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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

CALIFORNIA EXPANDED METAL PRODUCTS COMPANY, ET AL.,	)	Case No. CV 16-05968 DDP (MRWx)
	)	
Plaintiff,	)	
	)	<b>ORDER GRANTING PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION, IN PART</b>
v.	)	
	)	
JAMES A. KLEIN, ET AL.,	)	[Dkt. 54, 61]
	)	
Defendants.	)	

Presently before the court is Plaintiffs' Motion for Preliminary Injunction. Having considered the submissions of the parties and heard oral argument, the court grants the motion in part, denies the motion in part, and adopts the following Order.

**I. Background**

Defendant James Klein ("Klein") is the named inventor on several patents for building materials. (Complaint ¶ 9.) Klein assigned some of those patents to a company he helped form, Defendant BlazeFrame Industries, Ltd. ("BlazeFrame"). (Id. ¶ 10.) Klein, BlazeFrame, and Plaintiffs California Expanded Metal Products Company ("CEMCO") and ClarkWestern Dietrich Building Systems LLC ("Clark") litigated several questions regarding the

1 ownership, licensing, and alleged infringement of the patents in a  
2 prior case before this court. (Compl. ¶ 11.) See No. CV 12-10791-  
3 DDP(MRWx) ("the prior case").

4 The parties settled all claims in the prior case. (Compl. ¶  
5 12.) The transcript of a settlement conference constitutes the  
6 settlement agreement.<sup>1</sup> Plaintiffs allege that the settlement  
7 agreement required BlazeFrame to assign the patents to CEMCO in  
8 consideration for an up-front payment. (Id. ¶ 16.) BlazeFrame  
9 retained a royalty-free license to "commercialize the Patents in a  
10 restricted territory" spanning six states." (Id. ¶¶ 16-17.) CEMCO  
11 also agreed to grant a license to Clark in exchange for royalty  
12 payments, a portion of which would be paid to BlazeFrame. (Id.)  
13 The settlement transcript includes the following colloquy:

14 [CEMCO]: CEMCO shall grant BlazeFrame the right to continue  
15 to sell under the BlazeFrame patents in the territory of  
16 Washington, Alaska, Idaho, Montana and Wyoming. And that  
license shall be royalty free for the remaining life of the  
patents. . . .

17 [Clark]: The license to [Clark] is an exclusive license as  
18 to the BlazeFrame patents but for the six states to Klein  
and BlazeFrame; is that correct?

19 [CEMCO]: Correct. . . .

20 [Clark]: . . . And the limitations on MR. Klein -or on  
21 BlazeFrame to the - six state region is that BlazeFrame  
22 will only make no sales that will basically cross outside  
that six-state region. It will all - the sales and the  
23 delivery of the products will all be within that six-state  
region; is that correct?

24 [BlazeFrame]: That's not my understanding. My  
25 understanding is that that's defined as it is in the  
current licensing agreement - the same agreements as exist  
now - same agreements as exist now -

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27 <sup>1</sup> The parties agreed to the terms of a settlement at the  
28 settlement conference and further agreed that if they failed to  
agree on a memorialization of those terms, the transcript of the  
settlement conference would constitute the settlement agreement.

1 [Clark]: Well . . . But - but Klein - BlazeFrame has some  
2 rights . . . to sell outside of the six-state region right  
now.

3 [CEMCO]: [I]f you'll recall, Mr. Klein specifically wanted  
4 to sell to dealers outside of this area. And we  
5 specifically said no to that and he came back and said  
6 that's okay. So he's aware of that. That was put on the  
7 table, and we didn't accept it and then [BlazeFrame] agreed  
that it was off the table. So he had no dealers since  
those dealers are outside of this area; the sales are  
within the - these - this geographic region. That's his  
territory.

8 [BlazeFrame]: See . . . . That's my understanding too that  
9 all sales have to be within the region.

10 [CEMCO]: Correct.

11 [Clark]: Okay. How did I say something different?

12 [BlazeFrame]: I don't know. Maybe I wasn't - I -

13 [Clark]: The sales are all with - confined within that six-  
14 state region. There can't be any sales by BlazeFrame that  
go outside that region.

15 [BlazeFrame]: I understand that he can't sell to anyone  
16 outside that region. That's what [CEMCO] said; that's what  
I heard.

17 (Declaration of R. Joseph Trojan In Support of Motion, Ex. 1 at  
18 9:24-12:5.)

