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10 GENERAL ELECTRIC COMPANY, et al.,

Case No. 1:10-cv-00674 LJO JLT

11 Plaintiffs,

ORDER DENYING INTERVENORS' AND  
DEFENDANT'S MOTION FOR SANCTIONS

12 vs.

(ECF No. 588)

13 THOMAS WILKINS,

14 Defendant.

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16 On September 25, 2012, Intervenor Mitsubishi Heavy Industries, Ltd. and Mitsubishi Power  
17 Systems Americas, Inc. (collectively "Mitsubishi"), along with Defendant Thomas A. Wilkins ("Mr.  
18 Wilkins"), moved for terminating sanctions against Plaintiffs General Electric Company and GE Wind  
19 Energy, LLC (collectively "GE"). Mitsubishi and Mr. Wilkins assert that GE deceived the Court by  
20 repeatedly representing that Mr. Wilkins signed an Employee Innovation and Proprietary Information  
21 Agreement ("EIPIA") assigning his patent rights when in fact GE knew that Mr. Wilkins had not. GE  
22 has opposed the motion, and Mitsubishi and Mr. Wilkins have filed a reply. For the reasons set forth  
23 below, the Court DENIES the motion for sanctions.

24 **I. BACKGROUND**25 **A. GE Alleges that Mr. Wilkins Signed an EIPIA**

26 GE filed its original complaint in this action on April 15, 2010. The subjects of the complaint  
27 were two patents related to wind turbine generators: U.S. Patent No. 6,924,565 ("the '565 patent") and  
28 U.S. Patent No. 6,921,985 ("the '985 patent"). GE asserted, among other things, a breach of contract

1 claim against Mr. Wilkins. GE alleged that “[o]nce [Mr.] Wilkins became an employee of GE, he was  
2 required to execute and, *on information and belief GE alleges he did execute*, GE’s [EIIPIA].” (ECF No.  
3 1 ¶ 20) (emphasis added). According to GE, “[u]nder the terms of the [EIIPIA], [Mr.] Wilkins was and  
4 is obligated to assign any interest he may have in the ’985 and ’565 patents to GE.” (*Id.*) GE claimed  
5 that Mr. Wilkins breached his obligations under the EIIPIA by failing to assign his rights. (*Id.* ¶¶ 31-32.)  
6 As relief, GE sought an order requiring Mr. Wilkins to assign his rights, or claimed rights, in the ’565  
7 and ’985 patents. (*Id.* ¶ 36.)

8 After the Court dismissed GE’s original complaint with leave to amend, GE filed an amended  
9 complaint on October 13, 2010. In its amended complaint, GE reasserted its breach of contract claims.  
10 GE reiterated that “[o]nce [Mr.] Wilkins became an employee of GE, he was required to execute and,  
11 *on information and belief GE alleges he did execute*, GE’s [EIIPIA].” (ECF No. 76 ¶ 12) (emphasis  
12 added). GE also attached a copy of a signed EIIPIA, although admittedly signed by another employee.  
13 (*Id.*, Ex. B.) GE reiterated that Mr. Wilkins breached his obligations under the EIIPIA by, among other  
14 things, failing to assign his patent rights to GE. (*Id.* ¶¶ 46-47, 73-74.)

### 15 **B. GE Obtains a Preliminary Injunction**

16 On May 5, 2011, the Court granted GE a preliminary injunction, and Mr. Wilkins was enjoined  
17 from licensing or offering for license any technology described in the ’565 and ’985 patents. In issuing  
18 the preliminary injunction, the Court did not rely on GE’s assertions that Mr. Wilkins had signed GE’s  
19 EIIPIA. (*See* ECF No. 190 at 23 n.10) (“As [GE] has established a high probability of success on [its]  
20 equitable claim [under a hired-to-invent theory], it is unnecessary to discuss [GE’s] contract claims.”).  
21 However, in arguing for preliminary injunctive relief, GE did assert that it had sufficient evidence to  
22 prove that Mr. Wilkins had signed the EIIPIA, notwithstanding the fact that GE admittedly was unable  
23 to produce the document itself:

24 There is also sufficient evidence that Wilkins signed the EIIPI Agreement. When GE  
25 purchased Enron Wind, it formed a specialized human resources team to handle the  
26 integration of Enron Wind’s employees; the GE team included Mr. Hunt, who has been  
27 with GE’s human resources department since 1996. As part of the integration, all Enron  
28 Wind employees were required to sign the EIIPI Agreement as well as other  
administrative forms. If Wilkins had refused to sign the EIIPI Agreement, his employment  
would have been immediately terminated. Mr. Hunt stated that he is not aware of any  
individual who refused to sign the EIIPI Agreement but was nevertheless allowed to  
remain at GE as an employee. Also, Mr. Hunt was able to locate a copy of Wilkins’s  
signed acknowledgment, in which he agreed to GE’s company policies; as Mr. Hunt

