

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION

No. 5:03-CV-914-H3

EMBREX, INC.,)
)
Plaintiff,)
)
v.)
)
BREUIL, SA, and NEW TECH)
SOLUTIONS, INC.,)
)
Defendants.)

ORDER & JUDGMENT

This matter is before the court on a Memorandum and Recommendation ("M&R") filed by United States Magistrate Judge David W. Daniel [DE #147] on November 2, 2006, and a subsequent M&R filed by Magistrate Judge Daniel [DE #160] on February 12, 2007. In the first M&R, Magistrate Judge Daniel recommended that default immediately be entered against the defendants and that default judgment be entered after an appropriate hearing on damages. This court adopted the M&R, in part, by order filed January 5, 2007, directing the clerk to enter default against the defendants. The court declined to address the topic of default judgment at that time, instead referring the matter back to the magistrate judge for a hearing and further recommendation on damages.

With notice to the parties, Magistrate Judge Daniel held a hearing on damages on January 24, 2007. Defendants failed to attend. Thereafter, based on a thorough review and analysis of the

plaintiff's Summary of Damages and Requested Relief and supporting documentation, Magistrate Judge Daniel issued a second M&R recommending that plaintiff be awarded compensatory damages, prejudgment interest, and a permanent injunction, but recommending that plaintiff's request for attorneys' fees be denied.

Under Rule 72(b) of the Federal Rules of Civil Procedure, a District Judge "shall make a de novo determination . . . of any portion of [the M&R] to which specific written objection has been made. . . ." See also Local Rule 72.4(b)(1). The parties failed to file timely written objections to the M&R, foregoing their respective rights to de novo review on any issue covered in the M&R. Nevertheless, this court has conducted a full and careful review of the M&R and other documents of record, and having done so hereby finds that the recommendation of the magistrate judge is, in all respects, in accordance with the law and should be approved.

DEFAULT JUDGMENT

In his M&R filed on November 2, 2006, Magistrate Judge Daniel recommends entry of default judgment under Rule 55 of the Federal Rules of Civil Procedure. Default judgment is available "[w]hen a party against whom a judgment for affirmative relief is sought has failed to plead or otherwise defend as provided by [the Federal Rules of Civil Procedure] and that fact is made to appear by affidavit or otherwise[.]" See Home Port Rentals, Inc. v. Ruben, 957 F.2d 126, 133 (4th Cir. 1992). Defendants Breuil, SA, and New

Tech Solutions, Inc. have not defended this action since the date on which their former attorneys were allowed to withdraw as Counsel of Record, September 29, 2006. Defendants failed to retain new counsel as directed by this court; failed to attend an October 19, 2006 show cause hearing; failed to respond to plaintiff's "Summary of Damages and Requested Relief"; and, failed to attend the January 24, 2007 damages hearing. On top of this, defendants have not responded to either M&R. Under these circumstances, the court finds that default judgment is appropriate pursuant to Rule 55 of the Federal Rules of Civil Procedure.

In addition, under the Federal Rules of Civil Procedure, if a party fails to obey an order to provide or permit discovery, the court "may make such orders in regard to the failure as are just," including an order "(C) . . . dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party." Fed. R. Civ. P. 37(b)(2). Rule 37(b)(2)(C) provides an alternative basis for default judgment in this case due to defendants' failure to obey the court's orders directing them to retain counsel [DE #132] and to appear at the October 19, 2006 show cause hearing [DE #142], which together forced the court to suspend the discovery period [DE #147], and which allowed defendants to avoid responding to plaintiff's Third Set of Requests for Admission, in contravention of a prior court order [DE #138].

A court must consider four factors before imposing default

judgment as a sanction under Rule 37: "(1) whether the noncomplying party acted in bad faith; (2) the amount of prejudice [the party's] noncompliance caused [its] adversary, which necessarily includes an inquiry into the materiality of the evidence [the party] failed to produce; (3) the need for deterrence of the particular sort of noncompliance; and (4) the effectiveness of less drastic sanctions." Mutual Federal Savings & Loan Ass'n v. Richards & Associates, Inc., 872 F.2d 88, 92 (4th Cir. 1989) (citing Wilson v. Volkswagen of Am., Inc., 561 F.2d 494, 503-06 (4th Cir. 1977)); see also Riggins v. Steel Technologies, 48 Fed.Appx. 460, 461-62 (4th Cir. Oct. 17, 2002) (unpublished).