19 Plaintiffs allege that BlazeFrame is breaching the settlement  
20 agreement by, among other things, selling licensed products outside  
21 the agreed-upon six state area. (Compl. ¶¶ 27, 38.) Plaintiffs  
22 further allege that these sales have been "orchestrated by Klein."  
23 (Id. ¶ 37.) BlazeFrame also allegedly sells licensed product to  
24 Big Mountain Materials Supply LLC, a company controlled by Klein or  
25 his family members, which then re-sells the product throughout the  
26 country. (Id. ¶ 25.) Plaintiffs further allege that BlazeFrame  
27 has sold component parts of the licensed products to buyers outside  
28 BlazeFrame's territory so that the buyers can manufacturer licensed

1 product on-site. (Id. ¶ 26.) Plaintiffs also allege that by  
2 selling licensed products outside of the agreed-upon geographical  
3 area, BlazeFrame is infringing upon the patents owned by CEMCO, to  
4 which Clark has an exclusive license outside of BlazeFrame's  
5 territory. (Id. ¶¶ 44-45.)

6 Plaintiffs now move for a preliminary injunction enjoining  
7 Defendants from advertising, offering for sale, or shipping  
8 BlazeFrame products, or component parts for manufacturing purposes,  
9 outside the six-state restricted territory, including to third  
10 parties within the restricted territory that BlazeFrame knows will  
11 then ship or use the products outside the territory.

## 12 **II. Legal Standard**

13 A private party seeking a preliminary injunction must show  
14 that: (i) it is likely to succeed on the merits; (ii) it will  
15 suffer irreparable harm in the absence of preliminary relief; (iii)  
16 the balancing of the hardships and equities between the parties  
17 that would result from the issuance or denial of the injunction  
18 tips in its favor; and (iv) an injunction will be in the public  
19 interest. Winter v. Natural Res. Defense Counsel, 555 U.S. 7, 20  
20 (2008). Preliminary relief may be warranted where a party: (i)  
21 shows a combination of probable success on the merits and the  
22 possibility of irreparable harm; or (ii) raises serious questions  
23 on such matters and shows that the balance of hardships tips in  
24 favor of an injunction. See Arcamuzi v. Continental Air Lines,  
25 Inc., 819 F.2d 935, 937 (9th Cir. 1987). "These two formulations  
26 represent two points on a sliding scale in which the required  
27 degree of irreparable harm increases as the probability of success  
28 decreases." Id. Under both formulations, the party must

1 demonstrate a "fair chance of success on the merits" and a  
2 "significant threat of irreparable injury" absent the issuance of  
3 the requested injunctive relief.<sup>2</sup> Id.

4 **III. Discussion**

5 A. Likelihood of Success on the Merits

6 Plaintiffs have demonstrated that they are likely to succeed  
7 on the merits of some aspects of their breach of contract claim.  
8 Plaintiffs have submitted evidence that Defendants have made direct  
9 sales to a dozen different buyers in ten different states outside  
10 BlazeFrame's six-state territory.<sup>3</sup> (Trojan Decl., Exs. 3-10.)  
11 Plaintiffs have also submitted evidence of numerous sales to Big  
12 Mountain Materials Supply LLC, a Washington corporation with no  
13 employees or payroll that lists "Serina Klein," who Plaintiffs  
14 represent is Klein's wife, as its registered agent and an  
15 individual Plaintiffs represent to be Klein's mother-in-law as  
16 governor. (Trojan Decl., Exs. 12-13, 22.) Many of BlazeFrame's  
17 sales to Big Mountain are shipped to addresses outside the six-  
18 state region.<sup>4</sup> (Trojan Decl., Ex. 12 at 8-26.) BlazeFrame also  
19 appears to have sold significant quantities of intumescent tape, a  
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23 <sup>2</sup> Even under the "serious interests" sliding scale test, a  
24 plaintiff must satisfy the four Winter factors and demonstrate  
25 "that there is a likelihood of irreparable injury and that the  
injunction is in the public interest." Alliance for the Wild  
Rockies v. Cottrell, 632 F.3d 1127, 1135 (9th Cir. 2011).

26 <sup>3</sup> Plaintiffs also submitted evidence of sales made within  
BlazeFrame territory, but shipped to addresses outside BlazeFrame's  
27 region, discussed further below. (Trojan Decl., Ex. 11.)

28 <sup>4</sup> Plaintiffs further assert, albeit without specific  
evidentiary support, that Big Mountain "resells" BlazeFrame product  
without any markup.

1 component part of the licensed products, to out-of-area buyers.<sup>5</sup>  
2 (Trojan Decl., Exs. 15-18.)