1 states, Wilkins would have signed this acknowledgment at the same time as the EIPI  
2 Agreement, which were all part of the same employee packet. Finally, Wilkins  
3 compliance with the terms of the EIPI Agreement is circumstantial evidence that he  
4 agreed to its terms. In 2002, Wilkins disclosed the invention subject to the '565 Patent  
5 to GE, as required under the EIPI Agreement. Thus, GE has met its burden of proof.

6 (ECF No. 77 at 7-8) (citations omitted).

7 **C. Evidence Suggesting that Mr. Wilkins Did Not Sign the EIPIA**

8 While this case was proceeding, GE and Mitsubishi were engaged in another patent dispute in  
9 the Northern District of Texas. To settle a discovery dispute in that case, GE agreed to produce certain  
10 materials that had been previously deemed privileged. Within the production, Mitsubishi discovered  
11 a packet of emails from the files of Jim McGinness, GE's in-house counsel who testified that he had  
12 reviewed GE's pleadings in this case and had verified their accuracy. Two of the emails suggest that,  
13 contrary to GE's assertions, GE knew as of 2002 that Mr. Wilkins had not signed the EIPIA. The first  
14 email was sent on December 12, 2002 by Lisa Moyles, who preceded Mr. McGinness as GE's in-house  
15 counsel. Ms. Moyles wrote:

16 As many of you are aware by now, Tom Wilkins has left [GE]. It has been brought to my  
17 attention that there is a potential invention that Tom was involved in for the Xantrex  
18 convertor, and I need to discuss this with the appropriate person ASAP. *Tom never  
19 signed the EIPIA*, and it is not likely that we will receive any information/assistance from  
20 him on this matter.

21 (ECF No. 596-4 at 14) (emphasis added). The second email was sent on December 16, 2002 by Tom  
22 Wagner, GE's General Manager for Wind Technology. Mr. Wagner wrote:

23 Attached is a patent disclosure for the low voltage ride modification to the 1.5MW wind  
24 turbine (and other models). This idea originated from Tom Wilkins, now a former  
25 employee of Wind Energy. *Tom Wilkins never signed the patent rights form to GE*, but  
26 did conduct much of the work to create this invention using GE resources and as a paid  
27 GE employee.

28 (Id. at 11) (emphasis added).

In February 2012, the parties reached a discovery agreement in this case whereby GE agreed to  
produce additional privileged materials. Notably, as part of the agreement the parties agreed to forego  
seeking sanctions against the counsel (inside or outside) of any party. Within the produced documents,  
Mitsubishi discovered additional emails suggesting that GE knew that Mr. Wilkins had not signed the  
EIPIA prior to initiating this case. In an email sent on February 9, 2004, Michael Mallie, GE's outside  
patent prosecution counsel, wrote:

1 Just to put it into writing. Originally P031 had Tom Wilkins as an inventor on P031.  
2 Subsequently, it was determined that he was not and separate filing (P034) was started.  
3 One consideration for the separate filing was that *there was no executed employment*  
4 *agreement with Wilkins* and although arguments existed that he would be obligated to  
5 assign to GE, the prudent course was to have his idea in a separate application in case  
6 there were problems with the assignment.

7 (ECF No. 596-7 at 2) (emphasis added). Mr. McGinness received this email. Also, in an email dated  
8 June 30, 2004, Mr. Mallie wrote directly to Mr. McGinness:

9 P034 - was the case involving *a hostile inventor (Tim Wilkins) who is no longer with GE*  
10 *and had not signed an employment agreement*. The implementation is not being used by  
11 GE and GE has other applications for alternative solutions that are being used. This was  
12 put on hold by Lisa Moyles due to budget last year, and you and I already discussed this  
13 case and its status was to remain the same unless you believed it was worth pursuing.

14 (ECF No. 596-6 at 3) (emphasis added).

#### 15 **D. GE Abandons Its EIPIA Claims**

16 On June 28, 2012, one day prior to its filing of a motion for summary judgment, GE formally  
17 notified the Court of its intention to abandon its breach of contract claims with prejudice. This included  
18 GE's second and fifth claims for declaratory relief wherein GE alleged that Mr. Wilkins had breached  
19 GE's EIPIA by failing to assign his rights to the '985 and '565 patents. GE moved forward only on its  
20 equitable claims for relief.

