

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

11 CALIFORNIA EXPANDED METAL) Case No. CV 16-05968 DDP (MRWx)
12 PRODUCTS COMPANY, ET AL.,)
13 Plaintiff,) **ORDER GRANTING PLAINTIFFS' MOTION**
14 v.) **TO STRIKE AFFIRMATIVE DEFENSES**
15 JAMES A. KLEIN, ET AL.,) [Dkt. 46]
16 Defendants.)

)

18 Presently before the court is Plaintiffs' Motion to Strike
19 Defendants' Affirmative Defenses. Having considered the
20 submissions of the parties, the court grants the motion and adopts
21 the following Order.

22 | I. Background

23 Defendant James Klein ("Klein") is the named inventor on
24 several patents for building materials. (Complaint ¶ 9.) Klein
25 assigned some of those patents to a company he helped form,
26 Defendant Blazeframe Industries, Ltd. ("Blazeframe"). (Id. ¶ 10.)
27 Klein, Blazeframe, and Plaintiffs California Expanded Metal
28 Products Company ("CEMCO") and ClarkWestern Dietrich Building

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

5 The parties settled all claims in the prior case. (Compl. ¶
6 12.) Plaintiffs allege that the settlement agreement requires
7 Blazeframe to assign the patents to CEMCO in consideration for an
8 up-front payment. (Id. ¶ 16.) Blazeframe retained a royalty-free
9 license to "commercialize the Patents in a restricted territory"
10 spanning six states. (Id. ¶¶ 16-17.) CEMCO also agreed to grant a
11 license to Clark in exchange for royalty payments, a portion of
12 which would be paid to Blazeframe. (Id.)

13 Plaintiffs allege that CEMCO made an \$800,000 payment to
14 Blazeframe, as required by the settlement agreement, and that
15 Plaintiffs have otherwise complied with the agreement. (Compl. ¶¶
16 22-23, 35.) Plaintiffs allege that Blazeframe is breaching the
17 settlement agreement by, among other things, selling licensed
18 products outside the agreed-upon six state area. (Compl. ¶ 28.)
19 Plaintiffs further allege that these sales have been "orchestrated
20 by Klein." (Id. ¶ 37.) Plaintiffs also allege that by selling
21 licensed products outside of the agreed-upon geographical area,
22 Blazeframe is infringing upon the patents owned by CEMCO, to which
23 Clark has an exclusive license outside of Blazeframe's territory.
24 (Id. ¶¶ 44-45.)

25 Defendants' First Amended Answer alleges several affirmative
26 defenses, including patent invalidity, patent unenforceability, and
27 patent misuse. Plaintiffs now move to dismiss those affirmative
28 defenses.

1 **II. Legal Standard**

2 Federal Rule of Civil Procedure 12(f) provides that a court
3 "may order stricken from any pleading any insufficient defense or
4 any redundant, immaterial, impertinent, or scandalous matter." Fed.
5 R. Civ. P. 12(f). "To show that a defense is 'insufficient,' the
6 moving party must demonstrate that there are no questions of fact,
7 that any questions of law are clear and not in dispute, and that
8 under no set of circumstances could the defense succeed." Cal.
9 Dep't of Toxic Substances Control v. Alco Pac., Inc., 217 F.
10 Supp.2d 1028, 1032 (C.D. Cal. 2002).

11 In considering a motion to strike, the court views the
12 pleadings in the light most favorable to the non-moving party. See
13 In re 2TheMart.com Secs. Litig., 114 F. Supp. 2d 955, 965 (C.D.
14 Cal. 2000)). Grounds for a motion to strike must be readily
15 apparent from the face of the pleadings or from materials that may
16 be judicially noticed. Fantasy, Inc. v. Fogerty, 984 F.2d 1524,
17 1528 (9th Cir. 1993) rev'd on other grounds, 510 U.S. 517 (1994).
18 While motions to strike are generally disfavored, "where [a] motion
19 [to strike] may have the effect of making the trial of the action
20 less complicated, or have the effect of otherwise streamlining the
21 ultimate resolution of the action, the motion to strike will be
22 well taken." California v. United States, 512 F. Supp. 36, 38
23 (N.D. Cal. 1981). This is because the purpose of Rule 12(f) is "to
24 avoid the expenditure of time and money that must arise from
25 litigating spurious issues by disposing of those issues prior to
26 trial . . ." Whittlestone, Inc. v. Handi-Craft Co., 618 F.3d
27 970, 973 (9th Cir. 2010) (quoting Sidney-Vinstein v. A.H. Robins
28 Co., 697 F.2d 880, 885 (9th Cir. 1983)).