3       Although Defendants take issue with Plaintiffs' computation of  
4 Blazeframe's extra-territorial sales, Defendants do not dispute  
5 that they made direct sales outside of Blazeframe's six-state  
6 region. Defendants nevertheless contend that an injunction is not  
7 warranted because Defendants no longer make direct extra-  
8 territorial sales and because the settlement agreement allows  
9 Blazeframe to make sales to distributors who may then re-sell  
10 licensed products outside Blazeframe territory.<sup>6</sup> As an initial  
11 matter, it appears that Blazeframe's significant sales to Big  
12 Mountain are a sham, made solely for purposes of circumventing the  
13 settlement agreement's territorial restrictions. The court is  
14 therefore not persuaded by Defendants' claims that direct extra-  
15 territorial sales have ceased, and Plaintiffs have made a strong  
16 showing of a likelihood of success on the merits of the breach of  
17 contract claim based upon direct sales.

18       The question remains, however, whether the settlement  
19 agreement forbade the type of sales Blazeframe apparently intends  
20 to continue making to in-territory distributors who then ship  
21 licensed product out of Blazeframe territory. "[A]n unconditional  
22 sale of a patented device exhausts the patentee's right to control  
23 the purchaser's use of that item thereafter . . . ." Keurig, Inc.  
24 v. Sturm Foods, Inc., 732 F.3d 1370, 1373 (Fed. Cir. 2013); see

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26       <sup>5</sup> Although Plaintiffs acknowledge that some tape sales may be  
27 for legitimate repair purposes, the quantities shipped suggest some  
other purpose, such as on-site manufacture of licensed products.

28       <sup>6</sup> Defendants' counsel represented at oral argument that Big  
Mountain has been defunct since mid-January 2017.

1 also Monsanto Co. v. Scruggs, 459 F.3d 1328, 1335-36 (Fed. Cir.  
2 2006) ("The first sale/patent exhaustion doctrine establishes that  
3 the unrestricted first sale by a patentee of his patented article  
4 exhausts his patent rights in the article."). "This exhaustion  
5 doctrine, however, does not apply to an expressly conditional sale  
6 or license." B. Braun Medical, Inc. v. Abbott Laboratories, 124  
7 F.3d 1419, 1426 (Fed. Cir. 1997). The question here, therefore, is  
8 whether the settlement agreement expressly placed any downstream  
9 restrictions upon BlazeFrame's sales of licensed products.

10 At the settlement hearing, the transcript of which constitutes  
11 the settlement agreement, Clark's counsel specifically stated, "And  
12 the limitations on Mr. Klein -or on BlazeFrame to the - six state  
13 region is that BlazeFrame will only make no sales that will  
14 basically cross outside that six-state region. It will all - the  
15 sales and the delivery of the products will all be within that six-  
16 state region; is that correct?" This framing of the question  
17 unambiguously forbade BlazeFrame from making any sales that would  
18 ultimately leave BlazeFrame's territory, even through in-territory  
19 distributors other than Big Mountain.

20 BlazeFrame's counsel did not, however, agree to Clark's  
21 counsel's characterization. CEMCO's counsel then explained, "Mr.  
22 Klein specifically wanted to sell to dealers outside of this area.  
23 And we specifically said no to that and he came back and said  
24 that's okay. . . . [BlazeFrame] agreed that it was off the table.  
25 So he had no dealers since those dealers are outside of this area;  
26 the sales are within the - these - this geographic region. That's  
27 his territory." (Emphases added). Clark's counsel reiterated her  
28 initially stated interpretation, that "[t]he sales are all with -

1 confined within that six-state region. There can't be any sales by  
2 Blazeframe that go outside that region."

3 Blazeframe's counsel then acknowledged, "I understand that he  
4 can't sell to anyone outside that region. That's what [CEMCO]  
5 said; that's what I heard." Although CEMCO's counsel referred to  
6 an agreement regarding "sales" within Blazeframe territory, he did  
7 so in the context of discussing Klein's frustrated desire to sell  
8 to dealers extraterritorially, and did not expressly mention in-  
9 territory sales to dealers who would then sell extraterritorially.  
10 As a result of the ambiguity of this characterization of the  
11 agreement, to which Blazeframe acceded and which arguably  
12 contrasted with Clark's interpretation, Plaintiffs have not, at  
13 this stage, shown a likelihood of success on the merits with  
14 respect to extraterritorial downstream sales.