#### 21 **E. The Instant Motion for Sanctions**

22 On September 25, 2012, Mitsubishi and Mr. Wilkins filed the instant motion for terminating  
23 sanctions. Mitsubishi and Mr. Wilkins argue that GE should be sanctioned under the Court's inherent  
24 power to sanction bad faith conduct because GE deceived the Court by repeatedly representing to the  
25 Court that Mr. Wilkins had signed the EIPIA when in fact GE knew all along that Mr. Wilkins had not.  
26 GE filed an opposition to the motion on October 10, 2012, and Mitsubishi and Mr. Wilkins filed their  
27 reply on October 17, 2012. The Court deemed this matter suitable for decision without oral argument  
28 and vacated the hearing pursuant to Local Rule 230(g).

## 29 **II. LEGAL STANDARD**

30 District courts are vested with the inherent power to sanction parties and attorneys for conduct  
31 taken in bad faith or conduct that is tantamount to bad faith. See Roadway Express, Inc. v. Piper, 447  
32 U.S. 752, 767 (1980); Gomez v. Vernon, 255 F.3d 1118, 1134 (9th Cir. 2001). Sanctionable conduct

1 includes a wide range of litigation abuses, such as willful deception of the court or reckless assertions  
2 of law or fact for an improper purpose. See Chambers v. NASCO, Inc., 501 U.S. 32, 46 (1991); Fink  
3 v. Gomez, 239 F.3d 989, 992-94 (9th Cir. 2001); Wyle v. R. J. Reynolds Indus., Inc., 709 F.2d 585, 589  
4 (9th Cir. 1983). Bad faith, however, is a “high threshold.” Mendez v. County of San Bernardino, 540  
5 F.3d 1109, 1132 (9th Cir. 2008) (citation omitted). And, conduct that is merely negligent or inadvertent  
6 will not suffice. See Fink, 239 F.3d at 993.

7       If the court concludes that the conduct at issue is sanctionable, it is within the court’s discretion  
8 to fashion an appropriate remedy. See Chambers, 501 U.S. at 45. Dismissal, however, is a “severe”  
9 sanction that is authorized only in “extreme circumstances.” United States ex rel. Wiltec Guam, Inc. v.  
10 Kahaluu Construction Co., 857 F.2d 600, 603 (9th Cir. 1998). Thus, before imposing such a sanction  
11 the court must specifically find that (1) the conduct to be sanctioned was due to wilfulness, fault, or bad  
12 faith; and (2) there are no less severe alternatives than outright dismissal. See Leon v. IDX Sys. Corp.,  
13 464 F.3d 951, 958 (9th Cir. 2006). Other considerations that the court should consider include: (1) the  
14 public’s interest in expeditious resolution of litigation; (2) the court’s need to manage its dockets; (3) the  
15 risk of prejudice to the party seeking sanctions; and (4) the public policy favoring disposition of cases  
16 on their merits. Id.

### 17 **III. DISCUSSION**

#### 18 **A. Nexus with Rule 11 Sanctions**

19       As an initial matter, GE argues that this motion should be construed as one for sanctions under  
20 Federal Rule of Civil Procedure 11 (which governs a litigant’s representations to the court) and not as  
21 one for sanctions under the Court’s inherent power. GE argues further that because Mr. Wilkins and  
22 Mitsubishi failed to comply with the procedural requirements set forth in Rule 11, this motion should  
23 be denied. The argument is unpersuasive.

24       It is true that in general, “when there is bad-faith conduct in the course of litigation that could  
25 be adequately sanctioned under the [Federal Rules of Civil Procedure], the court ordinarily should rely  
26 on the Rules rather than [its] inherent power.” Chambers, 501 U.S. at 50. Nevertheless, the Supreme  
27 Court has explained that a court is not forbidden to sanction bad-faith conduct under its inherent power  
28 “simply because that conduct could also be sanctioned under the [Federal Rules of Civil Procedure].”

1 Id. When, in the informed discretion of the court, the conduct at issue reaches beyond the Rules and  
2 therefore the Rules are not “up to the task,” the court may resort to exercising its inherent power. Id.  
3 See Fink, 239 F.3d at 993.