It is unclear whether defendants have acted in bad faith. As noted in the February 2007 M&R, defendants "may have been unaccustomed to the American legal system and its discovery requirements, [but their] approach to discovery was not clearly frivolous or malicious[.]" [M&R at 6.] Nevertheless, defendants' flaunting of the magistrate judge's authority shows, at the very least, a disregard for the responsibilities defendants owed to the court and to the plaintiff in this matter. See National Hockey League v. Metropolitan Hockey Club, Inc., 427 U.S. 639, 641, 96 S.Ct. 2778, 2780, 49 L.Ed.2d 747 (1976).

Defendants' failure to obtain counsel and their failure to comply with the court's orders have resulted in substantial prejudice to plaintiff and have severely hampered plaintiff's

ability to move ahead with discovery or to otherwise prosecute an action that has been in this court for more than three years, and with respect to which the parties and the court have devoted considerable time and resources.

This court further finds that there is a strong need to deter serious noncompliance with the discovery process such as that embodied in the actions of the defendants in this case, to protect both innocent parties and the court itself. The court recognizes that the defendants may have acted rationally in abandoning this case, but there can be no adequate justification for leaving the court and the plaintiff to expend the time and resources necessary to play out one-sided litigation. It is important to deter acts of blatant disrespect for the authority of the court by these defendants and other litigants in the future. See National Hockey League, 427 U.S. at 643, 96 S.Ct. at 2781 ("[H]ere, as in other areas of the law, the most severe in the spectrum of sanctions provided by statute or rule must be available to the district court in appropriate cases, not merely to penalize those whose conduct may be deemed to warrant such a sanction, but to deter those who might be tempted to such conduct in the absence of such a deterrent.").

This court has considered the range of potential sanctions and believes that nothing short of default judgment would be effective in this case. The magistrate judge warned the defendants that he

would recommend entry of default judgment if they failed to appear at the show cause hearing [DE #142]. Neither this warning nor the entry of the magistrate judge's M&R has prompted any response from the defendants.

Under these circumstances, the court finds that entry of default judgment is an appropriate discovery sanction under Rule 37(b)(2)(C) of the Federal Rules of Civil Procedure.

DAMAGES

In the February 2007 M&R, Magistrate Judge Daniel recommended that compensatory damages, prejudgment interest, and a permanent injunction be granted to plaintiff Embrex, Inc., but that attorneys' fees be denied. Neither party filed timely written objections to the M&R. A full and careful review of the M&R and other documents of record convinces the court that the recommendation of the magistrate judge is, in all respects, in accordance with the law and should be approved. Therefore, the court adopts the recommendation of the magistrate judge as its own; and, for the reasons stated in the M&R, the court hereby:

1. GRANTS compensatory damages to plaintiff in the amount of \$1,023,022;
2. GRANTS prejudgment interest to plaintiff in the amount of \$51,971.94;
3. DENIES plaintiff's request for attorneys' fees; and,
4. ISSUES a permanent injunction as set forth below.

CONCLUSION

The court hereby enters DEFAULT JUDGMENT against defendant Pace Products, Inc., pursuant to Rules 37(b)(2)(C) and 55 of the Federal Rules of Civil Procedure.

Accordingly, the court enters final judgment in this matter, and further ORDERS, ADJUDGES and DECREES:

Defendants Breuil, SA, and New Tech Solutions, Inc. shall pay to plaintiff Embrex, Inc.:

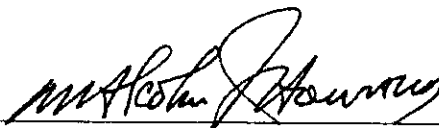
1. Compensatory damages in the amount of \$1,023,022, and
 2. Prejudgment interest in the amount of \$51,971.94,
- for a total of \$1,074,993.94, said judgment amount to bear interest at the judgment rate from the date of entry until paid;

Plaintiff's request for attorneys' fees is DENIED;

Finally, defendants Breuil, SA, and New Tech Solutions, Inc., their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, are hereby PERMANENTLY ENJOINED from directly or indirectly infringing U.S. Patent No. 5,745,228 or U.S. Patent No. 5,900,929.