15 Defendants also argue that Plaintiffs are not likely to  
16 succeed on the merits because their actions violate antitrust law.  
17 (Opposition at 20.) Although the argument is not developed at  
18 length, Defendants assert that Clark and CEMCO entered into a  
19 "supplemental settlement agreement" after the settlement agreement  
20 at issue here as part of a conspiracy to horizontally restrain  
21 trade and divide a market. (Opp. at 14, 20.) "Classic" horizontal  
22 market division agreements, in which competitors agree to divide  
23 the market for a product, are indeed per se antitrust violations.  
24 See California ex rel. Harris v. Safeway, Inc., 651 F.3d 1118, 1137  
25 (9th Cir. 2011). Plaintiffs acknowledge that they entered into a  
26 settlement agreement arising out of an unrelated disparagement  
27 action in Ohio state court. (Reply at 15-16.) It is unclear to  
28 this Court, however, how that agreement constitutes an

1 impermissible restraint of trade, particularly given BlazeFrame's  
2 continuing market position within its six-state area and its  
3 acceptance of a monetary payment in exchange for the relevant  
4 patents, or otherwise insulates Defendants from Plaintiffs' claims  
5 here. Barring further elaboration from Defendants, the  
6 "supplemental settlement agreement" does not diminish the  
7 likelihood that Plaintiffs will succeed on the merits.<sup>7</sup>

8 To the extent that Plaintiffs seek to enjoin BlazeFrame from  
9 advertising outside its six-state territory, Plaintiffs did not  
10 initially submit any evidence that BlazeFrame makes any offers to  
11 sell outside the restricted area. Although CEMCO's counsel's  
12 declaration states that BlazeFrame's website does not list any  
13 territorial restrictions, that is not sufficient to establish that  
14 BlazeFrame solicits extraterritorial sales via its website.  
15 (Trojan Decl., ¶ 22.)

16 The court sought supplemental briefing, however, on Klein's  
17 role in soliciting extraterritorial sales through distributors. It  
18 is undisputed that Klein travels the country to promote BlazeFrame  
19 products, including, but not limited to, the licensed products at  
20 issue here. Upon request, Klein provides pricing information  
21 "identical" to that listed on the BlazeFrame website.  
22 (Supplemental Declaration of James Klein ¶ 15.) Klein states that  
23 extraterritorial potential customers "initiate a sales activity" by  
24 calling or e-mailing BlazeFrame. (Id. ¶ 17.) BlazeFrame then  
25 "facilitates the sale" of the requested products. (Id.) When the

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27 <sup>7</sup> Defendants also argue, without any citation to the record,  
28 that both Plaintiffs have breached the settlement agreement at  
issue here. The court declines to address these unsupported  
assertions.

1 requested products are licensed products covered by the patents at  
2 issue here, Klein or BlazeFrame "refers the potential sale/sales  
3 lead to . . . authorized dealer/distributors . . . ." (Supp. Klein  
4 Decl. ¶ 18.) Klein represents that these distributors are "local,"  
5 and that one Washington distributor in particular, SteelTec, "now  
6 receives and handles a majority of sales of 'licensed product' to  
7 buyers located outside BlazeFrame's six-state territory." (Id. ¶  
8 21.)<sup>8</sup> Klein further asserts that distributors outside BlazeFrame  
9 territory "now only sell and distribute non-licensed products[.]"  
10 (Id.)

11 Klein's representations appear to conflict with evidence  
12 submitted by Plaintiffs. In one e-mail to an extraterritorial  
13 contractor, Klein states that BlazeFrame "can sell through any  
14 local distribution yard." (Declaration of Ann Schoen, Ex. 2.)  
15 Although it is not entirely clear whether licensed products are at  
16 issue in the e-mail exchange, Klein's representation to the  
17 contractor casts some doubt upon his assertion that no extra-  
18 territorial distributor deals in licensed products. Clark also  
19 submits e-mail exchanges between Klein and a New York distributor,  
20 Studco, and a Colorado distributor, Hertz Building Supply, in  
21 which Klein appears to provide pricing strategies and information  
22 for licensed products. (Id., Exs. 3, 4.) Klein also sent e-mails  
23 to parties in Nebraska and Maryland listing prices for licensed  
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25 <sup>8</sup> As discussed above, it remains to be seen whether  
26 extraterritorial downstream sales by independent distributors are  
27 permitted by the settlement agreement. It is unclear, however,  
28 whether Klein's reference to "a majority of sales of 'licensed  
product' to buyers located outside BlazeFrame's six-state  
territory[.]" is best characterized as referring to distributor  
sales or to BlazeFrame's sales.