1 **III. Discussion**

2 A. Patent Invalidity and Patent Unenforceability

3 Defendants allege that one or more of the patents at issue
4 here "may be invalid," citing "all prior art that CEMCO cited in
5 the prior litigation." (First Amended Answer ("FAA") at 17.)
6 Similarly, Defendants allege that the patents are unenforceable
7 "for all the reasons cited by CEMCO in the prior case" (FAA at 18.) Plaintiffs argue that the doctrine of assignor
8 estoppel bars Defendants from asserting patent invalidity and
9 patent unenforceability defenses. (Motion at 7, 10.)

10 "Assignor estoppel is an equitable doctrine that prevents one
11 who has assigned the rights to a patent . . . from later contending
12 that what was assigned is a nullity." Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 1224 (Fed. Cir. 1988). Considerations
13 of justice and fairness dictate that "an assignor should not be
14 permitted to sell something and later to assert that what was sold
15 is worthless, all to the detriment of the assignee." Id.; see also Brilliant Instruments, Inc. v. GuideTech, Inc., No. C 09-5517 CW, 2014 WL 576244, at *2 (N.D. Cal. Feb. 12, 2014). Application of
16 the assignor estoppel doctrine is not automatic, and should
17 consider the balance of the equities between the parties. Diamond Scientific, 848 F.2d at 1225. "[T]he primary consideration . . . is the measure of unfairness and injustice that would be suffered
18 by the assignee if the assignor were allowed to raise defenses of
19 patent invalidity." Id.

20 Here, CEMCO paid Blazeframe \$800,000 to transfer ownership of
21 the patents. To allow Blazeframe to now argue, despite its having
22

23
24
25
26
27
28

1 received payment from CEMCO, that "what was sold is worthless"
2 would be grossly unfair. Diamond Scientific, 848 F.2d at 1224.
3 Defendants appear to suggest that the balance of equities
4 nevertheless tips in their favor because in the prior litigation,
5 CEMCO made the same invalidity and unenforceability arguments that
6 Defendants seek to assert here. (Opposition at 8-9; FAA at 17-18.)
7 In other words, Defendants argue, CEMCO had adequate notice of
8 possible weaknesses in the patents before it agreed to buy them,
9 and CEMCO's \$800,000 payment placed it "in the position of a buyer
10 who purchased a used car 'as is.'" (Opposition at 9:3.)

11 This argument has no merit. There is no dispute that CEMCO
12 raised invalidity and unenforceability defenses in response to
13 allegations of infringement. The prior litigation settled,
14 however, and those defenses were never fully adjudicated. Had the
15 defenses proved successful, CEMCO clearly would not have agreed to
16 pay Blazeframe anything for worthless patents. The fact that CEMCO
17 had notice of those possible challenges to the patents, however,
18 makes it no more equitable for the named inventor or seller of
19 those patents to exploit those weaknesses after pocketing the
20 buyer's money. As Plaintiffs aptly state, "Even if Defendants'
21 analogy to the purchase of a used car applies at all, the buyer of
22 a used car would not expect that car's previous owner to be
23 permitted . . . to blow up the car after selling it." (Reply at
24 6:21-22.) The court declines Defendants' invitation to create a
25 "notice exception" to the assignor estoppel doctrine where none
26 exists. Given the fairly ordinary circumstances here, the court

27

28

1 concludes that the balance of equities weighs entirely in
2 Plaintiffs' favor.¹

3 Defendants also argue that even if Blazeframe is not permitted
4 to raise invalidity or unenforceability defenses, Klein should not
5 be estopped from raising those defenses. (Opp. at 9.)

