

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

LIGHTS OUT HOLDINGS, LLC, a
California limited liability company

Plaintiff,

v.

LIGHTS OUT APPAREL, LLC, a
Maryland limited liability company;
JACOB LAWSON, individuals d/b/a
LIGHTS OUT BILLIARDS APPAREL

Defendants.

Case No.: 16cv2195-JAH

**ORDER (1) GRANTING
DEFENDANTS’ MOTION TO SET
ASIDE ENTRY OF DEFAULT [DOC.
NO. 19] ; AND
(2) DENYING PLAINTIFF’S
MOTION FOR DEFAULT
JUDGMENT AS MOOT [DOC. NO.
11]**

INTRODUCTION

Pending before the Court is Defendant Lights Out Apparel LLC (“Lights Out Apparel”) and Defendant Jacob Lawson’s (“Lawson”) (collectively, “Defendants”) motion to set aside entry of default and Plaintiff Lights Out Holding LLC’s (“Plaintiff”) motion for default judgment. See Doc. Nos. 11, 19. After a thorough review of the parties’ submissions and for the reasons set forth below, the Court **GRANTS** Defendants’ motion

1 to set aside entry of default and **DENIES** Plaintiff's motion for default judgment as
2 **MOOT**.

3 **BACKGROUND**

4 Plaintiff filed the instant complaint on August 30, 2016. See Doc. No. 1. Plaintiff
5 alleges seven causes of action for violations of: (1) Trademark Infringement, 15 U.S.C. §
6 1114; (2) Federal Trademark Dilution, 15 U.S.C. § 1125(c); (3) Unfair Competition and
7 False Designation of Origin, 15 U.S.C. § 1125(a); (4) Common Law Trademark
8 Infringement; (5) California Trademark Dilution, Cal. Bus. & Prof. § 14247; (6) Unfair
9 Competition, Cal. Bus. & Prof. § 17200; and (7) Violation of the Federal Anti-
10 Cybersquatting Consumer Protection Act, 15 U.S.C. § 1125(d). Id. Plaintiff claims
11 Defendants willfully infringed Plaintiff's LIGHTS OUT mark by using the mark in
12 connection with their own athletic apparel and related goods business in the State of
13 Maryland under the names Lights Out Apparel and Lights Out Billiards Apparel. Id.
14 Plaintiff alleges Defendants sell the aforementioned branded athletic clothing in Maryland
15 as well as online, including to consumers within this district. Id. Plaintiff seeks damages
16 and an injunction in connection with Defendants' manufacture, distribution, and sale of
17 apparel and related accessories with the allegedly infringing mark. Id.

18 On August 30, 2016, Defendants were served with the summons and the complaint.
19 See Doc. No. 3. On October 11, 2016, in accordance with Rule 55 of the Federal Rules of
20 Civil Procedure, Plaintiff moved for an entry of default against Defendant Lights Out
21 Apparel LLC and Defendant Jacob Lawson. See Doc. No. 9. Plaintiff petitioned for an
22 award of statutory damages, reasonable attorneys' fees and costs, and a permanent
23 injunction, prohibiting Defendants' use, or any other colorable variation of, Plaintiff's
24 LIGHTS OUT mark. See Doc. No. 11. On October 12, 2016, the Clerk of court entered
25 default as to Defendant Jacob Lawson. See Doc. No. 12.

26 Plaintiff filed the pending motion for default judgment against Defendant Lights Out
27 Apparel LLC and Defendant Jacob Lawson on November 14, 2016. See Doc. No. 11.
28 Defendants' filed a motion to set aside the entry of default on December 15, 2016. See Doc.

No. 19. On January 31, 2017, the Court took the motions under submission without oral argument. See Doc. No. 28. On February 3, 2017, the parties filed a joint motion to suspend all proceedings pending settlement negotiations. The motion was granted on February 6, 2017. See Doc. Nos. 29, 30. Plaintiff filed a status report on April 5, 2017, declaring a dissolution of settlement negotiations with Defendants. See Doc. No. 32.

DISCUSSION

1. Legal Standard

Federal Rules of Civil Procedure 55(c) provides that a court “may set aside an entry of default for good cause.” The district court has the discretion to determine whether a party demonstrates “good cause.” *Madsen v. Bumb*, 419 F.2d 4, 5 (9th Cir. 1969). “A court’s discretion is especially broad where, as here, it is entry of default that is being set aside, rather than a default judgment. *Mendoza v. Wight Vineyard Mngmt.*, 783 F.3d 941, 945 (9th Cir. 1986) (citing *Meehan v. Snow*, 652 F.2d 274, 276 (2d Cir. 1981)). In evaluating whether a party has demonstrated good cause, a district court may consider the following factors, any of which is sufficient reason to grant the motion: (1) whether the plaintiff would be prejudiced by the setting aside of the default; (2) whether the defendant has a meritorious defense; and (3) the defendant’s culpability in the default. *TCI Grp. Life Ins. Plan v. Knoebber*, 244 F.3d 691, 696 (9th Cir. 2001). The Party seeking to vacate the entry of default bears the burden of demonstrating that these factors favor doing so. See *TCI Grp.* 244 F.3d at 679.