4 Here, the conduct that Mitsubishi and Mr. Wilkins protest goes beyond the scope of Rule 11.  
5 Mitsubishi and Mr. Wilkins certainly do assert that GE made misleading representations to the Court  
6 in its pleadings and motions, a subject that falls within the scope of Rule 11; however, Mitsubishi and  
7 Mr. Wilkins also assert that GE engaged in other, related deceptive conduct and gamesmanship. In  
8 particular, Mitsubishi and Mr. Wilkins contend that GE attempted to evade the truth behind the cloak  
9 of attorney-client privilege; GE persisted in maintaining its claims arising from the EIPIA in bad faith;  
10 and GE abandoned those claims prior to moving for summary judgment only as a belated attempt to  
11 “bury its misconduct.” (ECF No. 592 at 16.) Such conduct, as a whole, is properly viewed under the  
12 lens of the Court’s inherent power to sanction bad faith. See generally BDT Products, Inc. v. Lexmark  
13 Int’l, Inc., 602 F.3d 742, 752 (6th Cir. 2010) (a court may impose sanctions under its inherent power if  
14 a party advances meritless claims in bad faith).

15 **B. Sanctions Under the Court’s Inherent Power**

16 Turning to the merits of Mitsubishi and Mr. Wilkins’ motion for sanctions, the central issue is  
17 whether GE acted in bad faith by maintaining its position that Mr. Wilkins signed GE’s EIPIA. This  
18 hinges on whether GE had a non-frivolous basis for believing that Mr. Wilkins had in fact signed the  
19 EIPIA. Based on the record presented, the Court finds that GE did and therefore sanctions under the  
20 Court’s inherent power are not warranted.

21 First, contrary to Mitsubishi and Mr. Wilkins’ assertions, the emails that they highlight are not  
22 *conclusive* evidence that GE knew Mr. Wilkins did not sign the EIPIA. That might have been the case  
23 had the emails been authored by someone with undisputed, firsthand knowledge that Mr. Wilkins did  
24 not sign the EIPIA, such as a GE employee who undisputedly witnessed Mr. Wilkins reject signing the  
25 EIPIA. But the emails highlighted by Mitsubishi and Mr. Wilkins are not of that nature. Instead, the  
26 emails simply indicate that Mr. Wilkins did not sign the EIPIA without ever explaining the underlying  
27 basis for the assertion. In fact, when asked about the basis for stating that Mr. Wilkins did not sign the  
28 EIPIA, Ms. Moyles testified in her deposition that she could not recall, (see ECF No. 622-7 at 107:12-

1 14);<sup>1</sup> Mr. Mallie also testified that he could not recall, (see ECF No. 622-10 at 189:10-194:8); and Mr.  
2 Wagner was only able to state that he believes he would have checked engineering document records  
3 before writing his email, (see ECF No. 622-8 at 127:5-121). Absent further clarity on this matter, the  
4 emails simply do not arise to *unequivocal* evidence that Mr. Wilkins did not sign the EIPIA; while the  
5 emails are persuasive, they are not definitive.

6 Second, GE offers a non-frivolous basis for believing that Mr. Wilkins signed the EIPIA. GE  
7 points to a declaration from David Hunt, a GE Human Resources Manger, as support for its position.  
8 Mr. Hunt asserts that all GE employees were required to sign the EIPIA and that if an employee refused  
9 to sign the EIPIA his employment would have been terminated:

10 In 2002, when GE acquired Enron Wind Corporation (“Enron Wind”), I was part of GE’s  
11 Human Resources team that was responsible for integrating Enron Wind’s employees  
12 into GE. As part of the integration, all Enron Wind employees were required to sign  
13 various employment forms relating to their employment with GE, including payroll and  
14 benefit forms, company policies, and agreements regarding GE’s intellectual property.  
15 These employment forms were a condition of employment with GE, and all of Enron  
16 Wind’s employees were required to sign them. If any of Enron Wind’s employees refused  
17 to sign the agreements, they would have been immediately terminated by GE. Because  
18 signing was a condition of continued employment, I am not aware of any employee from  
19 Enron Wind who refused to sign GE’s required employment forms.

20 The [EIPIA] is the governing agreement for GE employees relating to intellectual  
21 property developed during employment with GE. *All GE employees, including those who  
22 come from acquired companies, are required to sign the EIPI Agreement, and this is one  
23 of the employment agreements that Mr. Wilkins would have been required to sign as a  
24 condition of his continued employment with GE.*

25 (ECF No. 17 ¶¶ 2-3) (emphasis added). Mr. Hunt’s assertions are supported by testimony from Nicoa  
26 Dunne and Jennifer Hennessy, two human resources managers. Ms. Nicoa and Ms. Hennessy confirm  
27 that all GE employees were required to sign the EIPIA; that an employee who refused to sign the EIPIA  
28 would have had his employment terminated; and that to their knowledge no exception was ever made  
for an employee.