The clerk is directed to close this case.

This the 13th day of March, 2007.



MALCOLM J. HOWARD
Senior United States District Judge

At Greenville, NC
#30

THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
WESTERN DIVISION

NO. 5:03-CV-914-H3

FILED
FEB 12 2007
DENNIS P. IAVARONE, CLERK
US DISTRICT COURT, EDNC
BY _____ DEP CLK

EMBREX, INC.,)

Plaintiff,)

v.)

BREUIL SA, and)
NEW TECH SOLUTIONS, INC.,)

Defendants.)

SEALED MATERIAL

MEMORANDUM & RECOMMENDATION

FILED UNDER SEAL

This matter is before the court on Plaintiff Embrex, Inc.'s Summary of Damages and Requested Relief, [DE-149], following the court's entry of default against Defendants, [DE-150]. On January 24, 2005, the court held a hearing on damages. Defendants have failed to defend this matter, have not responded to the Summary of Damages and Requested Relief, and did not attend the damages hearing. Accordingly this matter is ripe for review.

STATEMENT OF THE CASE

Plaintiff filed the complaint in this patent infringement case on December 9, 2003. [DE-1]. Plaintiff alleged that Defendants infringed two of its United States patents related to poultry egg fertility determinations and injections. In August 2006, Defendants' attorneys requested that they be allowed to withdraw as Counsel of Record for Defendants due to Defendants' failure to fulfill their obligations to their attorneys. [DE-130]. The court granted that motion in 2006. [DE-132]. Defendants failed to retain new counsel. The court then

ordered the parties to appear at a Show Cause hearing, [DE-142], which Defendants failed to attend. The court then entered default against Defendants and ordered a hearing on damages before entering a default judgment. [DE-150].

In Plaintiff's Summary of Damages and Requested Relief, and at the January 24, 2007 hearing on damages, Plaintiff requested that the court award it four separate types of relief: (1) compensatory damages in the amount of \$1,023,022, (2) prejudgment interest in the amount of \$51,971.94,¹ (3) attorneys' fees in the amount of \$ 85,511.30, and (4) a permanent injunction. The court recommends that Plaintiff's request for compensatory damages, prejudgment interest, and an injunction be granted. However, in the court's opinion, attorneys' fees are not justified in this case.

DISCUSSION

1. Compensatory Damages

Plaintiff asserts that it is entitled to \$1,023,022 in compensatory damages. Plaintiff calculates those damages based on the price erosion created by Defendants' infringing practices. Plaintiff presented evidence that starting in the year 2004, Defendants solicited Georges, Inc., ("Georges"), one of Plaintiff's longstanding customers, in an attempt to capture Georges' business by offering its infringing technology at a lower price than that of Plaintiff. Because Georges had a different and more inexpensive alternative as a result

¹ At the damages hearing, Plaintiff requested prejudgment interest in the amount of \$74,961.52, by using what it said was a treasury bill rate for the calculation. However, Plaintiff arrived at that sum by using, instead, a prime rate to calculate the prejudgment interest. Accordingly, in an Order dated January 30, 2007, the court requested that Plaintiff recalculate the prejudgment interest, using the United States Government Securities Treasury Constant Maturities - one year rate. Plaintiff recalculated the prejudgment interest, which resulted in a claim for \$51,971.94.

of Defendants' actions, Georges insisted that Plaintiff lower its rate for use of its technology or Georges would start using Defendants' machines instead.