6 Assignor estoppel bars both the assignor and other parties in
7 privity with the assignor, such as a corporation founded by the
8 assignor. Synopsys, Inc. v. Magma Design Automation, Inc., No.
9 C-04-3923 MMC, 2005 WL 1562779, at *2 (N.D. Cal. July 1, 2005)
10 (citing Diamond Scientific, 848 F.2d at 1224 and Shamrock
11 Technologies, Inc. v. Medical Sterilization, Inc., 903 F.2d 789,
12 793 (Fed.Cir.1990)). Defendants contend that Klein "arguably
13 received no money (qua individual) as part of the . . . settlement"
14 and that "[t]o say that Klein and BlazeFrame were 'in privity' . . .
15 . is arguable." (Opp. at 9:22, 10:1-2 (emphases omitted,
16 parenthetical in original).) These arguments are baseless. There
17 is no dispute that Klein was the named inventor of the patents, co-
18 founded Blazeframe, assigned the patents to Blazeframe, and was a
19 50% shareholder at the time of the settlement.² Nor is there any
20 merit to Defendants' suggestion that Klein did not consent to the
21 settlement agreement, either on Blazeframe's behalf or
22 individually. At the settlement conference, the transcript of
23 which constitutes the settlement agreement, Blazeframe's counsel

24
25 ¹ Extraordinary circumstances, such as fraud or duress in the
26 assignment of a patent or express contractual reservations of
27 rights to challenge a patent, might warrant an exception from
assignor estoppel. See Brilliant Instruments, 2014 WL 576244 at
*3. No such circumstances are present here.

28 ² Plaintiffs' counsel has further represented that Klein is
currently the sole owner of Blazeframe. (Reply at 9:13-14.)

1 appeared "for limited purposes today, for Jim Klein, as well" and
2 stated an understanding "that he agrees to the settlement."
3 (Compl., Ex. 1 at 4:16-17, 5:20-21.) Counsel also spoke "on the
4 phone with Mr. Klein and with his personal attorney, and he
5 consented to the settlement." (Id. at 6:24-25.) Klein was
6 undoubtedly in privity with Blazeframe at the time of the
7 settlement, and remains so at the present time. Accordingly, the
8 court declines to apply a "relaxation of the doctrine of assignor
9 estoppel with respect to Klein." (Opp. at 10:12.)

10 B. Patent Misuse

11 Plaintiffs also ask that the court strike Defendants'
12 affirmative defense of patent misuse.³ Although Defendants state
13 that they "believe that all of [their] affirmative defenses are
14 properly pled[,]" Defendants do not substantively oppose
15 Plaintiffs' patent misuse argument. (Opp. at 10:23-24.) Instead,
16 Defendants contend that counsel "scrambled to file a hasty answer"
17 because he was retained relatively late. (Opp. at 11:1.)
18 Defendants therefore seek leave to amend. (Opp. at 10.) Although
19 the court notes that the answer at issue here is in fact
20 Defendants' First Amended Answer, the court grants Plaintiffs'
21 motion to strike the patent misuse affirmative defense with leave
22 to amend.

23 **IV. Conclusion**

24 For the reasons stated above, Plaintiffs' Motion to Strike is
25 GRANTED. Defendants' affirmative defenses of patent invalidity and
26 patent unenforceability are STRICKEN, with prejudice. Defendants'

27
28 ³ Plaintiffs move to strike the patent misuse defense under
 Rule 12(b)(6) rather than Rule 12(f).

1 affirmative defense of patent misuse is STRICKEN, with leave to
2 amend. Any amended Answer shall be filed within fourteen days of
3 the date of this Order.

4

5 IT IS SO ORDERED.

6

7 Dated: March 3, 2017

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28



DEAN D. PREGERSON
United States District Judge