Mitsubishi and Mr. Wilkins attempt to undermine this evidence by (1) calling into question Mr.  
Hunt’s credibility; and (2) noting that this evidence relates to GE’s employment practices as a general  
matter but fails to demonstrate whether Mr. Wilkins, specifically, signed the EIPIA. These attempts are

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<sup>1</sup> Mitsubishi and Mr. Wilkins suggest that Ms. Moyles conducted an investigation into whether Mr. Wilkins signed the EIPIA. However, what the investigation exactly consisted of and what sources Ms. Moyles specifically relied on are entirely unclear.

1 unconvincing. Even if Mr. Hunt’s credibility is suspect with respect to some issues,<sup>2</sup> there is no reason  
2 to believe that Mr. Hunt is not credible on this issue, particularly when Ms. Nicoa and Ms. Hennessy  
3 have corroborated Mr. Hunt’s assertions. And, as to whether general employment practices have any  
4 bearing on whether Mr. Wilkins signed the EIPIA, such evidence is not so devoid of evidentiary value  
5 that GE’s position must be deemed frivolous and the result of bad faith.

6 Third, because inherent powers must be exercised with “restraint,” the Court is not as quick as  
7 Mitsubishi and Mr. Wilkins are in reaching the conclusion that GE’s bad faith has been demonstrated  
8 during the course of this litigation. Roadway Express, 447 U.S. at 764. For example, Mitsubishi and  
9 Mr. Wilkins contend that GE’s bad faith is illustrated by Mr. McGinness’ refusal to acknowledge the  
10 existence of the emails highlighted above during his depositions. Mr. McGinness, however, simply  
11 testified that he could not recall the emails and that he could not readily recall any evidence that would  
12 contradict GE’s allegation that Mr. Wilkins signed the EIPIA. Without more, the Court is unwilling to  
13 attribute Mr. McGinness’ responses to bad faith.

14 The Court is also unwilling to place much significance on GE’s decision to abandon its breach  
15 of contract claims. Mitsubishi and Mr. Wilkins contend that this essentially amounted to a concession  
16 by GE that it knew those claims lacked merit. But GE could have abandoned its claims for any number  
17 of reasons, and the Court declines to speculate on GE’s motivations.

18 Lastly, Mitsubishi and Mr. Wilkins contend that the discovery agreement the parties reached in  
19 February 2012 demonstrates GE’s bad faith. As noted above, the parties reached a discovery agreement  
20 in February 2012 whereby the parties agreed to forego seeking sanctions against any counsel (outside  
21 or inside) in exchange for the release of certain privileged documents. In Mitsubishi and Mr. Wilkins’  
22 view, GE sought an agreement to forego sanctions because GE foresaw that the documents would show  
23 that GE knew its breach of contract claims were meritless all along. Yet, again, the Court declines to  
24 speculate on GE’s motivations based on the current record. While Mitsubishi and Mr. Wilkins’ view  
25 is certainly plausible, GE does offer a possible counter explanation: the sanctions waiver was meant to  
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27 <sup>2</sup> For example, Mitsubishi and Mr. Wilkins note that Mr. Hunt asserts in his declaration that “there have been  
28 several instances in which locating . . . historical documents in off-site storage ha[s] been problematic.” (ECF No. 17 ¶ 3.)  
Yet in his deposition, Mr. Hunt testified that he was not aware of any incidents since 2000 where GE was unable to find an  
employment form for an employee.



1 address the fact that Mitsubishi and Mr. Wilkins only became aware of the privilege documents through  
2 purportedly improper means.

3 **IV. CONCLUSION**

4 In sum, the Court does not find the requisite bad faith or conduct tantamount to bad faith that  
5 would warrant sanctions under the Court's inherent power. As indicated, the Court should grant the sort  
6 of sanctions sought sparingly. Pursuant to the law, the Court has drawn reasonable inferences that could  
7 have dropped either way, to either party, in favor of the party against whom terminating sanctions were  
8 sought. G.E. should not presume that this will happen again should similar allegations be leveled against  
9 it. Accordingly, for all the reasons discussed above, the Court DENIES the motion for sanctions.

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12 IT IS SO ORDERED.

13 **Dated:** November 1, 2012

/s/ Lawrence J. O'Neill  
UNITED STATES DISTRICT JUDGE

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