Plaintiff showed that in 2003, it negotiated a contract with Georges for three of its facilities for the 2004 to 2005 calendar years, in which it either reduced the price it charged for injecting each egg, or agreed to a flat fee for the use of its technology that was less than the amount Plaintiff would have received had it continued to charge its original injection price per egg. When Plaintiff renegotiated with Georges for the 2006 to 2007 calendar years, it agreed not to increase its pricing. Accordingly, Plaintiff calculated its lost profits by subtracting the price it was forced to charge from the price that it would have charged in a market without the infringing product. Plaintiff concluded that its damages were \$239,280 for 2004, \$274,552 for 2005, \$ 254,595 for 2006 and will be \$254,595 for 2007², totaling \$1,023,022.

Under 35 U.S.C. § 284, "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." In this case, Plaintiff asserts that it is entitled to damages based on price erosion. To establish a price erosion claim for damages, Plaintiff must "show that 'but for' infringement, it would have sold its products at a higher price." Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l. Inc., 246 F.3d 1336, 1357 (Fed. Cir. 2001). In this case, Plaintiff has provided such information. It has presented evidence that it was forced to lower its prices and keep them low at the Georges' plants because Georges told Plaintiff that it would use

² Plaintiff included damages for 2007 because it was forced to commit to a lower price through the 2007 calendar year.

Defendants' infringing technology if Plaintiff did not lower its rates. Accordingly, Plaintiff has shown that but for the infringement, it would have been able to charge a higher price. Id. Further, Plaintiff has been able to calculate with specificity its damages due to price erosion based on the price that it was forced to charge and the number of eggs that were injected. See Brooktree Corp. v. Advanced Micro Devices, Inc., 977 F.2d 1555, 1579-80 (Fed. Cir. 1992) (concluding that a calculation of damages based on the selling price of the same product before the infringer entered the market was appropriate). As such, Plaintiff is entitled to \$1,023,022 in lost profits.

2. Prejudgment Interest

Plaintiff also asserts that it is entitled to prejudgment interest in the amount of \$51,971.94. Under 35 U.S.C. § 284, a court is authorized to award prejudgment interest, which is intended to make the patentee whole, because the patentee lost the use of the money that it would have earned due to the infringement. See General Motors Corp. v. Devex, Corp., 461 U.S. 648, 655-56 (1983). "In General Motors, the Supreme Court made prejudgment interest the rule, not the exception." Crystal Semiconductor Corp., 246 F.3d at 1361. The court has substantial discretion to determine the rate of interest as well as the method of compounding. See Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1144 (Fed. Cir. 1991). Plaintiff requests that the court use the United States Treasury bill rate. District court have chosen various rates, including the Treasury bill rate. See Domestic Fabrics Corp. v. Sears, Roebuck & Co., 326 F. Supp. 2d 694, 703 (E.D.N.C. 2004). The court has chosen to apply the United States Government Securities Treasury Constant-

one year rate.³ Accordingly, the court recommends that prejudgment interest be awarded from the date of injury on January 1, 2004, to the date of judgment using the Treasury bill rate, for a total of \$51,971.94.

3. Attorneys' Fees

Next, Plaintiff requests that the court award it attorneys' fees in the amount of \$85,511.30. Under 35 U.S.C. § 285, a court may award a prevailing party its reasonable attorneys' fees in "exceptional cases." Even if the court concludes that the litigation presents an exceptional case, it is still within the court's discretion to decide to award reasonable fees. Although "exceptional" is not defined in the statute, the Federal Circuit has enumerated a non-exhaustive list of factors that a court may consider, including: (1) willful infringement, (2) inequitable conduct before the United States Patent and Trademark Office, (3) misconduct during litigation, and (4) vexatious or unjustified litigation or the filing of a frivolous suit. Beckman Instruments Inc. v. LKB Produkter AB, 892 F.2d 1547, 1551 (Fed. Cir.1989).

Because Defendants have defaulted, the relevant allegations in Plaintiff's complaint are taken as admitted. See SEC v. Marker, 427 F. Supp. 2d 583, 586 (M.D.N.C. 2006) (noting that after an entry of default, a court will construe a complaint's factual allegations as true). Plaintiff alleged in its complaint that Defendants willfully infringed its technology. Accordingly, in the court's opinion, Defendants have willfully infringed Plaintiff's technology.