1 products shipped via resellers. (Declaration of Francis Wong, Exs.  
2 1, 2.) Contrary to Klein's declaration, the prices quoted do not  
3 appear to be "identical" to those listed on BlazeFrame's website.  
4 (Id.; Supp. Klein Decl. ¶ 15.)

5 Despite the inconsistencies between Klein's representations  
6 and the evidence submitted by Defendants, it remains unclear  
7 whether Klein engages in conduct that constitutes extraterritorial  
8 advertising for sale, as opposed to product education or promotion.  
9 It is unclear, for example, whether Klein's reference to "any local  
10 distribution yard" refers to in-territory yards or out-of-territory  
11 yards local to the end user. Even if the latter, it is also  
12 unclear whether Klein and that end user discussed licensed or  
13 unlicensed BlazeFrame products. Furthermore, although Klein's  
14 communications regarding distributor pricing strategies and end-  
15 user price quotes, including shipping costs, raise some questions  
16 about his relationship to, and the independence of, distributors,  
17 the evidence is insufficient at this stage to establish that these  
18 distributors are similar to Big Mountain or otherwise fall under  
19 Klein's control.

20 B. Irreparable Harm

21 Plaintiffs argue that BlazeFrame's extraterritorial sales are  
22 causing irreparable harm in the form of price erosion and loss of  
23 market share. (Motion at 9-12.) "Price erosion, loss of goodwill,  
24 damage to reputation, and loss of business opportunities are all  
25 valid grounds for finding irreparable harm." Advanced Transit  
26 Dynamics, Inc. v. Ridge Corp., No. CV 15-1877 BRO (MANx), 2015 WL  
27 12516692 at \*24 (C.D. Cal. Aug. 24, 2015) (quoting Celsis in Vitro,  
28 Inc. v. CellzDirect, Inc., 664 F.3d 922, 930 (Fed. Cir. 2012))

1 (internal quotation marks omitted). Plaintiffs have submitted  
2 evidence that buyers of licensed products outside of BlazeFrame's  
3 territorial area have stated that Clark "needed to get in line with  
4 [its] 'BlazeFrame pricing[,]' " after getting price quotes for  
5 licensed products directly from BlazeFrame. (Dkt. 39, Declaration  
6 of Gregg A. Stahl, Ex. 6 at 1)

7 Defendants argue that there is no irreparable harm because  
8 BlazeFrame's direct extraterritorial sales have ceased, and harm  
9 resulting from any such prior sales can be compensated by money  
10 damages. As discussed above, the court is not persuaded that  
11 BlazeFrame's extraterritorial sales have ceased. Furthermore, as  
12 Plaintiffs argue, BlazeFrame may be judgment-proof, limiting the  
13 deterrent effect of money damages. See, e.g., Aviara Parkway  
14 Farms, Inc. v. Agropecuaria La Finca, S.P.R. de R.L., No. 08 CV  
15 2301 JM (CAB), 2009 WL 249790 at \*3 (S.D. Cal. Feb. 2, 2009); Wang  
16 Laboratories Inc. v. Chip Merchant Inc., No. 93-893-K (POR), 1993  
17 WL 42820 at \*7 (S.D. Cal. Sept. 3, 1993). Plaintiffs have  
18 adequately shown a risk of irreparable harm.

19 C. Balance of the Equities and the Public Interest

20 Defendants are correct that, as a "one man operation with few  
21 resources," BlazeFrame can less "readily withstand hardship" than  
22 Plaintiffs, which are both large, well-capitalized organizations.  
23 Nevertheless, it does not appear to the court that issuance of an  
24 injunction would negatively affect Defendant in any way. Even if  
25 an injunction were to issue, BlazeFrame would be free to continue  
26 selling licensed product within its six-state territory.  
27 Furthermore, the public interest in upholding principles of  
28 contract law appear to outweigh any countervailing considerations.

1 Indeed, it is unclear to the court how, as Defendants argue, an  
2 injunction "would substantially reduce competition in an emerging  
3 market," considering the fact that BlazeFrame is contractually  
4 prohibited from competing, and claims not to compete, outside of  
5 its six-state area.

6 **IV. Conclusion**

7 For the reasons stated above, Plaintiffs' Motion for a  
8 Preliminary Injunction is GRANTED, in part. An injunction shall  
9 issue by separate Order of this Court.

10 IT IS SO ORDERED.

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13 Dated: May 9, 2017

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DEAN D. PREGERSON  
United States District Judge