There is a strong preference for deciding cases on their merits, and therefore any doubts should be resolved in favor of setting aside the default. See *Direct Mail Specialists v. Eclat Computerized Techs.*, 840 F.2d 685, 690 (9th Cir. 1988).

2. Analysis

A. Prejudice

Defendants argue that Plaintiff will not be prejudiced by setting aside the entry of default because any delay incurred resolving the case on its merits would be nominal and does not impair Plaintiff’s ability to pursue its claim. See Doc. No. 19.

1 Plaintiff contends that setting aside the default will result in substantial additional
2 expenses, including potential expenses for discovery, summary judgment, and trial
3 preparation. See Doc. No. 23. Furthermore, Plaintiff claims that given Defendants’
4 alleged misconduct, there is a risk of fraudulent misrepresentations concerning
5 Defendants’ sales and profits. See Doc. No. 23. Plaintiff points to Defendants’ failure to
6 remove all mention of the alleged infringing mark from Defendants’ social media, online
7 store, and merchandise, despite agreeing to do so after receiving Plaintiff’s cease and
8 desist letter. See Doc. No. 11. Plaintiff also asserts that given Defendants’ past conduct,
9 Defendants’ “could and likely would” resurface in the market online with the allegedly
10 infringing mark, exposing consumers to the likelihood of confusion and increasing
11 Plaintiff’s harm. See Doc. No. 23.

12 The standard for prejudice requires more than a delay in the resolution of the case;
13 “rather, the standard is whether [Plaintiff’s] ability to pursue his claim will be hindered.”
14 TCI Grp., 244 F.3d at 701. For a delay to be prejudicial, it must “result in tangible harm
15 such as loss of evidence, increased difficulties of discovery, or greater opportunity for
16 fraud or collusions.” Id. Being forced to litigate on the merits cannot be considered
17 prejudicial because the plaintiff would have had to litigate on the merits of the case had
18 there been no default. Id. The fact that the Plaintiff may be denied a quick victory is not
19 sufficient to deny relief from entry of default. Bateman v. U.S. Postal Serv., 231 F.3d
20 1220, 1225 (9th Cir. 2000).

21 The Court finds that Plaintiff’s ability to pursue its claim will not be hindered and
22 no prejudice to Plaintiff will result by setting aside the entry of default. Here, Plaintiff has
23 not demonstrated that any tangible harm would result in vacating the entry of default and
24 incurring additional expenses in attorney’s fees or other potential expenses tied to
25 litigation does not prejudice Plaintiff as those expenses would have occurred had the case
26 been litigated on the merits. See TCI Group, 244 F.3d at 701 (noting that costs associated
27 with litigating a case on the merits cannot be considered prejudicial for the purpose of
28 vacating an entry of default.) Assuming, arguendo, that Plaintiff will suffer some

1 prejudice from the delay if Defendants continue their allegedly infringing use of the
2 mark, delay in and of itself, does not overcome the strong policy in favor of deciding a
3 case on its merits. See TCI Group, 244 F.3d at 700 (citing Falk v. Allen, 739 F.2d 461,
4 463 (9th Cir. 1984)). Accordingly, the Court finds that Plaintiff's ability to pursue its
5 claim will not be hindered and no prejudice to Plaintiff will result by setting aside the
6 entry of default.

7 **B. Meritorious Defense**

8 Defendants argue that they have not profited from their use of the LIGHTS OUT
9 mark. In addition, Defendants posit that the damages allegedly suffered by Plaintiff are
10 dubious because they are necessarily limited in scope due to Defendants' location in the
11 opposite end of the country. See Doc. No. 19. Plaintiff argues that the Defendants have
12 not alleged facts sufficient to defend Plaintiff's allegations. Plaintiff also argues that their
13 mark has been registered with the U.S. Patent and Trademark Office's Principal Register
14 since 2004, which is prima facie evidence that the mark is inherently descriptive. See
15 Doc. No. 23.

16 "A defendant seeking to vacate a default judgment must present specific facts that
17 would constitute a defense. But the burden on a party seeking to vacate a default
18 judgment is not extraordinarily heavy." TCI Grp., 244 F.3d at 700 (citations omitted). All
19 that is necessary to satisfy the "meritorious defense" requirement is to allege sufficient
20 facts that, if true, would constitute a defense: "the question whether the factual allegation
21 [i]s true" is not to be determined by the court when it decides the motion to set aside the
22 default. Id. Rather, that question "would be the subject of the later litigation." Id. There is
23 a strong preference for deciding cases on their merits, thus whenever "timely relief is
24 sought... and the movant has a meritorious defense," a court must resolve any doubt in
25 favor of setting aside the default. Mendoza, 783 F.2d at 945-46.