However, in this case both Defendants and Plaintiff vigorously pursued the litigation

³ The United States Government Securities Treasury Constant- one year rate is the preferred rate for calculating post judgment interest in federal cases. 28 U.S.C. § 1961(a).

before Defendant elected to stop its defense for financial reasons. Defendants may have been unaccustomed to the American legal system and its discovery requirements, but in the court's opinion, Defendants' approach to discovery was not clearly frivolous or malicious, nor conducted in bad faith sufficient to qualify this action as an "exceptional case." See J.P. Stevens Co., Inc. v. Lex Tex Ltd. Inc., 822 F.2d 1047, 1052 (Fed. Cir. 1987) (noting that the purpose of § 285 is "to provide discretion where it would be grossly unjust that the winner be left to bear the burden of his own counsel which prevailing parties usually bear"). Accordingly, Plaintiff has not show by clear and convincing evidence that this case is exceptional; therefore a grant of attorneys' fees is not appropriate.

4. Permanent Injunction

Finally, Plaintiff submits that under 35 U.S.C. § 283, it is entitled to a permanent injunction against Defendants. In determining whether to grant a permanent injunction in a patent infringement case, a court must consider whether plaintiff has established four factors: "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardship between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." eBay, Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837, 1839 (2006).

Here, the court concludes that a permanent injunction is appropriate. First, Plaintiff has proved that it has suffered irreparable injury because Defendants have entered the market using infringing technology and competed for the same customers as Plaintiff, where that customer base is relatively small. Absent a permanent injunction, Defendants would be able to continue using the infringing technology to compete against Plaintiff, likely


resulting in a loss of market share and customer base. Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 WL 3813778, *4 (S.D. Tex. Dec. 27, 2006). Second, monetary damages are inadequate in this situation, because "the principal value of a patent is its right to exclude." Honeywell Int'l, Inc. v. Universal Avionics Sys. Corp., 397 F. Supp. 2d 537, 546 (D.Del. 2005). Also, even though Defendants have ceased their infringing conduct in the United States at this time, there is some question as to whether they will attempt to engage in the same infringing conduct again in the future here or abroad. Unless very persuasive evidence exists that an infringing defendant will not resume its infringing conduct, evidence that is not present here, a permanent injunction may be appropriate. See W.L. Gore & Assocs. v. Garlock, Inc., 842 F.2d 1275, 1281-82 (Fed. Cir. 1988). Third, there is no indication that Defendants would suffer severe harm other than the need for them to take their infringing machines off of the market. The harm involved in conforming their products to avoid the patent infringement, is a consequence of intellectual property law. See Smith & Nephew Inc. v. Synthes, No. 02-2873, 2006 WL 3543274, *4 (W.D.Tenn. Sept. 28, 2006). Fourth, there is a general public interest in favor of strong patent protection, and injunctions serve that interest. Id. Accordingly, the court finds that a permanent injunction in this case is appropriate.

CONCLUSION

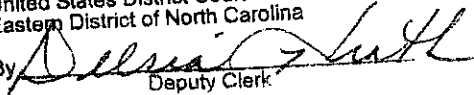
For the reasons set forth above, the court **RECOMMENDS** that (1) compensatory damages in the amount of \$1,023,022 be **GRANTED**; (2) prejudgment interest in the amount of \$51,971.94 be **GRANTED**; (3) attorneys' fees in the amount of 85,511.30 be **DENIED**; and (4) a permanent injunction be **ISSUED**. The Clerk shall send copies of this

Memorandum and Recommendation to counsel for the respective parties, who have ten (10) days from the date of receipt to file written objections. Failure to file timely written objections shall bar an aggrieved party from receiving a de novo review by the District Court on an issue covered in the Memorandum and, except upon grounds of plain error, from attacking on appeal the proposed factual findings and legal conclusions not objected to, and accepted by, the District Court.

This 9th day of February 2007.



DAVID W. DANIEL
United States Magistrate Judge

I certify the foregoing to be a true and correct copy of the original.
Dennis P. Iavarone, Clerk
United States District Court
Eastern District of North Carolina
By 
Deputy Clerk