, 2007. The Court agrees that the CDC Defendants have engaged in litigation misconduct.

Accordingly, the Court finds that the CDC Defendants' willful infringement and litigation misconduct render this an exceptional case. Therefore, Vertical Doors, as the prevailing party, is entitled to reasonable fees.

Vertical Doors' attorney Neal M. Cohen, Esq. sets out the calculation of fees as follows: Valerie Sarigumba, 37.6 hours at \$250 per hour plus Neal M. Cohen, 6.8 hours at \$325 per hour, for a total of \$11,610.00. (Cohen Decl. ¶ 30.) However, Vertical Doors makes no showing of how the time was spent or counsel's qualifications. Without this data, the Court cannot determine whether the time expended was reasonable or whether counsel's rates reflect rates for comparable services in the community. Therefore, the Court declines to fix an amount of fees to be awarded at this time.

The Court further awards Vertical Doors costs pursuant to Federal Rule of Civil Procedure 54(d)(1).

D. Permanent Injunction

Vertical Doors also requests of injunctive relief pursuant to 35 U.S.C. § 283. The court may "grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." Id.

The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the court. eBay, Inc. v. MercExchange, L.L.C., ___ U.S. ___, ___, 126 S.Ct. 1837, 1839 (2006). A plaintiff must demonstrate: (1) likelihood of success on the merits of the underlying litigation; (2) immediate irreparable harm will result if the relief is not granted; (3) the balance of hardships to the parties weighs in the plaintiff's favor; and (4) the public interest is best served by granting the injunctive relief. Id. eBay expressly overruled a Federal Circuit holding that injunctive relief is presumptively available upon a showing of patent infringement. Id. at 1841.

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In its Order of April 10, the Court found that the first prong of this test was clearly satisfied, but declined the request for injunctive relief because Vertical Doors failed to provide sufficient information regarding the other three factors. (Order, April 10, 2007, pp. 4-5.) Vertical Doors now alleges sufficient information to allow this Court to grant the application for a permanent injunction.

Vertical Doors argues that immediate and irreparable harm will result if these injunctions are not issued because the vast majority of Vertical Doors' income comes from the sale of door hinge conversion kits and the CDC Defendants are detracting from Vertical Doors market share of this product. (Baum Decl. ¶¶ 1, 4.) Monetary damages are inadequate because the CDC Defendants continue to sell the door hinge kits through their website despite this Court's finding that such conduct infringed Vertical Door's patents. (*Id.*) As a result, Vertical Doors risks the loss of customers, profits and goodwill in the industry. (*Id.*)

The balance of the hardships in this case weighs in favor of Vertical Doors, because it has invested a significant amount of time, money and effort to obtain and enforce its patent portfolio; meanwhile, the CDC defendants have failed to make any appearance in this suit or otherwise defend the allegation that their conduct infringes Vertical Door's patents. (Cohen Decl. ¶¶ 15-19, 30; Baum Decl. ¶¶ 3.) Lastly, Vertical Doors claims that the public interest is best served by granting the injunctions because otherwise, the CDC Defendant's would be able to avoid the patent laws, as well as any consequences for their conduct, simply by refusing to appear in these proceedings. (Second App. For Default Judgment, p. 10.)

These allegations are sufficient to establish a claim for injunctive relief. Accordingly, the Court grants Vertical Doors' request for a permanent injunction with respect to the following:

- (1) a permanent injunction prohibiting the CDC Defendants from manufacturing, using, selling, or offering to sell, within the United States, or importing into the United States, and from contributing to or actively inducing others to do same, any: (a) vertical door hinges; (b) vertical door conversion kits; or (c) component parts of vertical door hinges or vertical door conversion kits not capable of substantial non-infringing use.

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- (2) a permanent injunction requiring the CDC Defendants to cease all sales, offers for sale, manufacture, and importation of their infringing products, including the cessation of such related activity on all websites registered, owned, maintained or operated by or on behalf of the CDC Defendants, including the website cardoorconversion.com.

E. Control over cardoorconversion.com

In its Order of April 10, 2007, the Court held that there was insufficient authority to justify granting Vertical Doors request for control over the CDC Defendant's website. (Order, April 10, 2007, p. 4.) While Vertical Doors' argument about the effectiveness of this injunction is compelling, it still has nothing to offer in the way of case law or statutory authority that supports its requests. Because the Court finds that the injunctions granted above are sufficient to protect Vertical Door's interest in its patents, the request for control over www.cardoorconversion.com is denied.

F. Sanctions and Order to Show Cause

Vertical Doors seeks sanctions to enforce the portion of this Court's Order of April 10, 2007 that "orders the CDC Defendants to permit inspection of their financial records by Vertical Doors' counsel and its auditor to determine actual damages." (Order, April 10, 2007, p. 5.) These are the type of sanctions that invoke the Court's inherent power to hold a party in civil contempt. Chambers v. NASCO, Inc., 501 U.S. 32, 44 (1991).

Accordingly, the Court hereby issues an Order to Show Cause at 1:30 p.m. on November 3, 2007 why the Court should not hold the CDC Defendants in contempt for violating the Order of April 10, 2007 that directs them to allow Vertical Doors to inspect their financial records in order to determine actual damages. The CDC Defendants shall file a written response on or before October 20, 2007; Vertical Doors may file a reply on or before October 27, 2007. The Court orders Vertical Doors to personally serve a copy of this Order on each of the CDC Defendants.