26 Although the burden of establishing a meritorious defense is not a high one, the
27 Court does not at present possess enough information regarding the merits of Defendants'
28 defenses. This second factor does not weigh strongly in either direction. Plaintiff

1 correctly observes that the Motion to Vacate does not present any defenses, however, the
2 Court still has discretion to set aside default and decide the case on the merits. See *Brandt*
3 *v. Am. Bankers Ins. Co. of Florida*, 653 F.3d 1108, 1112 (9th Cir. 2011); see also *Direct*
4 *Mail*, 840 F.2d at 690.

5 **C. Culpability**

6 Defendants assert they are not culpable in the default because they abandoned the
7 trademark application(s) related to LIGHTS OUT after receiving a cease and desist letter
8 from Plaintiff prior to being served with the complaint. See Doc. No. 19. Defendants also
9 contend that the default was the result of a mistaken belief that Defendants' counsel was
10 acting in the best interest of the Defendants during ongoing settlement discussions with
11 Plaintiff. See Doc. No. 19.

12 Defendants assert their counsel was responsible for maintaining regular
13 correspondence with Plaintiff between September to October in an effort to reach a
14 settlement, as well as complying with any obligations and court deadlines, including
15 filing a timely response to Plaintiff's complaint. *Id.* However, in November, Defendant
16 Lawson asserts that he learned that counsel did not file a timely response to Plaintiff's
17 complaint.

18 Plaintiff argues that after Defendants retained counsel and agreed to abandon their
19 trademark applications, simultaneously removing all references to Plaintiff's mark on
20 apparel, Defendants failed to honor their representations and continued to use the
21 LIGHTS OUT mark. See Doc. No. 23. Plaintiff asserts that Defendants attempted to
22 evade detection of their infringing activities by changing their website address to
23 www.LOApparel.com, while continuing to market items with the LIGHTS OUT mark.
24 See Doc. No. 23. Plaintiff also notes that Defendants waited until December 15, 2016,
25 more than one month after the first entry of default to vacate the entry. See Doc. No. 23.

26 The Ninth Circuit has "typically held that a defendant's conduct was culpable for
27 purposes of the [good cause] factors where there is no explanation of the default
28 inconsistent with a devious, deliberate, willful, or bad faith failure to respond." *TCI Grp.*,

1 244 F.3d at 698. Thus, “a defendant's conduct is culpable if he has received actual or
2 constructive notice of the filing of the action and intentionally failed to answer.” Id. at
3 697 (emphasis in original) (quoting *Alan Neuman Prods., Inc. v. Albright*, 862 F.2d 1388,
4 1392 (9th Cir. 1988)). In this context, “intentionally” means that “a movant cannot be
5 treated as culpable simply for having made a conscious choice not to answer; rather, to
6 treat a failure to answer as culpable, the movant must have acted with bad faith, such as
7 an ‘intention to take advantage of the opposing party, interfere with judicial decision-
8 making, or otherwise manipulate the legal process.’ ” *U.S. v. Signed Pers. Check No. 730*
9 *of Yubran S. Mesle*, 615 F.3d 1085, 1092–93 (9th Cir. 2010) (quoting *TCI*, 244 F.3d at
10 697). Further, in analyzing culpability, the Court may consider a defendant's exigent
11 personal matters, his mental state, and his lack of familiarity with legal matters. *TCI Grp.*,
12 244 F.3d at 699.

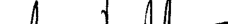
13 Here, Defendants do not demonstrate sufficient culpable conduct. The Court turns
14 to the Defendants behavior to ascertain good faith. Namely, Defendants demonstrate
15 good faith through their retention of counsel, who maintained regular correspondence
16 with Plaintiff’s counsel during the ongoing settlement discussions. Although Defendants
17 had actual notice of the filing of the action, the record lacks indicia that Defendants acted
18 in bad faith. As to Plaintiff’s argument that Defendants delay in filing the instant motion
19 (nearly a month after the first entry was entered) demonstrates culpable conduct, the
20 Court finds no harm in this short delay. The entry of default against Lawson was entered
21 in October 12, 2016. See Doc. No. 10. The proposed order granting default judgment
22 against Defendants was served on November, 22, 2016. See Doc. No. 15. Defendants
23 filed a motion to set aside the default on December 15, 2016. See Doc. No. 19. The Court
24 accepts Defendants’ claim that they believed their counsel would act in their best interest,
25 including filing a timely response to Plaintiff’s complaint. The Court finds there was no
26 intentional failure to respond.

27 Accordingly, the Court finds Defendants’ lacked devious, deliberate, willful, or
28 bad faith failure necessary to find culpable conduct.

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1. Defendant's motion to set aside entry of default judgment (Doc. No. 19) is **GRANTED**; and
2. Petitioner's motion for default judgment (Doc. No. 11) as **MOOT**.

IT IS SO ORDERED.



JOHN A. HOUSTON
United States District Judge